UNIVERSAL TECHNICAL INSTITUTE INC
Form 10-K
November 30, 2011

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2011

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 1-31923

UNIVERSAL TECHNICAL INSTITUTE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**86-0226984**
(State or other jurisdiction of	*(IRS Employer*
incorporation or organization)	*Identification No.)*
16220 North Scottsdale Road, Suite 100	**(623) 445-9500**
Scottsdale, Arizona 85254	*(Registrant s telephone number, including area code)*
(Address of principal executive offices)	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	**Name of each exchange on which registered:**
Common Stock, $0.0001 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

As of November 16, 2011, 24,692,290 shares of common stock were outstanding. The aggregate market value of the shares of common stock held by non-affiliates of the registrant on the last business day of the Company s most recently completed second fiscal quarter (March 31, 2011) was approximately $429,241,000 (based upon the closing price of the common stock on such date as reported by the New York Stock Exchange). For purposes of this calculation, the Company has excluded the market value of all common stock beneficially owned by all executive officers and directors of the Company.

Documents Incorporated by Reference

Portions of the registrant s definitive proxy statement for the 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Special Note Regarding Forward-Looking Statements

This 2011 Form 10-K and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, as amended, which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. From time to time, we also provide forward-looking statements in other materials we release to the public as well as verbal forward-looking statements. These forward-looking statements include, without limitation, statements regarding: proposed new programs; scheduled openings of new campuses and campus expansions; expectations that regulatory developments or 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. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Words such as may, will, should, could, would, predicts, potential, contin anticipates, future, intends, plans, believes, estimates, and similar expressions, as well as statements in future tense, identify forward- statements.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Many events beyond our control may determine whether results we anticipate will be achieved. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements.

Except as required by law, we undertake no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q and 8-K reports to the Securities and Exchange Commission (SEC).

PART I

ITEM 1. ***BUSINESS***

Overview

We are the leading provider of postsecondary education for students seeking careers as professional automotive, diesel, collision repair, motorcycle and marine technicians as measured by total average undergraduate enrollment and graduates. We offer undergraduate degree, diploma and certificate programs at 11 campuses across the United States under the banner of several well-known brands, including Universal Technical Institute (UTI), Motorcycle Mechanics Institute and Marine Mechanics Institute (collectively, MMI) and NASCAR Technical Institute (NTI). We also offer manufacturer-specific advanced training programs including student paid electives at our campuses and manufacturer or dealer sponsored training at certain campuses and dedicated training centers.

For the year ended September 30, 2011, our average undergraduate full-time student enrollment was 18,500. We have provided technical education for 46 years.

Business Model

Our business model is unique and allows us to offer services to our students and the industries we serve. We provide high quality training using current technology and tools to students which allows us to provide highly skilled entry-level technicians to employers in the industries we serve, including many companies with which we have training relationships. These relationships represent formal, sometimes exclusive, agreements with leading automotive, diesel, motorcycle and marine original equipment manufacturers (OEM) and brands. The depth and breadth of these relationships provides a unique competitive advantage for our company, our students and our employers.

Our business model provides benefits for three distinct groups: our company, our students and our industry relationships and employers. We benefit from the high standards and the material and consultative support of our industry relationships which are key contributors to the overall quality of training and also to our market appeal to prospective students. Students benefit from our specialized education while improving their opportunities for employment through our direct relationships with these employers. Our industry relationships and employers benefit from a steady flow of well-trained entry-level technicians which is the ultimate driver of the dynamics of our business model.

We are a primary, and often the sole, provider of manufacturer based training programs and we have relationships with the following OEMs:

American Honda Motor Co., Inc.	Mercedes-Benz USA, LLC
American Suzuki Motor Corp.	Mercury Marine, a division of Brunswick Corp.
BMW of North America, LLC	Navistar International Corp.
Cummins Rocky Mountain, a subsidiary of Cummins, Inc.	Nissan North America, Inc.
Daimler Trucks N.A. (Freightliner and Western Star)	Porsche Cars of North America, Inc.
Ford Motor Co.	Toyota Motor Sales, U.S.A., Inc.
Harley-Davidson Motor Co.	Volvo Cars of North America, LLC
Kawasaki Motors Corp., U.S.A.	Volvo Penta of the Americas, Inc.
	Yamaha Motor Corp., USA

Participating OEMs typically assist us in the development of course content and curricula, while providing us with vehicles, equipment, specialty tools and parts at reduced prices or at no charge. In some instances they pay for a student s tuition. This collaboration enables us to provide highly specialized education to our students, resulting in enhanced employment opportunities and the potential for higher wages for our graduates.

These relationships also support incremental revenue opportunities from training the OEMs existing employees and by providing off-campus training at customer sites or third party locations.

In addition to the OEMs, our industry relationships also extend to after-market retailers, fleet service providers and enthusiast organizations.

Other target groups for relationship-building, for example parts and tools suppliers and enthusiast organizations, provide us with a variety of strategic and financial benefits that include equipment sponsorship, new product support, licensing and branding opportunities and financial sponsorship for our campuses and students.

Business Strategy

Our goal is to sustain and strengthen our market position as the leading provider of entry-level professional technician training for the automotive, diesel, collision repair, motorcycle and marine industries. This means executing our unique business model, based on the competitive advantage of our industry relationships, with consistently high performance in each of three core operational areas: student recruitment, industry relevant training and graduate employment services.

With the competitive advantage of our industry relationships, our business model and those three core operational areas as our foundation, our business strategy is as follows:

Continuous improvement and innovation in the UTI education experience across our three core operational areas; and

Management of our industry relationships to broaden and deepen the involvement of our current relationships and to attract new industry relationships.

Continuous improvement and innovation in the educational experience across our three core operational areas.

Student recruitment

Our student recruitment efforts begin with our commitment to offer the best possible student experience. Such efforts are aligned with our three primary markets for prospective students and are conducted through three admissions channels:

High School: Field-based representatives develop and maintain relationships with high school guidance counselors and vocational instructors, as well as students and parents.

Adult: Campus-based representatives serve adult career-seeking or career-changing students.

Military: Our military representatives are strategically located throughout the country and focus on building relationships within military installations.

Our marketing strategies are designed to align student inquiry generation with specific student segments and their corresponding recruiting channels. These inquiries are generated, and our brand strengthened, with a national multimedia marketing strategy that includes television, radio, multiple internet sites, magazines, social media, direct mail and telemarketing to reach prospective students.

Our industry relationships give us direct input on the latest needs and requirements of employers, which not only guides our prospective student recruitment, but also strengthens our curricula and our students opportunities for employment after graduation.

As part of our commitment to offering the best possible student experience, we believe that experience extends from before enrollment to beyond graduation. At each stage, we provide relevant services to assist the student with tuition financing options, educational and career counseling, opportunities for part-time work and housing assistance and ultimately graduate employment.

The location of our campuses is a critical success factor in recruiting students and therefore our national market reach is a significant recruiting advantage. Our 11 campuses located in eight states offer convenience as

3

well as a quality education to prospective students and give us strong local representation in key metropolitan areas. Beyond these markets, our national marketing efforts and network of representatives permit us to identify, advise and enroll students from all 50 states and the United States territories.

We continuously consider opportunities for expansion which would bring us closer to pools of prospective students, to develop new employment opportunities for our graduates and to compete in attractive markets. We will consider acquisition opportunities that, among other factors, would complement our program offerings, benefit from our resources and scale in marketing and whose administration could be integrated into our existing operations. Our most recent expansion occurred in 2010 with the opening of a new campus in the Dallas/Fort Worth, Texas area.

Industry relevant training

Our training focuses on two overriding objectives: successful student outcomes and the development of professional, entry-level technicians for our industry customers.

The transformation of our Automotive and Diesel Technology curricula into a blend of daily instructor-led theory and hands-on lab training complemented by interactive web-based learning was a critical component in our continuous improvement efforts for training students. In addition to improving the overall educational experience for the students, the new curricula offer more convenience and training flexibility for our students without sacrificing effectiveness.

We began teaching the Automotive Technology and Diesel Technology II curricula at our Avondale, Arizona campus and then we began offering it at our new Dallas/Fort Worth, Texas campus at its opening in June 2010. The new curricula have been well received and we graduated the first class at our Dallas/Fort Worth, Texas campus during 2011. We intend to introduce the new curricula and methodologies at existing campuses which offer Automotive and Diesel Technology programs starting in the spring of 2012 at our Avondale, Arizona campus and at a second existing campus later in calendar year 2012.

Rapidly changing technology in the industries for which we provide technicians requires us to ensure our course content remains as current as our instruction methodology if we are to sustain our position as a critical provider of entry-level technicians. With that in mind, we work closely with our industry customers to adapt and update course offerings to meet their needs. Furthermore, our advanced training programs, including manufacturer supported elective courses and our Manufacturer Specific Advanced Training (MSAT) programs, are direct outgrowths of our industry relationships, a unique aspect of our education program and a key market differentiator for us.

We are constantly improving and expanding our manufacturer sponsored courses. During 2011, we entered into an agreement to offer the Honda Professional Automotive Career Training (PACT) program as a manufacturer supported and equipped elective for our undergraduate students at our Glendale Heights, Illinois campus and began offering the Nissan Automotive Technician Training (NATT) program at our Norwood, Massachusetts campus.

Graduate employment services

A deep understanding of employment demand in the markets we serve and the specific needs of our industry customers is the key success factor in assisting graduates in finding employment.

