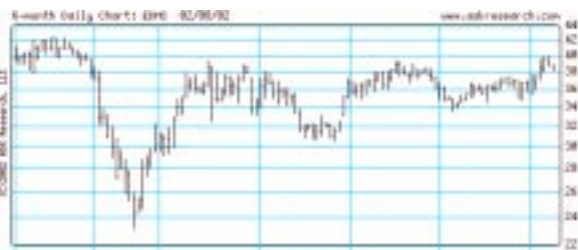


WSCR

©2002 Wall Street Corporate Reporter All rights reserved

Single issue price \$5

Leading Organization in the Higher Education Field



Institute of Pittsburgh. Two years later, I decided to join forces with him, which is how I became involved in the education field. In banking, I learned the value of teamwork and having the right information on which to make decisions."

we are generating revenues approaching \$500 million a year."

Job placement

"Currently, about 150 of our employees are involved in providing career services for our graduates, which encompasses part-time jobs for in-school students as well as jobs for graduates. In our career services, we help students to prepare their portfolios and give them guidance in terms of how they should dress and present themselves during a job interview.

"We do everything that we can to create a successful outcome for our graduates. In the most recent year, approximately 90% of our Arts Institutes' graduates obtained jobs in their field or a related field within six months of graduation. In fact, prior graduates can even come back to us for help with employment placements."

Attracting new students

"When prospective students know that an education institution is oriented toward providing academic programs that directly relate to the needs of the economy, that it has practicing professionals as faculty members and a high level of technology in the classroom reflective of the workplace, they are attracted to that operating philosophy.

"Naturally we can't and don't guarantee that someone is going to obtain a job when they complete their formal education, but we do have continual outreach and a very attractive track record. Our students know that we actively try to



ROBERT B. KNUTSON
Chairman

Chief Executive Officer

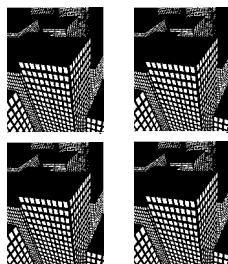
help them achieve success, but it is the obligation of the student to actually obtain employment.

"In our 24 Art Institutes, about one-third of our new students come to us through referrals from present students, graduates and employers. In addition, this year, about one-quarter of new students in the Art Institutes will come to us from our Web presence, whereas in the spring of '99, when we last did our last interview with WSCR, that number was 8%, which is a considerable change.

"The Art Institutes also visit some 12,000 high schools every year to help prospective students understand the programs that we offer such as multimedia and web design, media arts and animation, graphic

Continued on page 2

Education Management Corporation
NASDAQ - EDMC
Education



WSCR #104247

ROBERT B. KNUTSON
Chairman
Chief Executive Officer

Interview by John O'Hanlon
Publisher and Managing Editor

Mr. Robert B. Knutson

Prior to joining Education Management Corporation, I was with J.P. Morgan and later Morgan Guaranty Trust Company and Drexel, Harriman Ripley where I was involved in corporate finance functions. While working with Morgan Guaranty in the 1960s, I became acquainted with a gentleman that had a small company in

Education Management Corporation

"Education Management Corporation is one of the largest providers of private post-secondary education in the United States, based on student enrollment and revenue. Our education institutions offer doctoral, master's, bachelor's and associate's degree programs as well as non-degree programs concentrated in the creative and visual arts, behavioral sciences and education fields. Education Management has provided career-oriented education programs for over 35 years and our education institutions have about 135,000 alumni. The company began with one school, the Art Institute of Pittsburgh, 600 students, 80 faculty members and staff, and revenues of less than \$2 million a year.

"Currently, we have 40 primary campuses, roughly 39,000 students and have a presence in 26 major cities in North America. Our academic programs address

"We have a long track record of success and are very optimistic about our future prospects."

— ROBERT B. KNUTSON

a wide range of fields including art, design, fashion, culinary arts, clinical psychology, education, business administration, legal studies and health sciences. Our programs appeal to a broad age demographic from 18 to 60 and we have students from all 50 states and more than 100 other countries. Our philosophy is to do everything that we can to ensure that students are successful, and our education process is oriented to the needs of our students. Currently, we have approximately 4,800 staff and faculty, and on a pro forma basis,

EDMC

Education Management Corporation

Education that Builds Careers

Pittsburgh and had been receiving offers to sell his business.

