UNIVERSAL TECHNICAL INSTITUTE INC
Form 424B4
April 27, 2004

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Filed pursuant to Rule 424(b)(4)
Registration Number: 333-114185

5,500,000 Shares

Common Stock

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

Our common stock is listed on the New York Stock Exchange under the symbol UTI. The last reported sale price on April 26, 2004 was $40.15 per share.

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

Investing in our common stock involves risks. See Risk Factors beginning on page 9.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Selling Stockholders
Per Share	$ 40.00	$ 1.80	$ 38.20
Total	$ 220,000,000	$ 9,900,000	$ 210,100,000

Delivery of the shares of common stock will be made on or about April 30, 2004.

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

Credit Suisse First Boston

Banc of America Securities LLC

Jefferies & Company, Inc.
Thomas Weisel Partners LLC
SunTrust Robinson Humphrey

The date of this prospectus is April 26, 2004.

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

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PROSPECTUS SUMMARY

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

Universal Technical Institute, Inc.

Overview of Our Business

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

We work closely with leading original equipment manufacturers (OEMs) in the automotive, diesel, motorcycle and marine industries to understand their needs for qualified service professionals. By staying current on the equipment and technology employed by OEMs, we are able to continuously refine and expand our programs and curricula. We believe that our industry-oriented educational philosophy and national presence have enabled us to develop valuable industry relationships that provide us with a significant competitive strength and support our market leadership. We are a primary, and often the sole, provider of manufacturer-based training programs pursuant to written agreements with various OEMs whereby we provide technician training programs using their equipment and vehicles. These OEMs include Audi of America; American Honda Motor Co., Inc.; BMW of North America, LLC; Ford Motor Co.; International Truck and Engine Corp.; Jaguar Cars, Inc.; Mercedes-Benz USA, LLC; Mercury Marine; Porsche Cars of North America, Inc.; Toyota Motor Sales, U.S.A., Inc.; Volkswagen of America, Inc.; Volvo Cars of North America, Inc.; and Volvo Penta of the Americas, Inc.

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

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Market Opportunity

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

Control by Our Affiliates

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

Regulatory Environment

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

Competitive Strengths

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

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

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

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

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

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

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

Operating Strategy

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

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

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

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

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

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

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

Recent Developments

Orlando Lease

We have received regulatory approval to expand the program offerings at our Orlando, Florida campus to include an automotive technology program. We presently offer motorcycle and marine training curricula at our Orlando, Florida campus. We are currently in negotiations to enter into a long-term lease agreement for a facility that will accommodate the automotive technology program. We anticipate that the new facility for the automotive program will be available for occupancy in the fall of 2004. As we develop the new facility, we expect to increase the total capacity of our Orlando campuses from approximately 1,900 students to approximately 2,400 students over the next few years. Pre-opening costs to launch the new Orlando automotive technology program are currently estimated to be approximately $3.0 million, including $1.0 million related to capital expenditures and the remaining $2.0 million, on a pre-tax basis, related to sales and marketing costs as well as educational services and facilities costs. The Orlando automotive program expansion is intended to address the growing need for technicians among our industry customers in that region. According to occupational projections of the State of Florida for 2000 through 2010, Florida has the ninth largest number of annual automotive technician openings in the United States.

Rancho Cucamonga Relocation

We have entered into a lease for a new 190,000 square foot facility in Rancho Cucamonga, California. This new facility will replace the current UTI Rancho Cucamonga, California facility and certain training facilities for manufacturer-sponsored programs. The new campus is currently scheduled to open in the fall of 2004. The new facility is expected to increase our student capacity at this location by approximately 800 students, to a total of approximately 2,000 students. Exiting the current campus lease early has resulted in an additional charge for depreciation related to a change in the estimated useful life of the leasehold improvement for the campus of approximately $0.3 million in our first quarter ending December 31, 2003, and is expected to result in a similar charge of approximately $0.3 million in each subsequent quarter of our 2004 fiscal year. Furthermore, as a result of an opportunity to terminate the current Rancho Cucamonga, California campus lease earlier than anticipated, we expect to incur additional exit costs of between $0.5 million and $0.8 million during the 2004 fiscal year.

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Toyota Training Alliance

In April 2004, we entered into a training alliance with Toyota Motor Sales, U.S.A., Inc. to develop the Toyota Professional Automotive Technician (TPAT) program, a new Toyota and Lexus brand-specific training program. This training alliance represents the first time our automotive program has formed a relationship with a major Japanese manufacturer. The TPAT program is a three-phase, nine-week undergraduate elective program that will allow UTI students to train on Toyota and Lexus vehicles, including their new gas-electric hybrid automobiles. We currently expect that the new TPAT curriculum will be offered at our Glendale Heights, Illinois campus beginning in the summer of 2004.

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

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The Offering

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

All of the shares offered by this prospectus are being offered by the selling stockholders. As of March 31, 2004, the selling stockholders owned approximately 46.8% of our outstanding common stock. After giving effect to the offering and assuming the full exercise of the underwriters option to purchase 825,000 additional shares, the selling stockholders will own approximately 24.0% of our outstanding common stock.

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

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

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

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Summary Financial and Other Data

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

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

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

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

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

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

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

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

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RISK FACTORS

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

Risks Related to Our Industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Business

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

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

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

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

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

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

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establish and manage the operations of newly established schools or campuses could slow our growth and make any newly established schools or campuses more costly to operate t