We dedicate considerable time and resources to developing employment opportunities and referrals. We believe our employment services program provides students with a more compelling value proposition and significantly enhances employment opportunities for our graduates.

We have a national employment services team which develops job opportunities and outreach as well as a network of local employment services teams to best serve students while in school. Our campus-based staff instruct active students on employment search and interviewing skills, facilitate employer visits to campuses, provide access to reference materials and assist with the composition of resumes.

Success in this critical activity has great value to us as well as to students and employers because our ability to help launch a graduate s career is a key attraction point for prospective students.

Our employment rates have come under pressure over the past two years for a variety of reasons and the recent recession has affected hiring in the end markets we serve to varying degrees. The automotive and diesel industries have experienced a stronger recovery than the motorcycle, marine and collision repair industries. For example, between 2008 and 2010, motorcycle sales in the United States were cut by half. Not surprisingly, this has translated into a more difficult employment market in those industries and has put some pressure on our overall employment rates. However, even with these pressures our graduate employment rate for our fiscal 2010 graduate cohort has improved over our fiscal 2009 graduate cohort. Please see the discussion in Graduate Employment later in this document for further discussion.

Management of our industry relationships to broaden and deepen the involvement of our current relationships and to attract new industry relationships.

No relationships are more critical to our success than those with the OEMs. We have a dedicated account management team at our corporate level managing those relationships and developing new ones, which is a key area of focus for us.

We deliver value to these OEMs by functioning as an efficient hiring source and low cost training option. Our record at meeting their needs is a strong one and the primary reason we have industry relationships as long as those with Harley Davidson, 27 years, and Ford, 12 years.

We constantly seek new relationships, both from within the OEMs and also among other relevant groups or organizations. The agreement we entered into to offer the Honda PACT program and offering the Nissan NTT program are examples of this activity.

Industry Background

The market for qualified service technicians is large and stable. In the most recent data available, the U.S. Department of Labor estimated that in 2008 there were approximately 764,000 working automotive technicians in the United States, and this number was expected to increase by 4.7% from 2008 to 2018. Other 2008 estimates provided by the U.S. Department of Labor indicate that from 2008 to 2018 the number of technicians in the other industries we serve, including diesel repair, collision repair, motorcycle repair and marine repair, are expected to increase by 5.7%, 0.5%, 9.0% and 5.9%, respectively. This need for technicians is due to a variety of factors, including technological advancement in the industries our graduates enter, the number of automobiles, trucks, motorcycles and boats in service, as well as an aging and retiring workforce that generally requires training to keep up with technological advancements and maintain its technical competency. As a result of these factors, it is estimated that an average of approximately 31,200 new job openings will exist annually for new entrants from 2008 to 2018 in the fields we serve, according to data collected by the U.S. Department of Labor. In addition to the increase in demand for newly qualified technicians, manufacturers, dealer networks, transportation companies and governmental entities with large fleets are outsourcing their training functions, seeking preferred education providers which can offer high quality curricula and have a national presence to meet the employment and advanced training needs of their national dealer networks.

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 45 to 102 weeks and culminate in an associate of occupational studies degree, diploma or certificate, depending on the program and campus. Tuition ranges from approximately $20,150 to $46,750 per program, depending on the nature and length of the program. Our campuses are accredited and our undergraduate programs are eligible for federal student financial assistance funds under the Higher Education Act of 1965, as amended (HEA), commonly referred to as Title IV Programs, which are administered by the U.S. Department of Education (ED).

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

Location	Brand	Date Training Commenced	Principal Programs
Arizona (Avondale)	UTI	1965	Automotive; Diesel & Industrial
Arizona (Phoenix)	MMI	1973	Motorcycle
California (Rancho Cucamonga)	UTI	1998	Automotive; Diesel & Industrial
California (Sacramento)	UTI	2005	Automotive; Diesel & Industrial; Collision Repair and Refinishing
Florida (Orlando)	UTI/MMI	1986	Automotive; Motorcycle; Marine
Illinois (Glendale Heights)	UTI	1988	Automotive; Diesel & Industrial
Massachusetts (Norwood)	UTI	2005	Automotive; Diesel & Industrial
North Carolina (Mooresville)	UTI/NTI	2002	Automotive; Automotive with NASCAR
Pennsylvania (Exton)	UTI	2004	Automotive; Diesel & Industrial
Texas (Dallas/Ft. Worth)	UTI	2010	Automotive; Diesel & Industrial
Texas (Houston)	UTI	1983	Automotive; Diesel & Industrial; Collision Repair and Refinishing

Universal Technical Institute (UTI)

UTI offers automotive, diesel and 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). In order to apply for NATEF certification, a school must meet the NATEF curriculum requirements and have also graduated its first class. We offer the following programs under the UTI brand:

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 51 to 88 weeks in duration, and tuition ranges from approximately $28,250 to $39,150. Graduates of this program are qualified to work as entry-level service technicians in automotive dealer service departments or automotive repair facilities.

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 to 57 weeks in duration and tuition ranges from approximately $25,950 to $33,100. 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 69 to 84 weeks in duration and tuition ranges from approximately $34,050 to $44,300. 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 75 to 90 weeks in duration and tuition ranges from approximately $35,550 to $46,750. 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 is designed to teach 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 51 weeks in duration and tuition ranges from approximately $28,400 to $30,850. Graduates of this program are qualified to work as entry-level technicians at OEM dealerships and independent repair facilities.

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

Motorcycle. Established in 1973, the MMI program is designed to teach students how to diagnose, service and repair motorcycles and all-terrain vehicles. The program ranges from 48 to 102 weeks in duration and tuition ranges from approximately $20,150 to $42,650. Graduates of this program are qualified to work as entry-level service technicians in motorcycle dealerships and independent repair facilities. MMI is supported by six major motorcycle manufacturers. We have written agreements relating to motorcycle elective programs with BMW of North America, LLC; Harley-Davidson Motor Co.; Kawasaki Motors Corp., U.S.A.; and Yamaha Motor Corp., USA. In addition, we have verbal understandings relating to motorcycle elective programs with American Honda Motor Co., Inc. and American Suzuki Motor Corp. We have written agreements for dealer training with American Honda Motor Co., Inc. and Harley-Davidson Motor Co. These motorcycle manufacturers support us through their endorsement of our curricula content, assisting in our course development, providing equipment and product donations, and instructor training. The verbal understandings referenced may be terminated without cause by either party at any time.

Marine. Established in 1991, the MMI program is designed to teach students how to diagnose, service and repair boats. The program is 51 weeks in duration and tuition is approximately $25,450. 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. MMI is supported by several marine manufacturers and we have verbal agreements relating to marine elective programs with American Honda Motor Co., Inc.; American Suzuki Motor Corp., Mercury Marine, a division of Brunswick Corp., Volvo Penta of the Americas, Inc. and Yamaha Motor Corp., USA. We have written agreements for dealer training with American Honda Motor Co. Inc. Mercury Marine, a division of Brunswick Corp. and Volvo Penta of the Americas, Inc. These marine manufacturers support us through their endorsement of our curricula content, assisting with course development, equipment and product donations, and instructor training. The verbal understandings referenced may be terminated without cause by either party at any time.

NASCAR Technical Institute (UTI/NTI)

Established in 2002, UTI/NTI offers the same type of automotive training as other UTI locations, along with additional NASCAR-specific elective courses. In the NASCAR-specific elective courses, students have the opportunity to learn first-hand with NASCAR engines and equipment and to acquire specific skills required for entry-level positions in automotive and racing-related career opportunities. The programs range from 48 to 78 weeks in duration and tuition ranges from $29,200 to $41,150. Graduates of the Automotive Technology program and the Automotive Technology with NASCAR (the NASCAR program) at UTI/NTI are qualified to work as entry-level service technicians in automotive repair facilities or automotive dealer service departments. Graduates from the NASCAR program have additional opportunities to work in racing-related industries. In 2010 and 2009, approximately 18% and 15%, respectively, of the graduates from the NASCAR program have found employment opportunities to work in racing-related industries with approximately 72% and 71%, respectively, working in the automotive service sector.

Advanced Training Programs

We offer advanced training programs in the form of a manufacturer supported elective course added to a student s core Automotive or Diesel undergraduate program, or as a post-graduate program, which are manufacturer specific advanced training programs (MSAT).

The manufacturer supported elective courses for the advanced training programs are offered at our campus locations and are paid for by the student. These electives are supported by Title IV funding. Additionally, qualifying student graduates have the opportunity to apply for enrollment in one of our MSAT programs. The MSAT programs, in most cases, are paid for by the manufacturer and/or its dealers in return for a commitment by the student to work for a dealer of that manufacturer for a certain period of time upon completion of the program. For both types of programs, the manufacturer typically assists us in the development of course content and curricula, while providing us with vehicles, equipment, specialty tools and parts at reduced prices or at no charge. This specialized training enhances the student s skills with a particular manufacturer s technology resulting in enhanced employment opportunities and potential for higher wages for our graduates.

Electives

Pursuant to written agreements, we offer advanced training elective programs for the following OEMs:

BMW of North America, LLC. We have a written agreement with BMW of North America, LLC whereby we provide BMW s FastTrack Program at the BMW training center in Ontario, California, the Avondale, Arizona campus, and the Orlando, Florida BMW dedicated training center using vehicles, equipment, specialty tools and curricula provided by BMW.