"He ultimately decided not to sell and I subsequently helped him to acquire the Art

Education Management Corporation
300 Sixth Avenue
Pittsburgh, PA 15222-2598
412-562-0900
412-562-0598 FAX

Education Management Corporation

Continued from page 1

design, or the culinary arts, and we do a modest amount of media advertising on television and radio. Argosy has a strong base of referrals, and utilizes the Web, print media and direct mail. Through those sources, we have a substantial flow of inquiries from prospective students from all around the world and that represents our source of new students.”

Type of student

“The students that attend an Art Institute or Argosy University are the same students that would be attending a publicly or privately owned or supported college or university. There are several reasons that students are attracted to our institutions including our small class sizes and the specialization of our institutions, which offer a unique blend of educational programs that are practitioner-oriented.”

Flexible hours

“In the case of the Art Institutes, a student has the choice of attending classes in the morning, the afternoon or the evening or some combination of each. Our students also have the ability to take part of their coursework online. The Art Institutes, through The Art Institute Online, have bachelor’s degree programs in graphic design, and multimedia and web design available online. We’ve received rave reviews from industry professionals for what we have created.

“The Art Institutes are oriented toward meeting the needs of the student in terms of his or her personal schedule. The same philosophy holds for Argosy University where students are scheduled for classes and can access faculty members for personal counseling at times that are convenient for them. It is that kind of approach that sets us apart from other institutions.”

Online courses

“For some students, the learning process is actually enhanced online as they feel there is a more personal exchange among students and the faculty member in an online environment. That said, the vast majority of our students prefer to be in a physical classroom environment because they like going through the learning process along with other students and also because of the social ramifications. Our students like the fact that they have the choice to take some courses online, but prefer to do the majority of their learning in the physical school facility.”

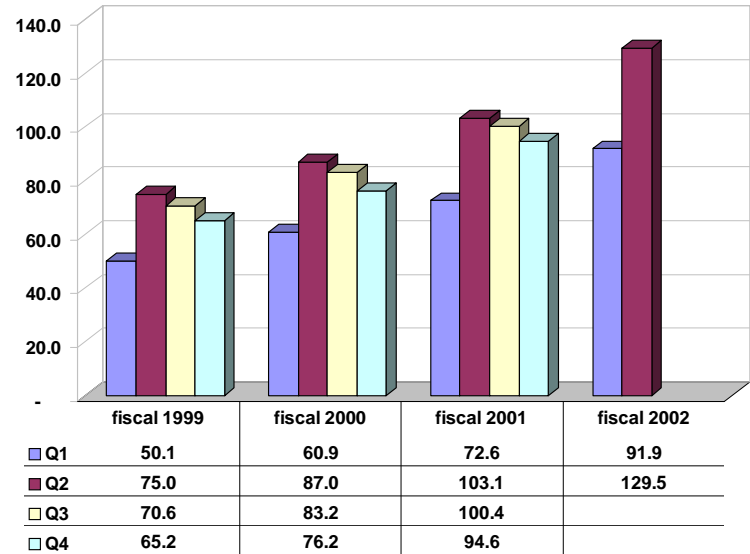
Communication

“There is more and more use of e-mail communication which adds to the contact between students and faculty. In our online courses, we limit the class size to 14 or 15 students whereas the average class load in a physical class setting at the Art Institutes is 18 students. With regard to Argosy University, our master’s and doctoral programs in education are geared toward the employed educator because people tend to do their master’s or doctoral degree programs while they are gainfully employed. Those students can take almost half of their coursework in a distance learning mode utilizing online courses, fax, tele-

phone or email and the rest of their academic program at a physical location during break periods such as vacation periods or in the summer, which students find very accommodating.

