EDMC

Education Management Corporation

Think leaders. Think leaders. Think leaders.

2000 ANNUAL REPORT

EDUCATION MANAGEMENT CORPORATION

Education Institutions

The Art Institute of Atlanta®
Massachusetts Communications College℠ (Boston)
The Art Institute of Charlotte℠
The Illinois Institute of Art – Chicago℠
The Art Institute of Dallas®
The Art Institute of Colorado® (Denver)
The Art Institute of Fort Lauderdale®
The Art Institute of Houston®
The Art Institute of Los Angeles®*
The Art Institute of Los Angeles – Orange County℠
The Art Institutes International Minnesota℠ (Minneapolis)
The New York Restaurant School℠
The Art Institute of Philadelphia®
The Art Institute of Phoenix®**
The Art Institute of Pittsburgh®
The Art Institute of Portland℠
The Art Institutes International at San Francisco℠
The Illinois Institute of Art – Schaumburg℠***
The Art Institute of Seattle®
The Art Institute of Washington℠****
NCPT Inc.℠
The Art Institute Online℠†

* *The Art Institute of Los Angeles is a branch of The Art Institute of Pittsburgh.*

** *The Art Institute of Phoenix in Arizona is a branch of The Art Institute of Colorado (Denver).*

*** *The Illinois Institute of Art Schaumburg is a branch of The Illinois Institute of Art Chicago.*

**** *The Art Institute of Washington is a branch of The Art Institute of Atlanta.*

† *The Art Institute Online is a division of The Art Institute of Pittsburgh.*

Principal Education Programs

Audio Production A
Computer Animation B/A
Culinary Arts A/C
Culinary Management B
Fashion Design B/A
Fashion Marketing B/A
Graphic Design B/A/D
Industrial Design Technology B/A
Internet Marketing & Advertising B
Interior Design B/A
Legal Studies A
Media Arts & Animation B
Multimedia & Web Design B/A/D
Paralegal Studies C
Photography B/A
Restaurant and Catering Management A
Video Production A

B = Bachelor's degree program
A = Associate's degree program
C = Certificate program
D = Diploma program

Some programs are not offered at all locations.

PROFILE EDMC

Education Management Corporation ("EDMC") is among the largest providers of proprietary postsecondary education in the United States. Through its schools, the Company offers bachelor's and associate's degree programs and nondegree programs. Headquartered in Pittsburgh, Pennsylvania, EDMC employs approximately 3,200 staff and faculty. During fiscal 2000, fall total enrollment was 24,502 students.

The Art Institutes, EDMC's largest operating unit with 20 institutions nationwide, is an important source of design, media arts, fashion, and culinary professionals.

The Company's Common Stock trades on the Nasdaq National Market under the symbol "EDMC."

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Are leaders born or made? Is creativity a gift or is it learned?

At Education Management Corporation, we believe it's a little of both. Through experience, we know that what lies between untapped potential and career success is a learning environment which gives students the opportunity to excel.

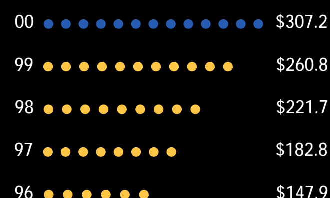
The growth of our Company — and The Art Institutes, our national system of postsecondary education institutions for the creative and applied arts — is founded on our ability to provide such learning environments. Our mission has always focused on industry-relevant education.

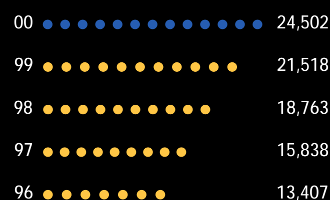
The result? Graduates with vision and integrity. Creative thinkers who seek out problems ripe for innovation. Leaders who inspire and empower others in the highly competitive creative arena.