Cummins Rocky Mountain, a subsidiary of Cummins, Inc. We have a written agreement with Cummins Rocky Mountain, a subsidiary of Cummins, Inc. whereby we provide the Cummins Qualified Technician Program (CQTP) elective at our Avondale, Arizona and Houston, Texas campuses using vehicles, equipment, specialty tools and curricula provided by Cummins.

Daimler Trucks N.A. We have a written agreement with Daimler Trucks N.A. whereby we provide the Daimler Trucks Finish First elective at our Avondale, Arizona campus using vehicles, equipment, specialty tools and curricula provided by Daimler.

Ford Motor Co. We have a written agreement with Ford Motor Co. whereby we provide the Ford Accelerated Credential Training (FACT) elective at all UTI campuses except the Dallas/Ft. Worth campus using vehicles, equipment, specialty tools and curricula provided by Ford.

Mercedes-Benz USA, LLC. We have a written agreement with Mercedes-Benz USA, LLC whereby we provide an elective program at our Rancho Cucamonga, California and Norwood, Massachusetts campuses using vehicles, equipment, specialty tools and curricula provided by Mercedes-Benz.

Navistar International Corp. We have a written agreement with Navistar International Corp. whereby we provide the International Truck Elective Program (ITEP) at our Glendale Heights, Illinois campus using vehicles, equipment, specialty tools and curricula provided by Navistar.

Nissan North America, Inc. We have a written agreement with Nissan North America, Inc. whereby we provide the Nissan Automotive Technician Training (NATT) program at our Houston, Texas, Mooresville, North Carolina, Sacramento, California, Orlando, Florida, and Norwood, Massachusetts campuses using vehicles, equipment, specialty tools and curricula provided by Nissan.

Toyota Motor Sales, U.S.A., Inc. We have a written agreement with Toyota Motor Sales, U.S.A., Inc. whereby we provide the Toyota Professional Automotive Technician (TPAT) elective at our Glendale Heights, Illinois, Exton, Pennsylvania, and Sacramento, California campuses using vehicles, equipment, specialty tools and curricula provided by Toyota.

Manufacturer specific advanced training programs

Our manufacturer specific advanced training 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. Students who are highly ranked graduates of an automotive or diesel program may apply to be selected for these programs. The programs range from 14 to 24 weeks in duration. Pursuant to written agreements, we offer MSAT programs for the following OEMs:

BMW of North America, LLC. We have a written agreement with BMW of North America, LLC whereby we provide BMW s Service Technician Education Program (STEP) at our Avondale, Arizona and Orlando, Florida training facilities and at the BMW training centers in Ontario, California, Woodcliff Lake, New Jersey and the Mini Service Technical Education Program (Mini Cooper STEP) at our Orlando, Florida training facilities using vehicles, equipment, specialty tools and curricula provided by BMW. This agreement expires on December 31, 2011 and may be terminated for cause by either party.

Navistar International Corp. We have a written agreement with Navistar International Corp. whereby we provide the International Truck Education Program (ITEP) training program at our training facilities in Glendale Heights, Illinois, Exton, Pennsylvania, and Sacramento, California using vehicles, equipment, specialty tools and curricula provided by Navistar. This agreement expires on December 31, 2011 and may be terminated without cause by either party upon 180 days written notice.

Porsche Cars of North America, Inc. We have a written agreement with Porsche Cars of North America, Inc. whereby we provide the Porsche Technician Apprenticeship Program (PTAP) at the Porsche Training Center in Atlanta, Georgia using vehicles, equipment, specialty tools and curricula provided by Porsche. The written agreement expires September 30, 2012 and may be renewed by mutual agreement.

Volvo Cars of North America, LLC. We have a written agreement with Volvo Cars of North America, LLC whereby we conduct Volvo s Service Automotive Factory Education (SAFE) program training at our training facility in Avondale, Arizona using vehicles, equipment, specialty tools and curricula approved by Volvo. This agreement expires on December 31, 2011.

Dealer/Industry Training

Technicians in all of the industries we serve are in regular need of training or certification on new technologies. Manufacturers are outsourcing a portion of this training to education providers such as UTI. We currently provide dealer technician training to manufacturers such as: American Honda Motor Co., Inc., BMW of North America, LLC, Ford Motor Co., Harley-Davidson Motor Co. and Mercedes-Benz USA, LLC.

Industry Relationships

We have a 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 present throughout our schools. In these relationships, sponsors provide their products, including equipment and supplies, at reduced or no cost to us, in return for our use of those products in the classroom. Additionally, they may provide financial sponsorship to either us or our students. Product/financial support is an attractive marketing opportunity 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 product support relationships allow us to minimize the equipment and supply costs in each of our classrooms and significantly reduce the capital outlay necessary for operating and equipping our campuses.

An example of a product/financial support relationship is:

Snap-on Tools. As a premier tool provider to the industry, we have been able to form a strategic partnership with Snap-on Tools. Upon graduation from our undergraduate programs, students receive a

9

Snap-on Tools entry-level tool set having an approximate retail value of $1,000, which can become valuable as a student establishes their career. We purchase these tool sets from Snap-on Tools at a discount from their list price pursuant to a written agreement which expires in April 2017. In the context of this relationship, we have granted Snap-on Tools exclusive access to our campuses to display tool related advertising, and we have agreed to use Snap-on Tools equipment to train our students. We receive credits from Snap-on Tools for student tool kits that we purchase and any additional purchases made by our students. We can then redeem those credits in multiple ways, which historically has been to purchase Snap-on Tools equipment and tools for our campuses at the full retail list price.

Licensing. Licensing agreements enable us to establish meaningful relationships 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. We have a licensing arrangement with NASCAR and are its exclusive education provider for automotive technicians. The agreement expires on December 31, 2017 and may be terminated for cause by either party at any time prior to its expiration. This relationship provides us with access to the network of NASCAR sponsors, presenting us with the opportunity to enhance our product support relationships. In July 2002, NASCAR Technical Institute opened in Mooresville, North Carolina where students have the opportunity to take NASCAR-specific courses that were developed through a collaboration of NASCAR crew chiefs and motorsports industry leaders. The popular NASCAR brand name combined with the opportunity to learn on high-performance cars is a powerful recruiting and retention tool. It also provides students with the opportunity to learn first-hand with NASCAR engines and equipment and to acquire specific skills required for entry-level positions in automotive and racing-related career opportunities.

Manufacturer Training. Manufacturer training relationships provide benefits to us that impact each of our education programs. These relationships support entry-level training tailored to the needs of a specific manufacturer, as well as continuing education and training of experienced technicians. In both the entry-level and continuing education programs, students receive training and certification on a given manufacturer s products. In return, the manufacturer supplies vehicles, equipment, specialty tools and parts, and assistance in developing curricula. Students who receive the entry-level training may earn certification to work on that manufacturer s products when they complete the program. The certification typically leads to both improved employment opportunities and the potential for higher wages. The continuing education programs for experienced technicians are paid for by the manufacturer and often take place in our facilities, allowing the manufacturer to avoid the costs associated with establishing its own dedicated facility. 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 technicians available to service and repair their products.

Examples of manufacturer training relationships include:

Mercedes-Benz USA, LLC. This is an example of a student-paid elective program. Pursuant to a written agreement, we offer a technician training Mercedes-Benz Program at our Rancho Cucamonga, California and Norwood, Massachusetts campuses. The Mercedes-Benz Program uses training and course materials as well as training vehicles and equipment provided by Mercedes-Benz.

American Honda Motor Co., Inc. This is an example of a dealer technician training program paid for by the manufacturer or dealer. We provide marine and motorcycle training for experienced American Honda technicians utilizing training materials and curricula provided by American Honda. Pursuant to written agreements, our instructors provide marine and motorcycle dealer training at American Honda authorized training centers across the United States. Pursuant to verbal agreements, we oversee the administration of the motorcycle training program, including technician enrollment, and American Honda supports our campus Hon Tech training program by donating equipment and providing curricula.

Porsche Cars of North America, Inc. This is an example of an MSAT program paid for by the OEM. We have a verbal agreement with Porsche Cars of North America, Inc. whereby we provide the Porsche Technician Apprenticeship Program (PTAP) at the Porsche Training Center in Atlanta, Georgia using vehicles, equipment, specialty tools and curricula provided by Porsche. The written agreement expires September 30, 2012 and may be renewed by mutual agreement.

Student Recruitment Model

Our student recruitment efforts begin with our commitment to positive outcomes, both for our students and our industry partners. Our responsibility to present job-ready graduates to employers requires that we recruit, enroll and train prospective students who have the drive and potential to successfully pursue a career in their field of training. We use a national multi-touch media approach, including digital fulfillment and engagement platforms, to generate the quality and quantity of prospective students necessary for our three primary admissions channels to enroll and start students.

Marketing and Advertising. Our marketing strategies are designed to identify potential students who would benefit from our programs and pursue successful careers upon graduation. We leverage a web-centric inquiry generation platform that focuses on nationally efficient advertising coupled with the internet, where our website acts as the primary hub of our campaigns, to inform and educate potential students on the nature of our educational programs and the employment opportunities that could be available to them. Currently, we advertise on television, radio, multiple internet sites, in magazines and use events, social media, direct mail and telemarketing to reach prospective students.

We utilize a student-centered recruiting policy to maximize efficiency of our admissions representatives with a focus on the prospective student. Our admissions representatives are provided training and tools to assist any prospective student.