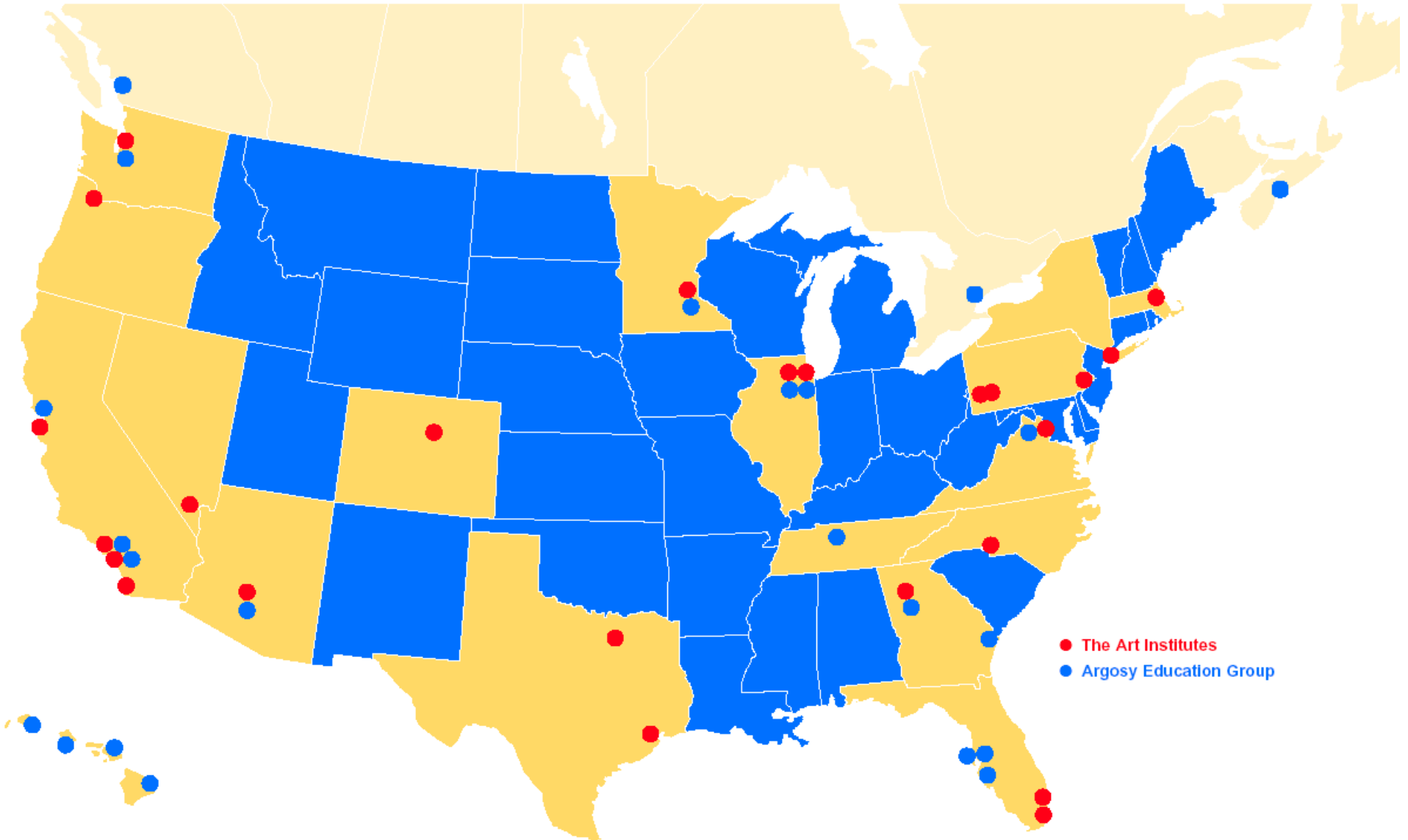
“Currently, there are 12 Argosy University primary campuses and we will be opening a 13th in September in Dallas, Texas. Going forward, we expect to open a number of additional Argosy University sites, some of which will be co-located with an Art Institute. Giving students the abil-

Revenue (in millions) Fiscal Year End: June 30



ity to take coursework online and to be able to contact their instructor via e mail helps students to manage their

Continued on page 3



Education Management Corporation Locations

Education Management Corporation

Continued from page 2

lives better and obtain the skills and knowledge that they need for personal advancement.”

Accreditation

“Our education institutions are accredited by one or another regional accrediting body or one of the leading national accrediting bodies.”

Payment

“Students attending an Art Institute or Argosy University utilize the same state and federal student aid programs that are used by students attending other colleges and universities. They also draw upon their personal or family resources, and many work part time. Some have full time jobs.”

Completion rates

“In Argosy University, the higher up you go in degree level, the higher the completion rate. Students taking doctoral degrees in clinical psychology, education or business administration have a very high persistence rate because these are committed individuals that have a clear idea of what they want to achieve. About half of our associate’s degree students in the Art Institutes complete their programs, which is very high compared to completion rates in community colleges which run between 10 and 20% In higher education, there is a lot of movement of students from one institution to another. Bachelor’s degree program completion rates are somewhat higher than 50%.”