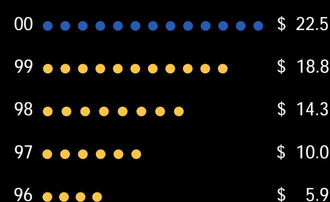
Operating Highlights FOR THE FISCAL YEARS ENDED JUNE 30,

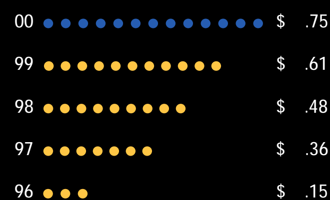
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
	1998	**1999**	**2000**	**% change** 1999 to 2000
Operating Results:				
Net revenues	$221,732	$260,805	$307,249	17.8%
Income before interest and taxes (EBIT)	$ 24,691	$ 31,698	$ 38,342	21.0%
EBITmargin	11.1%	12.2%	12.5%	
Net income	$ 14,322	$ 18,752	$ 22,530	20.1%
Diluted earnings per share	$ .48	$ .61	$ .75	23.0%
Balance Sheet Data:				
Total assets	$148,783	$178,746	$240,675	34.6%
Shareholders' investment	$ 73,325	$ 96,805	$112,950	16.7%
Other Selected Data:				
Capital expenditures	$ 17,951	$ 54,933[1]	$ 57,073[1]	3.9%
Schools at end of period	17	18	20	
Student enrollment:				
Beginning of fall quarter	18,763	21,518	24,502	13.9%
Fiscal year average	17,002	19,325	22,264	15.2%

[1] *Capital expenditures for fiscal years 1999 and 2000 reflect approximately $5.1 million and $13.2 million included in accounts payable at year-end, respectively.*









TO OUR SHAREHOLDERS

2000 2000

This report highlights career experiences of five graduates of The Art Institutes, EDMC's system of schools that offer education in the creative and applied arts.

These graduates have demonstrated their capacity for innovation and leadership. As you read their comments, you'll note the diversity of their experiences and the contributions they are making to their professions. The education they received gave them the right foundation on which to build their careers, and we're proud of them.

In fiscal 2000, EDMC's consolidated revenues increased almost 18 percent to $307 million and our earnings per share grew 23 percent to $.75.

Our schools achieved another record year in student enrollment. The placement rate of our 1999 calendar year graduates exceeded 90 percent, and average starting salaries rose by more than 8 percent compared to the year before.

We continued to invest heavily in technology and in rolling out education programs within our system of education institutions. New education offerings include many more bachelor's degree programs in subject areas such as Media Arts & Animation, Multimedia & Web Design, Game Art & Design, and our newest, Internet Marketing & Advertising.

Since our last annual report, we have received a number of significant regulatory and accreditation approvals which will benefit our education institutions and our students, and are instrumental to our expansion strategy. Among those, The Art Institutes in Seattle and Houston were granted accreditation by their respective regional accrediting commissions, and several Art Institutes received state and accreditation authority to offer bachelor's degree programs.

At this writing, 16 of the 20 Art Institutes are offering bachelor's degrees, up from eight as of last fall. The rapid growth of enrollment in bachelor's programs reflects the demand of the marketplace for more comprehensive knowledge and skills on the part of our graduates. It also reflects the interest on the part of students in achieving a materially higher return on their education investment.

EDMC's investments included spending on a range of eBusiness initiatives related to Web-based services for all students. Those attending physical classrooms will have the online capability to register for courses, apply for student financial aid, purchase books and supplies, access their grades, communicate with their instructors via email, utilize their personal Web sites, visit the virtual library, or access their grades.

Among our other significant investments, students moved into newly renovated housing facilities in Philadelphia and Fort Lauderdale, to a striking new main campus building for The Art Institute of Colorado, and to the impressive new location of The Art Institute of Pittsburgh.

During fiscal 2000, we completed the acquisition of the renamed Art Institute of Charlotte, and the acquisition of Massachusetts Communications College in Boston. We established The Art Institute Online as a division of The Art Institute of Pittsburgh, and students began attending classes in our twelfth culinary arts program, started by The Illinois Institute of Art at Chicago.

In July, 2000, our nineteenth and twentieth Art Institutes opened in Orange County, California and northern Virginia — our second Art Institute of Los Angeles and The Art Institute of Washington, respectively.

The Art Institute Online successfully completed the first phase of its development, the beta test of several general education and basic art and design courses among students at two of The Art Institutes. This year students at an additional six Art Institutes will have the option of taking part of their Graphic Design or Culinary Arts programs online.