High Schools. Our field-based representatives recruit prospective students primarily from high schools across the country with assigned territories covering the United States and U.S. territories. Our field-based education representatives generate the majority of their inquiries by making career presentations at high schools. Typically, the field-based education representatives enroll high school students during an application interview conducted at the homes of prospective students.

Our reputation in local, regional and national business communities, endorsements from high school guidance counselors and the recommendations of satisfied graduates and employers 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. 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 technical training programs. Our representatives focus on expanding high school relationships beyond the traditional vocational programs and into academic classes.

Adult Students. Our campus-based representatives recruit adult career-seeker or career-changer students. These representatives respond to student inquiries generated from national, regional and local advertising and promotional activities. Since 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.

Military Personnel. Our military representatives are strategically located throughout the country and focus on building relationships with military installations. We develop relationships with military personnel and provide information about our training programs by delivering career presentations to soldiers who are approaching their date of separation or have recently separated from the military as a means of further educating these individuals on the merits of our technical training programs.

Student Admissions and Retention

We currently employ field, military 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. Different programs have varying admissions standards. For example, applicants for programs offered at our Avondale, Arizona campus, which offers an associate of occupational studies (AOS) degree, must provide proof of: high school graduation, or its equivalent; certification of high school equivalency (G.E.D.); successful completion of a degree program at the postsecondary level; or successful completion of officially recognized home schooling. Students who present a diploma or certificate evidencing completion of home schooling or an online high school program are required to take and pass an entrance exam. Applicants at all other locations must meet the same requirements, or be at least 21 years of age and have the ability to benefit from the training as demonstrated by performance on a basic skills exam. Students who are beyond the age of compulsory attendance and have completed a high school program, but have not passed a state high school completion exam where required or received an Individualized Education Program diploma/certificate, may also apply to attend through the ability to benefit option, and must meet the same criteria outlined above.

To maximize the likelihood of student completion, our admissions requirements are intended to identify students who have the ability to succeed in their chosen program. We have student services professionals and other resources that provide various student services including orientation, tutoring, student housing assistance, and academic, financial, personal and employment advisement. We have established processes to identify at-risk students who may be in need of proactive assistance. Our consolidated student completion rate in 2011 was approximately 65%, which we believe compares favorably with the student completion rates of other providers of comparable educational/training programs. The 2011 completion rate is based on new students that began one of our programs during the period October 1, 2009 through September 30, 2010 and completed or are still attending as of September 30, 2011.

Enrollment

We enroll students throughout the year. For the year ended September 30, 2011, our average undergraduate full-time student enrollment was approximately 18,500, representing a decrease of less than 1% as compared to the twelve months ended September 30, 2010. Currently, our student body is geographically diverse, with approximately 50% of our students having relocated to attend our programs. For the years ended September 30, 2011, 2010 and 2009, we had average undergraduate full-time student enrollments of approximately 18,500, 18,600 and 15,900, respectively. We expect the rate of decline experienced in 2011 in both applications and new student starts to slow in the first half of the year before potentially improving in the second half of the year. However, given our current enrollment levels, the macro-economic headwinds and the changing regulatory environment we operate in, we anticipate the average student population for 2012 to be below the level of 2011.

Graduate Employment

Identifying employment opportunities for our graduates in the automotive, motorcycle and marine industries is critical to our ability to help our graduates benefit from their education. Accordingly, we dedicate significant resources to maintaining an effective graduate employment team. Our campus-based staff instruct active students on employment search, interviewing skills and professionalism, facilitate employer visits to campuses, provide reference materials and assist with the composition of resumes. We also have a centralized department whose focus is to build relationships with potential employers and develop job opportunities and referrals. We believe that our graduate employment services program provides our students with a more compelling value proposition and enhances the employment opportunities for our graduates. Although employment remains challenging for motorcycle, collision and marine segments, we are seeing improvement in the automotive and diesel programs.

Our employment rates for 2010 and 2009 were 85% and 81%, respectively. The employment calculation is based on all graduates, including those that completed manufacturer specific advanced training programs, from October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009, respectively, excluding graduates not available for employment because of continuing education, military, health, incarceration, death or foreign students. For 2010, UTI had approximately 11,200 total graduates, of which approximately 10,500 were available for employment. Of those graduates available for employment, approximately 8,900 were employed within one year of their graduation date, for a total of 85%. For 2009, UTI had approximately 10,800 total graduates, of which approximately 10,100 were available for employment. Of those graduates available for employment, approximately 8,200 were employed within one year of their graduation date, for a total of 81%.

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 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. A majority of our existing instructors have a minimum of five years experience in the industry and an average of six years of experience teaching at UTI, ranging from less than 1 year to 32 years. Our average undergraduate student-to-teacher ratio is approximately 22-to-1.

Each school s support team typically includes a campus president, an education director, an admissions director, a financial aid director, a student services director, an employment services director, a campus controller and a facilities director. As of September 30, 2011, we had approximately 2,260 full-time employees, including approximately 635 student support employees and approximately 830 full-time instructors.

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, we may encounter employees who desire or maintain union representation at new or existing campuses.

Competition

Our main competitors are other for-profit career-oriented and technical schools, including Lincoln Technical Institute, a wholly-owned subsidiary of Lincoln Educational Services Corporation; WyoTech, which is owned by Corinthian Colleges, Inc., and traditional two-year junior and community colleges. We believe that our industry relationships, size, brand recognition, reputation and nationwide recruiting system provide UTI with a competitive advantage.

Environmental Matters

We use hazardous materials at our training facilities and campuses, and generate small quantities of regulated waste, including, but not limited to, used oil, antifreeze, transmission fluid, 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 if we are responsible for a spill or release of hazardous materials, we could incur significant costs for clean-up, damages, and fines or penalties.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available on our website, www.uti.edu under the Investors Financial Information SEC Filings captions, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Reports of our executive officers, directors and any other persons required to file securities ownership reports under Section 16(a) of the Securities Exchange Act of 1934 are also available through our website. Information contained on our website is not a part of this Report and is not incorporated herein by reference.

In Part III of this Form 10-K, we incorporate by reference certain information from parts of other documents filed with the SEC, specifically our proxy statement for the 2012 Annual Meeting of Stockholders. The SEC allows us to disclose important information by referring to it in that manner. Please refer to such information. We anticipate that on or about January 13, 2012, our proxy statement for the 2012 Annual Meeting of Stockholders will be filed with the SEC and available on our website at www.uti.edu under the Investors Financial Information SEC Filings captions.

Information relating to corporate governance at UTI, including our Code of Conduct for all of our employees and our Supplemental Code of Ethics for our Chief Executive Officer and senior financial officers, and information concerning Board Committees, including Committee charters, is available on our website at www.uti.edu under the Investors Corporate Governance captions. We will provide any of the foregoing information without charge upon written request to Universal Technical Institute, Inc., 16220 North Scottsdale Road, Suite 100, Scottsdale, Arizona 85254, Attention: Investor Relations.

Regulatory Environment

Our institutions participate in a variety of government-sponsored financial aid programs that assist students in paying their cost of education. The largest source of such support is the federal programs of student financial assistance under Title IV of the HEA. This support, commonly referred to as Title IV Programs, is administered by the U.S. Department of Education (ED). In 2011, we derived approximately 75% of our revenues, on a cash basis, from Title IV Programs.

To participate in Title IV Programs, an institution 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 these reasons, our institutions are subject to extensive regulatory requirements imposed by all of these entities.

State Authorization

Each of our institutions must be authorized by the applicable state education agency where the institution is located to operate and grant degrees, diplomas or certificates to its students. Our institutions are subject to extensive, ongoing regulation by each of these states. Additionally, our institutions are required to be authorized by the applicable state education agencies of certain other states in which our institutions recruit students. Currently, each of our institutions is authorized by the applicable state education agency or agencies.

The level of regulatory oversight varies substantially from state to state and is 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 not consistent with those required by ED and some mandate that institutions post surety bonds. Currently, we have posted surety bonds on behalf of our institutions and education representatives with multiple states of approximately $13.8 million. We believe that each of our institutions is in substantial compliance with state education agency requirements. If any one of our campuses were to lose its authorization from the education agency of the state in which the campus is located, that campus would be unable to offer its programs and we could be forced to close that campus. If one of our campuses were to lose its authorization from a state other than the state in which the campus is located, that campus would not be able to recruit students in that state.

State authorization is also required for an institution to become and remain eligible to participate in Title IV Programs. On October 29, 2010, ED issued new regulations establishing standards for state authorization that must be met in order for the state authorization to be adequate for purposes of establishing the eligibility of an institution to participate in Title IV Programs. ED will determine whether a state s institutional authorization and complaint process satisfies ED s regulations. We cannot predict the extent to which ED will determine that the institutional authorization or complaint review process of any state satisfies ED s regulations. These new regulations became effective July 1, 2011 and will require our institutions to respond quickly to evolving state requirements.

Accreditation

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

Accreditation by an ED recognized commission 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 institutions are accredited by the Accrediting Commission of Career Schools and Colleges (ACCSC), an accrediting commission recognized by ED. Nine of our campuses currently have five-year grants of accreditation that expire as follows:

July 2012 Norwood, Massachusetts

December 2012 Sacramento, California

December 2013 Mooresville, North Carolina, NASCAR Technical Institute (UTI/NTI)

February 2014 Avondale, Arizona; Houston, Texas; Rancho Cucamonga, California; Orlando, Florida; and Glendale Heights, Illinois

May 2014 Phoenix, Arizona, Motorcycle Mechanics Institute (MMI)

Our Exton, Pennsylvania campus accreditation expired in October 2011. We completed the application for renewal for accreditation in June 2011. The visiting accreditation team reported that there were no findings of non-compliance and that our application would be considered at the February 2012 meeting. Our Dallas/Ft. Worth, Texas campus received an initial two-year grant of accreditation on March 4, 2010. The campus is currently in its first reaccreditation cycle process and will be eligible for a five-year grant of accreditation in 2012. We believe that each of our institutions is in substantial compliance with ACCSC accreditation standards. If any one of our institutions lost its accreditation, students attending that institution would no longer be eligible to receive Title IV Program funding, and we could be forced to close that institution.