Full time students

“In the Art Institutes, our average credit load at the moment is 12.7. We define a full-time student as a 15-credit load so our students are less than full time on average by our standards, but the rest of higher education defines full-time as being 12 credits. Therefore, the majority of our students are more than full-time compared to higher edu-

so at other times except when the graduate education programs are in session. We have to make sure that we are sensitive to meeting the needs of our students, so we have the ability to improve the load factor of our facilities to the extent that our students’ schedules permit it.

“We could increase class sizes, but we don’t have more than 25 students in a class except for rare instances where there are large group lectures. Our average student – instructor ratio in the Art Institutes is 18 to 1, and that reflects the fact that we have more students in classes in the earlier part of a two to four year academic program and lighter class loadings toward the latter part because of student attrition. In the case of Argosy University, class sizes are 12 to 15 students at the graduate level and that is reflective of the personal attention we give our students.”

Enrollments

“At the Art Institutes, our average student enrollments have grown at a bit more than 15% per year over the past five years, revenues have grown at in excess of 20% and earnings per share have grown at a bit north of 23%. One reason that our enrollments have continued to increase over the years is because of our approach of making it our business to know what employers need. We have advisory committees around the nation that more than 900 companies participate in, which is how we are able to keep our curricula current and very importantly, continue to develop new academic programs.

“We get information from many different sources including our faculty members that are active in their fields, our career services advisors who work hard to keep abreast of what is taking place in the market, and our alumni. In addition, we retain industry experts to help us appreciate upcoming trends. For example, four of the academic programs in the Art Institutes that were relatively new six years ago and had 3,000 students enrolled, had more than 16,000 students enrolled this past fall. That

is indicative of the importance of developing new academic programs, which we will continue to do.”

Additional institutions

“Upon going public, we communicated to the market that we expected to add a minimum of two new locations per year, and we have grown at faster than that rate. Going forward, our growth strategy will continue to include starting new schools and acquiring existing ones.”

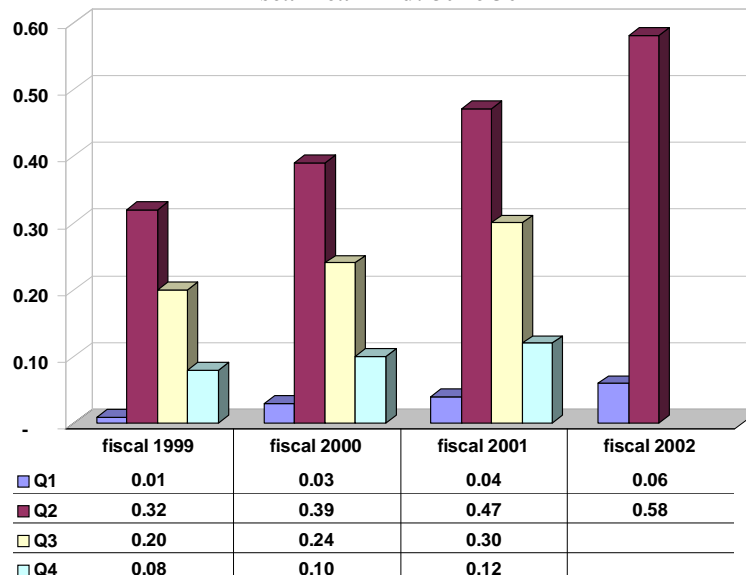
Tuition reimbursement

“There is some tuition reimbursement that occurs with some of our students. While there are leading companies that hire Art Institutes’ graduates such as Microsoft, Nordstrom or Flight Safety, most of the companies are small to medium-sized firms. To the extent that those companies have enlightened management that believe it is important to do something for their current employees, they do provide tuition reimbursement. For the most part, our students are financing their education through personal resources, part-time jobs and federal and state student financial aid programs.”

Acquisitions

“EDMC has made a number of acquisitions over the years, which have tended to be of very small schools that had 100 to 200 students. Recently, we closed on the acquisition of Argosy Education Group whose principal unit is the system of 12 Argosy University locations. We purchased

Diluted Earnings per Share
Fiscal Year End: June 30



Argosy for \$79 million and have communicated to the market that we expect a modest amount of e.p.s. accretion in the last half of our current fiscal year, which ends June 30. Argosy is growing at a good clip. Their fall student enrollment was almost 6,000 students, which was up more than 30% year to year.