We expect to create another 50 media-rich courses for The Art Institute Online this year as we gain more experience in the virtual classroom environment.That environment will be shared by students throughout our system,including those not enrolled in physical classroom-based programs. We're carefully testing learning outcomes, and are conducting intensive online facilitator training programs for faculty. The virtual classroom requires a modified approach on the part of faculty, and we've benefited in this transition from the experience of the Socrates Distance Learning Technologies Group, which we acquired two years ago.

While we have much to learn and have had our share of startup challenges, student feedback has been positive. We believe the online classroom will work better for some students and that student enrollment and persistence will be enhanced because of the convenience factor for those with part-time or full-time jobs. Our relative need for added physical space in future years should decrease as some courses are offered exclusively online, and our market reach will expand.

Our alumni will become a much bigger part of EDMC's future development. We will be building electronic relationships with them to include special updates on industry trends, the latest hardware and software releases,and other helpful information. In turn, we think we will increasingly benefit from input from our alumni on industry trends, which will assist us in modifying courses and identifying market demand for new ones.This is an important aspect of our growth strategy.

Our internal training arm, EDMC University, is using our intranet to deliver employee development programs.Employees like the convenience and the timeliness of the offerings.

Inquiries for our education programs continue to grow at a healthy rate. In part this is due to the increasing numbers of high school graduates, a demographic trend projected to continue through most of this decade. We've made a commitment to expand our presence in high schools across the country and last year made approximately 30,000 presentations at more than 10,000 high schools. This year, Art Institutes representatives will call on nearly 12,000 high schools. These presentations help upcoming high school graduates appreciate the broad scope of job opportunities in fields related to our education programs.Their presentations also help build the national brand identity of The Art Institutes as America's Leader in Creative Education.

We're benefiting from what has been termed the convergence of art, design, and technology. In part that translates to more working adults continuing their education, and more opportunities for our graduates at higher salaries.

EDMC's investments in our Web presence have paid off in inquiries from Web-related sources almost doubling as a percent of the inquiry pool. There is promise that such inquiries will become the most important source after referrals from students, graduates, and employers.

In my memory, there's never been a time when so many in our country, including our legislative and political leaders, have recognized the importance of education and the investment in human capital. It's an investment that really matters.

A great strength of the U.S. higher education system is its diversity. Our citizens, along with hundreds of thousands of students from other countries who come to the U.S. for their education, can take education programs of a few months to several years in duration leading to an almost unlimited variety of career opportunities and credentials. And we are seeing more and more people move from one career to another during their working lives.

I suggest the public policy mandate should be an endorsement of the principle that there is dignity in all forms of work. To that end, every citizen needs and deserves the opportunity for training or education after high school.

That's where we fit in. At the moment, EDMC is known for its 20 Art Institutes. In the future we expect to be known for even more. We believe The Art Institutes have outstanding growth potential. We also believe that Education Management Corporation is second to none among the publicly owned education companies when it comes to the quality of our organization and our future prospects.

We look forward to continuing to demonstrate our capacity for sustained growth and innovation.

Robert B. Knutson
Chief Executive Officer

Follow the leaders

Follow the leaders....

Follow the leaders

The pilot phase of The Art Institute Online was launched in fiscal year 2000 through course offerings to students at The Art Institutes of Phoenix and Fort Lauderdale. Students at six more Art Institutes will participate in online education in fiscal 2001.

"A lot of this you learn as you go along. There's not a lot of track record to fall back on. We call it being on the bleeding edge. You just move forward, and you're not exactly positive what's around the corner." —Paul Compton, design director, washingtonpost.com

When we're ready to learn, a teacher will appear, according to the famous Zen koan.

And perhaps the counterpoint is that when we're ready to define our own direction,strike our path, we become the teacher and the leader.

The truth is, we're always learning. But by the time we're ready to lead, we have all the tools, and know how to use them.

Take Paul Compton, a cyber frontier leader.

As design director of washingtonpost.com, a *Washington Post* subsidiary, he's on the frontlines of development for the venerable newspaper's Web presence.

"A lot of this you learn as you go along," he says of the relatively new (washingtonpost.com is four years old) field of Web design. "There's not a lot of track record to fall back on. We call it being on the bleeding edge. You just move forward, and you're not exactly positive what's around the corner."