An accrediting commission may place an institution on reporting status to monitor one or more specified areas of performance in relation to the accreditation standards. An institution placed on reporting status is required to report periodically to the accrediting commission on that institution s performance in the area or areas specified by the commission. None of our institutions are currently on reporting status.

Nature of Federal and State Support for Postsecondary Education

The federal government provides a substantial part of its support for postsecondary 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 make academic progress, as defined by ED, towards the completion of their program of study. In addition, each institution must ensure that Title IV Program funds are properly accounted for and disbursed in the correct amounts to eligible students, as well as provide a variety of disclosures and reports on recipient data and program expenditures.

During 2011, based on their individual eligibility under the following Title IV Programs, our students received grants and loans from the Federal Pell Grant (Pell) program, the Federal Supplemental Educational Opportunity Grant (FSEOG) program, the William D. Ford Federal Direct Loan (DL) program and the Federal Perkins Loan (Perkins) program. Our students also received a small number of loans from the Federal Family Education Loan (FFEL) program prior to the retirement of that program effective June 30, 2010.

Federal Title IV Programs

DL. Under the DL program, ED makes loans to students or their parents. Borrowers repay these loans to ED according to the terms and conditions of the program. Students with financial need continue to qualify for interest subsidies while in school and during grace periods. Non-need-based unsubsidized loans are also available to students or their parents. In 2011, we derived approximately 60% of our revenues, on a cash basis, from the DL program.

Pell. Under the Pell program, ED makes grants to students who demonstrate financial need based on the Free Federal Application for Federal Student Aid (FAFSA). In 2011, we derived approximately 21% of our revenues, on a cash basis, from the Pell program.

FSEOG. FSEOG grants are designed to supplement Pell grants for students with the greatest financial need. Institutions must provide matching funding equal to 25% of all awards made under this program. In 2011, we derived less than 1% of our revenues, on a cash basis, from the FSEOG program.

Perkins. Perkins loans are made from a revolving institutional account in which 75% of new funding 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 institution s revolving account to make loans to additional students. For the federal award year that extends from July 1, 2011 through June 30, 2012, ED made no new Perkins allocations to schools due to federal appropriations limitations. In 2011, we derived less than 1% of our revenues, on a cash basis, from the Perkins program.

FFEL. Through June 30, 2010, banks and other lending institutions made loans to students or their parents with similar terms and conditions much the same as those found in the DL program. The FFEL loan program was eliminated by Congress, and has been wholly replaced by the DL program. In 2011, our primary activity related to the FFEL loan program was the return of funds for students no longer attending school.

Other Federal and State Programs

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. On August 1, 2009, the Post-9/11 GI Bill became effective exclusively for veterans pursuing programs at degree granting institutions of higher learning. Beginning October 1, 2011, eligible veterans are able to use their Post-9/11 GI Bill at all of our campuses. Additionally, veterans are able to use their eligible veterans benefits, such as the Montgomery GI Bill, the Reserve Education Assistance Program (REAP) and VA Vocational Rehabilitation at all of our campuses. In 2011, we derived approximately 4% of our revenues, on a cash basis, from the Post-9/11 GI Bill program.

Additionally, some states provide financial aid to our students in the form of grants, loans or scholarships. The eligibility requirement for state financial aid varies by funding agency and program.

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 HEA and ED s extensive regulations regarding institutional eligibility. An institution must also demonstrate its compliance to ED on an ongoing basis. All of our institutions are certified to participate in Title IV Programs.

ED s Title IV program standards are applied primarily on an institutional basis, with an institution defined by ED as a main location and its additional locations, if any. Each institution is assigned a unique Office of Post-Secondary Education Identification Number (OPEID). Under this definition for ED purposes we have the following three institutions:

Institution	Universal Technical Institute of Arizona
Main campus	Universal Technical Institute, Avondale, Arizona
Additional campuses	Universal Technical Institute, Glendale Heights, Illinois Universal Technical Institute, Rancho Cucamonga, California Universal Technical Institute NASCAR Technical Institute, Mooresville, North Carolina Universal Technical Institute, Norwood, Massachusetts
Institution	Universal Technical Institute of Phoenix
Main campus	Universal Technical Institute DBA Motorcycle Mechanics Institute, Motorcycle & Marine Mechanics Institute, Phoenix, Arizona
Additional campuses	Universal Technical Institute, Sacramento, California Universal Technical Institute, Orlando, Florida Divisions Motorcycle Mechanics Institute, Orlando, Florida Marine Mechanics Institute, Orlando, Florida Automotive, Orlando, Florida
Institution	Universal Technical Institute of Texas
Main campus	Universal Technical Institute, Houston, Texas
Additional campuses	Universal Technical Institute, Exton, Pennsylvania Universal Technical Institute, Dallas/Ft. Worth, Texas

The substantial amount of federal funds disbursed through Title IV Programs, the large number of students and institutions participating in those programs and instances of fraud and abuse have prompted ED to exercise significant regulatory oversight over institutions participating in Title IV Programs. Accrediting commissions and state agencies also oversee compliance with both their respective standards and 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 has historically reauthorized the HEA approximately every five to six years. The HEA was reauthorized, amended and signed into law most recently on August 14, 2008 as the Higher Education Opportunity Act of 2008 (HEOA). The HEOA continued the availability of Title IV Program funds, authorized additional aid and benefits for students, required new federal reporting items and disclosures and codified additional compliance requirements related to student loans. Additionally, the HEOA implemented changes that impact how institutions comply with requirements that they receive no more than 90 percent of their revenue from Title IV Programs and maintain acceptable cohort default rates.

Congress reviews and determines federal appropriations for Title IV Programs on an annual basis. In 2011, Congress is taking a very detailed look at federal appropriations and has appointed a joint subcommittee that is charged with specifically finding $1.2 trillion in spending cuts over the next 10 years. Since we derive a significant percentage of our revenues from Title IV Programs, any action by Congress that significantly reduces Title IV Program funding or reduces the ability of our institutions or students to participate in Title IV Programs, could reduce our student enrollment and revenues. Congressional action may also increase our administrative costs and require us to modify our practices in order for our institutions to comply with Title IV Program requirements.

The Senate Committee on Health, Education, Labor, and Pensions (HELP) has held a series of oversight hearings on for-profit institutions administration of Title IV programs during the 111th and 112th Congresses. The most recent Senate HELP Committee hearing examining the for-profit section held in July 2011 was entitled, Improving For-Profit Higher Education: A Roundtable Discussion of Policy Solutions. The HELP Committee hearings examined, among other things, the business practices of for-profit institutions such as ours.

Additionally, the acute attention on the federal deficit and debt limit in 2011 has resulted in repeated efforts by Congress to reduce all federal spending, including education funding. As a part of the Continuing Resolution package in April 2011 that kept the government funded through the remainder of federal fiscal year (FFY) 2011, Congress preserved the maximum Pell Grant but eliminated year-round Pell.

On August 2, 2011, President Obama signed the Budget Control Act of 2011, raising the federal debt ceiling while also tasking a joint bipartisan committee to develop at least $1.2 trillion in deficit reduction by the end of November 2011, with the statutory goal of exceeding $1.5 trillion. Any legislation proposed by the joint committee must be approved by Congress no later than December 23, 2011 and signed into law by January 15, 2012, or $1.2 trillion in automatic across-the-board cuts will occur, split roughly equally between defense and non-defense spending. The final Budget Control Act included the following elements:

- Additional Pell Grant program funding for fiscal years 2012 and 2013, with a $1.3 billion shortfall remaining for fiscal year 2012.

- Elimination of DL repayment incentives. As a result, borrowers have fewer net federal loan proceeds to apply to their educational costs, which could result, in some cases, in increased use of our proprietary loan program.

- Elimination of in-school interest subsidies on DL loans for graduate and professional students. Although this provision does not apply to us because all of our programs are undergraduate, it does raise the possibility of a broader elimination of in-school interest subsidies as part of any deficit reduction dialogue in Congress.

- Continued budget discussions for FFY 2012 presents additional opportunities for Congress to cut federal education spending. Because Congress has not yet appropriated funds for FFY 2012, which began on October 1, 2011, the federal government is operating under another Continuing Resolution that expires on November 18, 2011. The elimination of other Direct Loan interest subsidies and changes to Pell Grant eligibility are under consideration during the negotiations on the FFY 2012 appropriations.

On October 25, 2011, President Obama announced two initiatives intended to help students manage student loan debt. Students with both FFEL and Direct Loans will be offered an incentive to consolidate into the Direct Loan program, and certain income-based repayment terms will become effective in 2012 rather than 2014.

Furthermore, the House Subcommittee on Higher Education and Workforce Training held a hearing on Direct Loans on the same day as the President s announcement. The atmosphere of action on student loan debt could have an impact on student perceptions of taking on loans to finance their education.