“The foundation for our acquisition of Argosy was the fact that in September they received approval from the North Central regional accrediting body to roll out 41 of their existing academic programs within the Argosy system over the course of the year running to next September. When you add academic programs to a school location, you gain leverage on your administrative overhead as well as on your facility expenses, which benefits the bottom line of that institution. Argosy provides us a generic platform to introduce new academic programs as well as new locations.”

Cash and/or credit

“Education Management Corporation has good banking support on both the investment and commercial banking sides. We have an available revolving credit of \$150 million and a debt-free balance sheet as a result of our recent equity financing, so we have the capital to exercise our growth strategy. Going forward, we expect to see a continued flow of opportunities to grow through acquisition. We reject most because we have a very disciplined process in terms of the way that we operate our business and make targeted acquisitions.”

Focus and strategy for the future

“The organization has two principal operating divisions, the Art Institutes, which has 24 campus locations and Argosy University, with 12 primary campus locations. Our concentration going forward is on supporting the growth of the Art Institutes system by continuing to expand its academic programs, geographic presence and electronic presence, and to expand the Argosy system by rolling out their existing academic programs and opening new locations through startup or acquisition. That has been very successful with the Art Institutes over the years.

“Currently, there are a number of cities that we are not located in. With the academic disciplines that we have in place and the very positive demographic factor of some 20% more students expected to be enrolled in higher education in the next ten years, we have a very positive future.”

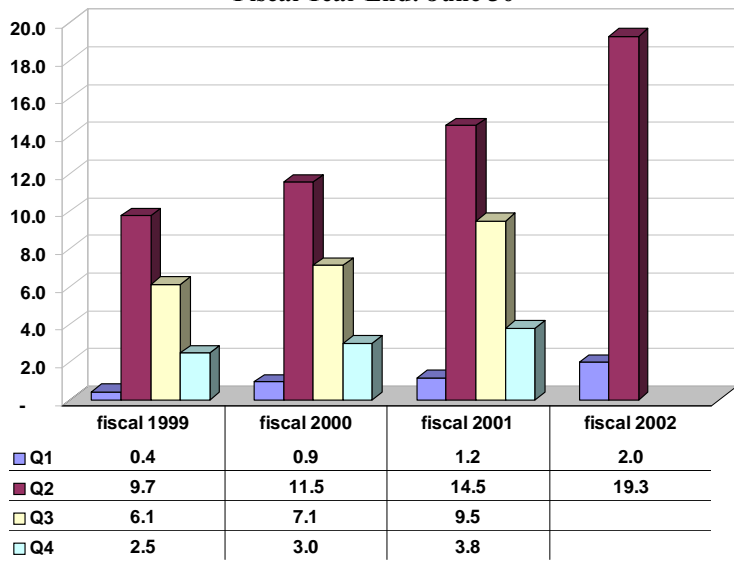
Leading organization

“Our thought is that our organization is second to none. In that regard, I would point to the diversity of our academic programs, and the fact that they appeal to a broad range of students. Our well-defined track record of developing new education programs and new locations has enabled us to have sustained growth over a long period of time. Going forward, we fully intend to be the leading organization in the higher education field.”

Attracting potential investors

“Clearly, education is a growth industry and our schools are leaders in their fields of education. We have a long track record of success and are very optimistic about our future prospects.”

Net Income
(in millions)
Fiscal Year End: June 30



cation generally, but a bit less than that by our standards. Our institutions are not that different from the rest of higher education in that many of our students work part-time in order to finance their education.

“From an educational standpoint, I believe it is more beneficial for a student to take as many credits as they can handle and complete their education as soon as they can. The Art Institutes operate 48 weeks a year and we encourage students to take courses to the maximum extent possible in order to complete the program quicker. Having classes year round allows our students to accelerate their entrance into the job market. So the learning process is enhanced and they are in and out of the formal education process more quickly.”

Capacity

“At the Art Institutes, our heaviest student load is generally in the morning. We have lighter usage in the afternoon and more so in the evening. To the extent that we can bring on students that are able to attend school in the afternoon and evening hours, we can obviously increase the usage of our facilities. In the case of Argosy University, there is very heavy usage of the school facilities in the evening and less