Of course, Web design wasn't on the scene in 1983 when Compton completed the Visual Communications program at The Art Institute of Pittsburgh. He began what he imagined would be a career as an illustrator. Still, he says, his Art Institutes education holds up.

PAUL COMPTON, GRAPHIC DESIGN GRADUATE, THE ART INSTITUTES

"It was totally essential in my career," he says. "I've got a very solid foundation of art skills to build on. No matter whether it's the Web or print or fine arts, I understand the underlying principles. Without that I don't think I'd be where I am."

Compton is just one of many Art Institutes alumni who are emerging as creative leaders. Curious thing about leadership. Budding politicians notwithstanding, becoming a leader is a quiet thing. You keep in mind where you're headed, take one step and then the next.

X-RAY VISION

Carving out inventive paths is just the kind of thing that Education Management Corporation does best. "We've always considered ourselves leaders," says EDMC Chairman and CEO Bob Knutson, "out in front, identifying emerging needs or refining and redefining existing education programs."

At EDMC, "always" has been since 1962, when the Company got its footing in the business of education. Its mission of leadership has brought EDMC a long way — to a nationally identified brand with 20 Art Institute locations; more than 100,000 alumni, bachelor's and associate's degree programs, and online education.

Today, through hard work and fortuitous demographics, the Company is poised for the approach of Generation Y, the massive legion of 10- to 21-year-olds who, the U.S. Census Bureau projects, will make up 16.8 percent of the U.S. resident population in 10 years.

Couple that with an employment market that demands creative thinking, teamwork, and leadership skills; where art, design, and technology are converging, and you have opportunity for growth.

RUSSELL KOSTNER, MULTIMEDIA & WEB DESIGN GRADUATE, THE ART INSTITUTES

Knutson counts off four proud hallmarks of EDMC's schools: talented faculty who are practitioners as well as instructors,exceptional facilities equipped with industry-related technology, a national marketing presence, and relationships with employers who are in need of graduates with solid, work-ready skills.

This last offers the business equivalent of X-ray vision. Says President and Chief Operating Officer Bob Gioella: "Employers' needs drive our development of new education programs and repositioning of existing programs. We are always asking: What is it that graduates need to know and do?"

For Paul Compton, Job One is to get the *Post's* news up on the Internet."But we want to go beyond that," he says."So we're trying to do two things at once: cover the print paper aspect and also be a new media company that comes up with fresh ideas on our own."

Click on a significant news story – the U.S. Presidential race,for instance – and you can bring yourself up to date on the latest developments and enhance your understanding of the events. Or click the "On Assignment" button: a montage of white cemetery crosses ghosts across the face and body of a World War II veteran as a multimedia presentation of sound and image unfolds into memories of the Invasion of Normandy.

It's a compelling mixture. But don't forget that behind the curtain, as it were, are Paul Compton and his team of designers guiding what will happen when you click on this face or that icon, discovering the storytelling capabilities of the Web.

Gioella explains EDMC's mission in this way:

"We begin with the end in mind – who needs our graduates and why – through frequent contact with industry representatives via employer advisory boards and independent round tables. We ask questions, throw out topics for discussion, and listen."

PLOWING NEW GROUND

Tapping into the best minds in the industry paid off for Russell Kostner, a graduate of the Multimedia & Web Design program at The Art Institute of Colorado. The first thing Kostner did last year when he graduated was to pack his bags and head to Silicon Valley to test his skills and knowledge on the cutting edge.

The move paid off when he landed a job as a technical designer for Excite@home. Now, mere months later, he is credited with pioneering an important new use for Macromedia's Flash, a multimedia and Web tool. In fact, he's taken a giant step toward making interactive TV a reality.

"What we did was make a portal for interactive TV out of Flash," says Kostner. "Flash is more graphic than a lot of the other languages. And it features small file sizes that you can download quickly. This is important, because with TV, you have to deal with bigger images and color."

The development was a lot of pressure, admits Kostner, who worked on the first round of development solo. "We were pushing new ground that the tool hadn't been used for before, defining how far

Each Art Institute has multiple advisory boards comprised of industry representatives who meet to review curricula in light of the changing needs of the job market. Approximately 800 industry representatives are currently involved in these sessions.