On August 5, 2010, the HELP Committee formally requested information and documents from 30 for-profit institutions, including 15 privately-held institutions and all publicly-traded institutions including us. We complied with the request in a timely manner. The Committee sought this information to develop an accurate and in-depth understanding of how for-profit schools use Federal resources such as Title IV Program aid. The letter of inquiry contained no assertion of misuse of public funds or assumption of non-compliance with federal law and regulations. While we believe we will be found to have operated in a substantially compliant manner with respect to applicable federal law and regulations, at this time we cannot predict whether this inquiry will result in any material impact on the manner in which we conduct our business, or how significant any such impacts might be.

Furthermore, the U.S. Government Accountability Office conducted a review and made recommendations to Congress regarding recruiting practices, educational quality, student outcomes, the sufficiency of safeguards against fraud, waste and abuse in Title IV Programs and the percentage of for-profit college revenue derived from Title IV Programs and other federal funding sources.

In September 2011, Senators Harkin, Carper and Webb held a press conference to release what was referred to as new data detailing the top recipients of Post-9/11 GI Bill funds. The Senators stated that there would be bipartisan legislation introduced by the end of the calendar year 2011 to include military and veteran funding in the 90 percent portion of the 90/10 calculation. The Senators also discussed the possibility of congressional action to (i) roll back 90/10 to 85/15; (ii) strengthen the existing incentive compensation regulations; and (iii) to reinstate the 50% Rule, which would restrict schools from receiving Title IV Program funds if they offer more than half their courses via distance education or enroll more than half of their students in online programs. Additionally, the Senators announced several other legislative priorities, including ensuring that the gainful employment rule is not repealed and instituting a federal performance-based funding mechanism, so that education funds are distributed based on student outcomes, such as completion and job placement.

Following the press conference, the Senate Committee on Homeland Security and Government Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, held a hearing entitled Improving Educational Outcomes for our Military and Veterans. The hearing focused on, among other matters, laying the groundwork for including military and veterans benefits in the 90 percent portion of the 90/10 calculation. The representatives from the Veteran s Administration described current and upcoming compliance and reporting requirements that they have initiated to monitor student outcomes. They also spoke of an ongoing taskforce which included the Department of Defense, Veteran s Administration and ED that was convened to address many of the issues affecting military and veteran students.

There will likely be continued examination in the Senate of for-profit institutions with particular focus on Title IV and federal education benefit programs for veterans.

Program Integrity

On October 29, 2010, ED issued new regulations pertaining to certain aspects of the administration of Title IV Programs, regulations which, with minor exceptions, became effective July 1, 2011. Since the publication of the new regulations, ED has issued interpretive guidance in the form of multiple Dear Colleague Letters to institutions. The letters provide sub-regulatory guidance on certain aspects of the new regulations which assists institutions with understanding the regulations in these areas. However, there remains uncertainty in how various aspects of the new regulations will be interpreted and applied, which could increase the risk that ED could seek to impose monetary or other sanctions on us if it believed we were not in full compliance with all aspects of the new regulations. Additionally, on June 13, 2011, ED published new regulations related to the metrics for determining whether an academic program prepares students for gainful employment, which become effective July 1, 2012. The resulting program integrity rules promulgated in October 2010 and June 2011 address fourteen topics.

The new regulations that have the most significant potential impact on our business are the following:

- new requirements about what constitutes satisfactory state authorization for institutions to offer postsecondary education in a state for purposes of establishing Title IV Program eligibility;
- the gainful employment requirements;
- determining when a program of study is required to measure student progress in clock hours and the assignment of credit hours;
- the elimination of the 12 safe harbors regarding the incentive compensation prohibition;
- the revised definition of substantial misrepresentation that could impose enhanced liability on institutions of higher education; and
- the requirement to notify ED of, and possibly obtaining ED s approval to offer, additional programs of study that lead to gainful employment.

State Authorization. State authorization, as discussed previously in this filing, is required for an institution to become and remain eligible to participate in Title IV Programs. We cannot predict the extent to which ED will determine that the institutional authorization or complaint review process of any state satisfies ED s regulations. These new regulations became effective July 1, 2011 and will compel our institutions to respond quickly to evolving state requirements. Any change in state law based on these provisions could require significant changes to our operations and require us to meet significantly more stringent compliance requirements which could have a material impact on our cash flows, results of operations and financial condition.

Gainful Employment. The HEA requires an eligible for-profit institution to provide an eligible program of training to prepare students for gainful employment in a recognized occupation in order for the institution s students to qualify for Title IV Program assistance. ED is relying on this statutory provision to support promulgation and implementation of the gainful employment rule. ED published new regulations on June 13, 2011, which will become effective on July 1, 2012, imposing additional Title IV Program eligibility requirements on certain educational programs. The gainful employment regulations published on June 13, 2011 establish metrics for determining whether a program will qualify as such an educational program. Specifically, a program will qualify as leading to gainful employment in a recognized occupation if we can establish that the program meets at least one of three annual, program-level student metrics:

- debt repayment rate which requires that at least 35 percent of the program s former students are successfully repaying their loans, as defined by the regulation;
- debt-to-discretionary income ratio, which requires that the estimated annual loan payment of a typical graduate of the program does not exceed 30 percent of her or his discretionary income; or
- debt-to-total earnings ratio which requires that the estimated annual loan payment of the typical graduate does not exceed 12 percent of her or his total earnings.

A graduate s loan debt is calculated based upon the program s median debt, including federal and private loans. The earnings used will generally be based on information received from the Social Security Administration. All three metrics will generally examine student information in their third and fourth year after graduation, with certain exceptions.

If an academic program fails all three metrics in a year, the institution must disclose the amount by which the program missed the minimum acceptable performance and the institution s plan to improve the program. Also, the institution must establish a three-day waiting period before students can enroll. If an academic program fails all three metrics in two out of three years, the institution must inform students in the failing program that their debts may be unaffordable and the program may lose eligibility to receive federal student financial aid funds, and must describe for students their available transfer options. If an academic program fails all three metrics in three out of four years, the academic program would become ineligible to participate in Title IV Programs for at least three years.

The gainful employment standards will be calculated on a fiscal year basis beginning with FFY 2012. The first FFY for which eligibility could be lost for a program is 2015, which would occur if the program fails all three standards for each of 2012, 2013, and 2014. At this time, and based on our preliminary analysis as measured in the manner set forth in the final gainful employment regulations and information currently available, we believe that our programs prepare students for gainful employment and will maintain eligibility to participate in Title IV Programs.

The new regulations, which became effective on July 1, 2011, include gainful employment disclosure requirements. Consistent with ED s gainful employment disclosure requirements, we established a webpage to disclose to the general public certain information about our programs, including recognized occupations, costs, completion rate, graduate employment rate and median loan debt of individuals who complete our programs. The webpage is located at www.uti.edu/disclosure. This requirement to report information relating to our programs to assist prospective students in making informed decisions has substantially increased our administrative burdens, particularly during the implementation phase. Such disclosures could negatively impact student enrollment in our institutions, which could have a material impact on our results of operations. The new regulations also require schools to provide ED with information that will allow determination of student debt levels and incomes after program completion.

Assignment of Credit Hours and Clock Hours. The new regulations which became effective July 1, 2011 establish standard definitions for financial aid credit hours applicable to all institutions approved by ED and expand the definition of programs that must be measured in terms of clock hours for Title IV Program purposes. These definitions are applied on a program-by-program basis, are based on certain internal and external characteristics of an educational program and can vary by campus location. The new requirements are grouped into three categories: (i) a new credit definition for degree programs and fully transferable nondegree programs; (ii) a revised credit definition for nontransferable nondegree programs; and (iii) the creation of a series of triggers that require certain programs to be measured for Title IV Program purposes in terms of clock hours.

Most of our programs at the UTI Avondale, Arizona campus result in degrees and therefore are subject to the first of the three categories. The remainder of our campuses must be converted using the revised calculation applicable to nontransferable nondegree programs, including consideration of additional activities outside the classroom. Based on available publications and agency guidance, we do not believe any of our programs as currently constituted must be treated as clock hour programs for Title IV Program purposes under the new requirements. If ED were to determine that our credit hour assignments were incorrect or that our programs must be treated as clock hour programs, the Title IV Program funds available for students enrolled in such programs could be significantly less than currently available.

The new ED regulatory structure relies heavily on the accreditors to assess compliance with the new regulations. We have been working closely with ACCSC to confirm that our programs comply with ACCSC expectations with respect to the assignment of credit hours. Additionally, ED advised in a Dear Colleague Letter dated March 18, 2011 describing the new credit/clock hour requirements, that it understands institutions and accrediting agencies face challenges in implementing these new requirements. The Letter further noted for the 2011-2012 award year as long as an institution or accrediting agency is in the process of complying with these provisions, [ED] will consider the institution or accrediting agency to be making a good-faith effort to comply, and Department staff will take this effort into consideration when reviewing an institution s or accrediting agency s implementation of the regulations. As a result of our efforts before and after July 1, 2011, we believe we are in substantial compliance with the new requirements and have acted in good faith. We will continue to work with ACCSC to ensure our educational programs remain in compliance.

Incentive Compensation. 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 the award of 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. The law and regulations governing this requirement do not establish clear criteria for compliance in all circumstances. However, ED regulations in effect prior to July 1, 2011 established criteria for complying with this standard in certain situations in the form of 12 safe harbors that defined specific types of permissible compensation practices. Prior to July 1, 2011, we relied on several of these safe harbors to ensure that our compensation and recruitment practices complied with the applicable legal requirements. The new regulations, which became effective on July 1, 2011, eliminated the safe harbors and the corresponding descriptions that defined certain appropriate and permissible compensation arrangements.