Macromedia, the maker of Flash, has asked Russell Kostner to take a place on its board of advisors. Still, his proudest moment was seeing his work at the trade shows. "That was quite a high."

—Russell Kostner, technical designer, Excite@home

Companies that have hired Art Institutes graduates range from small studios to world-renowned corporations such as Disney, Ernst & Young, IBM Interactive, Marriott Corporation, FlightSafety International, NFL Films, Universal Studios, Communication Arts, Digital Domain, and Donna Karan Collections.

"My education gave me a respect for where design came from — and for the true passion that needs to be there to drive the design." —**Jeffrey Jensen,** creative director, CN Burman

we could take it. You don't know if you can actually do it," he says. It's like you're blindfolded. You're trying to figure out a way through the maze and, when you find an opening, you take it. If not, you just keep trying. It's what you have to do in this industry."

Macromedia, the maker of Flash, has asked Kostner to take a place on its board of advisors – a great opportunity as well as a distinction for him. Still, he cites his proudest moment as when he got to see his work up on the screen at the trade shows. Kostner remembers, "That was quite a high."

Gioella explains, "We're fortunate to be in a business that has an outcome you can feel really good about. We help our students do what they want to do with their lives."

He points out, "Most of our students aren't going to college to find themselves. They already have an eye on the profession they want to pursue. And, these are not necessarily easy fields to enter." Indeed, EDMC is working to maintain that standard by expanding its bachelor's degree program offerings, which give graduates additional leverage in the job market.

CLOUD NINE

Jeffrey Jensen, another graduate of The Art Institute of Colorado, is a rising star in the world of industrial design. Even as a student, he showed glimmers of greatness, winning "Portfolio Par

JEFFREY JENSEN, INDUSTRIAL DESIGN GRADUATE, THE ART INSTITUTES

Excellence," as well as taking home furniture design honors for a kinetic sculpture/room divider screen.

Since graduation, Jensen has met with meteoric success, winning The American Society of Furniture Designer's Pinnacle Award, the industry's equivalent of an Oscar, for a piece from one of his first collections. To make the success even sweeter, the award was one that Jensen shared with a well-established designer whose piece retailed for $15,000. Jensen's price tag? A modest $199."Talk about cloud nining," he says.

Jensen's award-winner was part of the Uptown Collection — an ensemble of furniture he created for the design-conscious mass marketer Target. Jensen was fresh to the profession, newly employed by a long-time manufacturer of RTA (ready-to-assemble) furniture.

"It was such a strong departure for RTA into a modern realm," says the 1997 graduate. "RTA has the reputation of being boxy, not very stylish furniture. With the Uptown Collection, I was kind of 'riffing' on RTA.I wanted to show that it's the way you put elements together that makes them appealing — or not. You can use straight edges and cubic forms and none of the details that drive up prices — and still achieve a really stylish product."

Jensen, now creative director at furniture and lighting company CN Burman in New Jersey, explains,"My education gave me a respect for where design came from — and for the true passion that needs to be there to drive the design," he says."I have a very good instinct for design. But when I think of a concept, I know that it's not coming from the clear blue sky. I know that it's grounded."

JANET BUSSELL, INTERIOR DESIGN GRADUATE, THE ART INSTITUTES

Where would he like to see his design work headed? "There's a fine line between the artistic and the design aspect of furniture design – where something needs to be functional as well as aesthetic," he says. "To a little gray area between playful and functional art – that's what I'd like to infuse my work with."

A STEP FURTHER

Active listening, Janet Bussell will tell you, is one of the keys to her success. As an Interior Design student at The Art Institute of Fort Lauderdale in the early 1990s, she was savvy enough to appreciate the hands-on experience her instructors brought into the classroom.

"One of The Art Institutes' best assets is that the instructors are degreed professionals – not theoreticians – but people who are out there doing it," she says.

She describes herself as riveted by what her teachers had to say when she was a student. "I remember thinking, 'I'm going to listen to these people because they know. I'm going to do exactly what they say because they've done that. I'm sitting here getting the benefit of their learning experiences.'"