The new regulations prohibit schools from making salary adjustments to covered employees based, in any part, directly or indirectly, on the employee s success in securing enrollments or financial aid, or the number of students recruited, enrolled or awarded financial aid. Similarly, the new regulations prohibit any payments or incentives to covered employees based on students graduation or completion of any part of their program. Additionally, the commentary to the new regulation states that the payment of incentives to covered employees based on how many students receive jobs in their field of study after graduation is also prohibited. The new regulations also provide that the compensation restrictions will apply to any employee who undertakes recruiting or admitting of students, or who makes decisions about and awards Title IV Program funds, as well as any higher level employee with responsibility for recruitment or admission of students, or making decisions about awarding Title IV Program funds. ED has made an initial attempt to clarify the scope of such covered employees in written guidance it issued in March 2011.

Furthermore, the new regulations repealed the safe harbor on contracts with third parties for recruitment services, which had allowed schools to make any form of payment, including tuition sharing arrangements, to outside companies that assisted schools with recruiting, admissions activities or the awarding of financial aid, so long as the outside company compensated its own employees in accordance with the incentive compensation restrictions applicable to how schools could compensate their own employees. In eliminating this safe harbor, the new regulations state that the same restrictions on a school s payments to its own individual employees will also be applied to a school s payments to an outside company. The new regulations provide an exception to this principle, which permits payments to an outside company for providing student contact information for prospective students, provided that such payments are not based on the number of students who apply or enroll, or on any additional conduct by the outside company such as participation in pre-admission activities. The commentary accompanying the new regulations also provides that payments made to third parties based on the number of clicks on a website are permissible, as long as those payments are not based in any part, directly or indirectly, on the number of individuals who enroll or are awarded financial aid.

When it issued the new regulations, ED also stated that it does not intend to provide private guidance to individual schools on their specific compensation practices, but that it may issue additional broadly applicable guidance to all schools from time to time. In March 2011, ED issued the first such guidance on the new incentive compensation regulations in the form of a Dear Colleague Letter to all schools participating in the Title IV Programs. In that guidance, ED addressed several issues, including: (i) activities ED considers covered or exempt from the incentive compensation restrictions; (ii) examples of types of payments ED considers to be permissible under the new regulations; (iii) application of the compensation restrictions to senior managers, executives, and other employees; (iv) standard evaluative factors that schools may use in determining the compensation of covered employees; and (v) limited situations in which tuition-based payments can be made to outside companies.

Because the new regulations differ significantly from the pre-existing regulations and only took effect July 1, 2011, and because of the imprecise nature of many aspects of the new regulations, it is not clear how ED will apply the new regulations in all circumstances. Although we cannot guarantee that ED will not take a position that some aspect of our compensation practices is not in compliance with the new regulations, we believe that our compensation plans and practices were in compliance with the HEA and ED regulations as they existed prior to the July 1, 2011 effective date of the new regulations. We made modifications to our employee compensation structures to comply with the new regulation and the elimination of the safe harbors in the prior regulations. Such modifications were effective on or before July 1, 2011. Other companies in the industry have experienced and reported material adverse impacts to their business when they implemented changes to their compensation practices, but we cannot fully predict whether we will experience a similar impact given our dissimilar solutions, culture and timing, nor can we predict how significant any such impact will be. Our operating costs have changed and will continue to change materially based on any adjustments to compensation that we have made or may make in the future. The revisions to the governing regulations may adversely affect our ability to compensate our employees and our compensation practices for third parties. Given the fact that ED does not intend to review individual institutions compensation plans and the elimination of the safe harbors, we anticipate it will be more difficult to determine what constitutes compliance with the incentive compensation restrictions after the July 1, 2011 effective date of the new regulations than it was prior to July 1, 2011.

Revisions to Misrepresentation Regulations. The new regulations make significant changes to the definition of misrepresentation for purposes of Title IV Program compliance. That term now includes any false, erroneous or misleading statement that has the likelihood or tendency to deceive or confuse without regard to materiality or intent. The areas of particular sensitivity to ED include: (i) potential misrepresentation of the nature of an educational program; (ii) the nature of any financial charges; (iii) the employability of graduates and (iv) the manner in which the institution s relationship with ED is depicted. The new regulations also establish institutional liability for any statements made by any third party agent of our institutions or UTI and for statements made to any member of the public, an accrediting agency or any state agency, as well as to students. The new regulations also broaden the administrative remedies available to ED in the event of a substantial misrepresentation by an eligible institution to include revocation of the institution s eligibility to participate in Title IV Programs, imposition of limitations on the institution s participation in Title IV Programs, denial of participation applications filed on behalf of the institution, and initiation of a termination, fine or other proceeding against the institution. Furthermore, the regulations create potential new exposure in qui tam actions under the False Claims Act. We believe we are in substantial compliance with the new regulations.

ED Approvals for New Programs. In addition to the qualitative gainful employment requirements adopted on June 13, 2011, the new regulations contained provisions imposing increased notification and approval requirements for the award of Title IV Program funds in any additional programs to be offered by a for-profit institution. It also contained new disclosure requirements that will apply to programs that are required to demonstrate gainful employment in a recognized occupation.

Under these regulations, an institution seeking to initiate a new program is required to provide ED at least 90 days notice in the form of an extended narrative. An institution cannot use Title IV Program funds for an educational program until it is approved.

In reviewing new program applications, ED will also consider broader questions such as the institution s financial and administrative track record, whether the new program would replace or supplement existing programs and whether the number of proposed new programs is consistent with the institution s historic pattern in growth and operations. Furthermore, the regulations state the program approval process will be driven by performance on the new gainful employment metrics once they are in place. Therefore, the regulations related to ED pre-approval of new programs under the gainful employment regulations published on October 29, 2010 and effective on July 1, 2011 could be superseded as early as July 1, 2012. Our ability to offer new programs to our students may be limited by the new regulations, including our performance on the gainful employment metrics. As noted above, at this time, and based on our preliminary analysis as measured in the manner set forth in the final gainful employment regulations and information currently available, we believe that our programs prepare students for gainful employment.

On September 27, 2011, ED issued a notice of proposed rulemaking which includes further information and detail with respect to the new program application process. This notice would, among other things, limit the gainful employment programs for which an institution must apply to ED to those programs that are: (i) the same as or substantially similar to, programs that were voluntarily discontinued because they were failing under the gainful employment measures; (ii) programs that are substantially similar to failing or ineligible programs or (iii) programs that lead to a higher credential than existing programs. Under this notice, a program will be substantially similar if it has the same credential level and first four digits of the CIP code as that of the failing program. Additionally, the notice clarifies that institutions will have to apply for new program eligibility in any case that ED directs such application and provides further detail about the new program review process.

The 90/10 Rule. A for-profit institution loses its eligibility to participate in Title IV Programs if it derives more than 90% of its revenue from Title IV Programs for two consecutive fiscal years as calculated under a cash basis formula mandated by ED. The HEOA and ED regulations set forth specific requirements for the calculation of the Title IV Program revenue percentage, mandate expanded disclosure requirements in how an institution presents the calculation, and impose negative consequences if an institution exceeds the 90% limit.

The HEOA provides that an institution will lose its Title IV Program eligibility for a period of at least two institutional fiscal years if it exceeds the 90% threshold for two consecutive institutional fiscal years. The loss of such eligibility would begin on the first day following the conclusion of the second consecutive year in which the institution exceeded the 90% limit and, as such, any Title IV Program funds already received by the institution and its students during a period of ineligibility would have to be returned to ED or a lender, if applicable. Additionally, if an institution exceeds the 90% level for a single year, ED will place the institution on provisional certification for a period of at least two years.

The HEOA sets specific standards for certain elements in the calculation of an institution s percentage under the 90/10 Rule, including the treatment of certain portions of Stafford loans, institutional loans and revenue received from students who are enrolled in educational programs that are not eligible for Title IV Program funding. The annual unsubsidized Stafford loans available for undergraduate students under the FFEL/DL program increased by $2,000 on July 1, 2008, which, coupled with increases in the amount of Pell Grants available to students, has resulted and may continue to result in some of our institutions receiving an increased amount of revenue from Title IV Programs. Furthermore, the number of Pell-eligible students enrolled in our institutions has increased due to the general economic conditions, thereby increasing the total cash basis revenue our institutions receive from the Pell Grant program.

The HEOA provides limited short-term relief from these increases in the availability of Title IV Program funds, but certain provisions of the HEOA that provide the basis for this relief expired in our 2011 fiscal year or will expire in our 2012 fiscal year. Specifically, for the period from July 1, 2008 until June 30, 2011, an institution was able to count as non-Title IV Program revenue a portion of any unsubsidized Stafford loan, up to $2,000, that exceeds the maximum loan amount for a student under the law in effect prior to July 1, 2008. Furthermore, for the period from July 1, 2008 until June 30, 2012, schools that provide institutional loans to their students may count the net present value of those loans as non-Title IV Program revenue in the fiscal year the loan is made, rather than counting cash payments from the students over the repayment period. We count the loans under our proprietary loan program using the net present value of those loans as non-Title IV Program revenue. We have monitored the effects of these short-term relief measures on our 90/10 Rule calculations and, based on our internal review, we believe our revenue from Title IV Programs will be in the low to mid 80% range after the temporary relief expires.