And learn from them she did. Bussell was an outstanding student – she graduated with a 4.0 average and highest honors. Her achievements while in school translated quickly into professional opportunities. In fact, she had only been out of school a short time when a call from an Art Institutes placement counselor sent Bussell on a job interview in Miami. The head designer was looking for a design assistant for the renovation of an out-of-this-world (Old World, as it turned out) estate. The house, Bussell learned during the interview, was for Italian fashion designer Gianni Versace, now deceased.

As part of the strategy to build national brand recognition for The Art Institutes, EDMC school representatives visited more than 10,000 high schools in fiscal year 2000, conducted nearly 30,000 presentations, and were a presence at approximately 2,000 college fairs in the U.S. and around the world.

"If you make it in this school, you're going to make it out there in the real world." —Janet Bussell, president, Artemis Design & Development, Inc.

"The name didn't even click with me. I was clueless as to who this man was and what job I was interviewing for," Bussell laughs, "which was probably a good thing." In the coming years, through the completion of the luxurious estate, she would work for Versace directly.

"I learned so much from working with him about combining colors and patterns and designs – doing the out-of-the-ordinary and the unexpected," she says. From Versace, she garnered a philosophy she's taken with her to every design project since: "'When you think you've gone crazy and far enough in your design in mixing things,' he would say, 'go a step further.'"

These days her career has taken her to the sunny climes of California where she has established Artemis Design & Development, Inc. with contractor William Strauser. She's hard at work on a new Malibu mansion for singer Cher and has just launched her own signature line of ceramic tiles through her newly formed textile design company, Janet Bussell, Inc.

And yes, Bussell was fortunate to have landed such high-profile projects so early in her career. But it's on point to note that she was prepared to rise to the opportunity, thanks to her hard work as a student. Boot camp is how Bussell describes the Interior Design program at The Art Institutes. "If you make

In fiscal year 2000, EDMC committed in excess of $11 million to help students finance their education through institutional grants and scholarships, and as one of the largest culinary educators in the United States, established The Art Institutes Culinary Scholarship Competition.

"The Art Institutes gave me an enormous amount of technical skill and self-confidence, because getting through that program was one of the hardest things I've ever done in my life."

—**Liz Tarditi,** owner, Today's Gourmet

it in this school," she says, "you're going to make it out there in the real world."

For her part, Bussell is happy to extend a real-world hand to Art Institutes graduates when she can, employing them when she has positions open. It's part generosity and part hard-edged business keen: "I know that I'll get somebody who is motivated, somebody who is passionate about what they are doing. I know that the education will be there."

TAKING NOTE

Different program, different decade for that matter, but Bussell's sentiments about the rigors of her Art Institute days are shared by Liz Tarditi, a March 1999 graduate of the Culinary Arts program at The Art Institute of Seattle. Today, Tarditi is a personal chef — with a twist. She gambled on Seattle's high-tech demographics: people with more money than time and who want to eat not just well, but right. By the time Tarditi received her degree, she had a business plan, a Web site, and incorporation papers for her new home-meal replacement service, Today's Gourmet. She hasn't had time to catch her breath since.

"It was a crucible," Tarditi says of her education. "My instructors gave me an enormous amount of technical skill in cooking. And they gave me

LIZ TARDITI, CULINARY ARTS GRADUATE, THE ART INSTITUTES

an enormous amount of self-confidence because getting through that program was one of the hardest things I've ever done in my life. I felt I was truly tested – and in a way that I respected so much."

Tarditi was up to the test. Her habit throughout the Culinary Arts program was to study her notes every single night, not just before the big exam. She still has her notebooks – four shelves' worth in her office – and consults them frequently.

"They made us do a binder for every single class, which was an excellent thing," she says.

"After having a lecture on how to make a vegetable or cream soup, for instance, we would get out the pots and pans and start cooking," Tarditi remembers. "And I would take notes alongside of that, writing down how brown is brown when you're making a French onion soup. I didn't understand the whole correlation until I saw it happen," she says. "I can't tell you how valuable those notebooks are. If my office ever burnt down, those would be the things I'd try to save first."

EDMC's Knutson concurs. "Students in all of our education programs need to have the underlying concepts or foundation. Likewise, employers in the more technological fields tell us they're looking for good artists who know how to use technology, not the other way around."

"It's the foundation," says Compton at washingtonpost.com. "If you have a cracked foundation, water is going to get in. People who do best in the field have a good solid footing underneath them – and then they just keep building from there."