At September 30, 2011, our institutions annual Title IV percentages as calculated under the 90/10 rule ranged from approximately 71% to 79%. We regularly monitor compliance with this requirement to minimize the risk that any of our institutions would derive more than the allowable maximum percentage of its revenue from Title IV Programs for any fiscal year.

Federal Student Loan Defaults. To remain eligible to participate in Title IV Programs, institutions must maintain federal student loan cohort default rates below specified levels. ED calculates an institution s cohort default rate on an annual basis. Under the current calculation, the FFEL/DL cohort default rate is derived from student FFEL/DL borrowers who first enter loan repayment during a FFY ending September 30 and subsequently default on those loans by the end of the following FFY; parent borrowers are excluded from the calculation. This represents a two-year measuring period. An institution whose cohort default rate is 25% or more for three consecutive FFYs or 40% for any given FFY loses eligibility to participate in some or all Title IV Programs. This sanction is effective for the remainder of the FFY in which the institution lost its eligibility and for the two subsequent FFYs. None of our institutions had a FFEL cohort default rate of 25% or greater for 2009, 2008 or 2007, the three most recent FFYs with published rates.

The following table sets forth the FFEL cohort default rates for our institutions for those years:

	Two-Year Cohort Default Rates for Cohort Years Ended September 30,(1)		
Institution	**2009**	**2008**	**2007**
Universal Technical Institute of Arizona	7.7%	4.7%	6.5%
Universal Technical Institute of Phoenix	9.0%	5.1%	6.8%
Universal Technical Institute of Texas	8.8%	4.7%	6.2%
All proprietary postsecondary institutions	15.0%	11.6%	11.0%

(1) Based on information published by the U.S. Department of Education.

The HEOA expands the measurement period for defaults from two years to three; a change that is expected to increase our FFEL/DL cohort default rates. The new regulations also increase the threshold for an institution to lose eligibility to participate in Title IV Programs from 25% to 30%. The one year threshold of 40% has not been increased. ED will calculate both the current two-year and the three-year cohort default rates beginning with the 2009 cohort. Sanctions will be applicable after three consecutive years of cohort default rates are available. Therefore, there will be no sanctions for the three year rates prior to publication of the 2011 cohort which we anticipate will occur in September of 2014.

An institution whose cohort default rate under the FFEL/DL program is less than 10% for three consecutive years is not subject to a 30 day delay in receiving the first disbursement on federal student loans. As of September 30, 2011, none of our institutions are subject to delayed disbursements. An institution whose cohort default rate under the FFEL/DL program is 25% or greater, but less than 40%, for any one of the three most recent federal fiscal years may be placed on provisional certification status by ED for up to three years. None of our institutions are on provisional status with ED.

Perkins. An institution with a Perkins program cohort default rate that is greater than 15% for any federal award year, which is the twelve month period from July 1 through June 30, may be placed on provisional certification. For the federal award year ended June 30, 2010, all three of our institutions had Perkins cohort default rates of less than 13%. Although the Perkins cohort default rate for the federal award year ended June 30, 2009 was greater than 15% for two of our three institutions, we have not been advised that we have been placed on provisional certification status. If we are placed on provisional certification status for any reason, ED may more closely review any application we file for recertification, new locations, new educational programs, acquisitions of other schools, increase in degree level or other signification changes. Furthermore, for an institution that is provisionally certified, ED may revoke the institution s certification without advance notice or advance opportunity to challenge the action. An institution with Perkins cohort default rate of 50% or greater for three consecutive federal award years loses eligibility to participate in the Perkins program and must liquidate its loan portfolio. None of our institutions 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 past three federal award years. For the federal award year ending June 30, 2011, as with the two preceding federal award years, ED will not disburse any new federal funds to any institutions for Perkins loans due to federal appropriations limitations. In our 2011 fiscal year, we derived less than 1% of our revenues from the Perkins program.

Financial Responsibility Standards. All institutions participating in Title IV Programs must satisfy specific ED 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 institution s financial responsibility is measured by its 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. In addition to having an acceptable composite score, an institution must, among other things, meet all of its financial obligations including required refunds to students and any Title IV Program liabilities and debts, be current in its debt payments, and not receive an adverse, qualified, or disclaimed opinion by its accountants in its audited financial statements. If ED determines that an institution does not satisfy its financial responsibility standards, depending on the resulting composite score and other factors, that institution may establish its financial responsibility on an alternative basis by:

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 its 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; 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.

ED has historically 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., the financial statements of each institution and the financial statements of any related party. Our composite score has exceeded the required minimum composite score of 1.5 for each of our fiscal years since 2004.

Return of Title IV Funds. An institution 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. The institution must return those unearned funds to ED or the appropriate lending institution in a timely manner, which is generally within 45 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 Title IV Program funds that should have been returned in the previous fiscal year. Our 2011 and 2010 Title IV compliance audits did not cite any of our institutions for exceeding the 5% late payment threshold.

Institution Acquisitions. When a company acquires an institution that is eligible to participate in Title IV Programs, that institution undergoes a change of ownership resulting in a change of control as defined by ED. Upon such a change of control, an institution s eligibility to participate in Title IV Programs is generally suspended until it has applied for recertification by ED as an eligible institution under its new ownership which requires that the institution 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 is typically on a provisional basis. Our expansion plans are based, in part, on our ability to acquire additional institutions and have them certified by ED to participate in Title IV Programs following affirmation of state licensure and accreditation. Although we believe we will be able to obtain all necessary approvals from ED, our accrediting commission and the applicable state agencies for our expansion plans, we cannot ensure that such approvals will 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.

Change of Control. In addition to institution acquisitions, other types of transactions can also cause a change of control. ED and most state education agencies and our accrediting commission have standards pertaining to the change of control of institutions, 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, ED regulations provide that a change of control occurs in one of two ways: (i) if there is an event that would obligate the corporation to file a Current Report on Form 8-K with the SEC disclosing a change of control or (ii) if the corporation has a Controlling Stockholder , as defined in ED regulations, that owns or controls through agreement 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 these agencies would require any affected institution to have its state authorization and accreditation reaffirmed by that agency. The requirements to obtain such reaffirmation from the states and our accrediting commission vary widely.

A change of control could occur as a result of future transactions in which our company or institutions are involved. Some corporate re-organizations and some changes in the board of directors are examples of such transactions. Additionally, 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. If a future transaction results in a change of control of our company or our institutions, 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 ensure 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.

Opening Additional Institutions and Adding Educational Programs. For-profit educational institutions must be authorized by their state education agencies, accredited by an accrediting commission recognized by ED, and be 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 regard 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 campuses as additional locations of our existing institutions and take into account ED s approval requirements. Currently, all of our institutions are eligible to offer Title IV Program funding.

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. Our expansion plans are based, in part, on our ability to add new educational programs at our existing institutions. Generally, until July 1, 2011, an institution that was eligible to participate in Title IV Programs (and was not provisionally certified) was able to add a new educational program without ED approval if:

- the new program was licensed by the applicable state agency, accredited by an agency recognized by ED and led to an associate level or higher degree and the institution already offered programs at that level; or

- the new program met minimum length requirements and prepared students for gainful employment in the same or a related occupation as an educational program that had previously been designated as an eligible program at that institution.

However, effective July 1, 2011, new regulations went into effect including the notice and preapproval provisions previously discussed in this filing with respect to the new gainful employment regulations. As such, as of July 1, 2011, institutions must obtain preapproval for any new programs subject to the gainful employment requirements. These new regulations may create significant obstacles to our expansion plans and may result in delay based on implementation of the new program approval process. Additionally, as noted above, on September 27, 2011, ED issued a notice of proposed rulemaking, which provides additional detail concerning the application process for new programs.

Some of the state education agencies and our accrediting commission also have requirements that may affect our institutions ability to open a new location, establish an additional location of an existing institution or begin offering a new or revised 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, require the institution to repay Title IV Program funds, change the method of payment of Title IV Program funds, or place the institution on provisional certification as a condition of its continued participation.

Eligibility and Certification Procedures. The HEOA specifies the manner in which ED reviews institutions for eligibility and certification to participate in Title IV Programs. Every educational institution seeking Title IV Program funding for its students must be certified to participate and is required to periodically renew this certification. Each institution must apply to ED for continued certification to participate in Title IV

Programs at least every six years, or if it undergoes a change of control. Furthermore, an institution may come under ED review if it expands its activities in certain ways such as opening an additional location or raising the highest academic credential it offers. The Program Participation Agreement (PPA) document serves as ED s formal authorization of an institution and its associated additional locations to participate in Title IV Programs for a specified period of time. Universal Technical Institute of Arizona and Universal Technical Institute of Phoenix were recertified in October 2010 and entered into new PPAs with ED which will expire on June 30, 2016. Universal Technical Institute of Texas was recertified in June 2006 and entered into a new PPA with ED which will expire March 31, 2012.

Compliance with Regulatory Standards and Effect of Regulatory Violations. Our institutions 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 independent accountants 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 HEA 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 from the advance method of receiving Title IV Program funds to a cash monitoring or reimbursement system, which could negatively impact cash flow at an institution. Significant violations of Title IV Program requirements by us or any of our institutions could be the basis for a proceeding by ED to fine the affected institution or 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 written notice that any such proceeding is currently contemplated. Violations of Title IV Program requirements could also subject us or our institutions to other civil and criminal penalties.