Financial Results
Financial Results
Financial Results

FOR THE YEAR ENDED JUNE 30, 2000

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Included in this Annual Report are statements that may be forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995.Those statements can be identified by the use of forward-looking terminology such as "believes," "estimates," "anticipates," "continues," "contemplates," "expects," "may," "will," "could," "should," or "would" or the negatives thereof or other variations thereon or comparable terminology. Those statements are based on the intent,belief, or expectation of the Company as of the date of this Annual Report.Any such forward-looking statements are not guarantees of future performance and may involve risks and uncertainties that are outside the control of the Company. Results may vary materially from the forward-looking statements contained herein as a result of changes in United States or international economic conditions, governmental regulations, and other factors.The Company expressly disclaims any obligation or understanding to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.Unless otherwise noted, any reference to a "year"is to a fiscal year ended June 30.

BACKGROUND

Education Management Corporation ("EDMC" or the "Company") is among the largest providers of proprietary postsecondary education in the United States, based on student enrollment and revenues.Through its operating units,primarily The Art Institutes, the Company offers bachelor's and associate's degree programs and nondegree programs in the areas of design, media arts, culinary arts, fashion, and paralegal studies.The Company has provided career-oriented education programs for over 35 years, and its Art Institutes have more than 100,000 graduates.As of June 30, 2000, the Company operated 20 schools in 17 major metropolitan areas throughout the United States.The Art Institutes of Washington and The Art Institute of Los Angeles – Orange County began operations in July, 2000.

Net revenues, income before interest and taxes,and net income increased in each of the last two years.Net revenues are presented after deducting refunds, scholarships, and other adjustments. Net revenues increased 38.6% to $307.2 million in 2000 from $221.7 million in 1998. Income before interest and taxes increased 55.3% to $38.3 million in 2000 from $24.7 million in 1998. Net income increased by 57.3% to $22.5 million in 2000 from $14.3 million in 1998. Average quarterly student enrollment at the Company's schools was 22,264 in 2000 compared to 17,002 in 1998.The increase in average enrollment relates to, among other factors, new education programs and additional school locations, along with expanded bachelor's degree and evening degree program offerings.

The Company's revenues consist of tuition and fees, student housing fees, and student supply store and restaurant sales. In 2000, the Company derived 89.6% of its net revenues from net tuition and fees paid by, or on behalf of, its students. Tuition revenue generally varies based on the average tuition charge per credit hour and the average student population. Student supply store and housing revenue is largely a function of the average student population.The average student population is influenced by the number of continuing students attending school at the beginning of a fiscal period and by the number of new students entering school during such period. New students enter The Art Institutes at the beginning of each academic quarter, which typically commence in January, April, July, and October. The Company believes that the size of its student population is influenced by the number of graduating high school students, the attractiveness of its program offerings, the effectiveness of its marketing efforts, changes in technology, the persistence of its students, the length of its education programs, and general economic conditions.The introduction of additional program offerings at existing schools and the establishment of new schools (through acquisition or start-up) are important factors influencing the Company's average student population.

Tuition increases have been implemented in varying amounts in each of the past several years. Historically, the Company has been able to pass along cost increases through increases in tuition. The Company believes that it can continue to increase tuition as educational costs at other postsecondary institutions, both public and private, continue to rise.The Company's schools implemented tuition rate increases averaging approximately 5% during 2000. Tuition rates vary by geographic region, but are consistent by program at the respective schools.

The majority of students at The Art Institutes rely on funds received under various government-sponsored student financial aid programs,especially Title IV Programs,to pay a substantial portion of their tuition and other education-related expenses. For the year ended June 30, 2000, approximately 62% of the Company's net revenues were indirectly derived from Title IV Programs.

Educational services expense consists primarily of costs related to the development,delivery, and administration of the Company's education programs. Major cost components are faculty compensation, administrative salaries, costs of educational materials, facility and school occupancy costs, information systems costs, bad debt expense, and depreciation and amortization of property and equipment.The Company's faculty comprised approximately 46% full-time and approximately 54% part-time employees, for both 1999 and 2000.

General and administrative expense consists of marketing and student admissions expenses and certain central staff departmental costs such as executive management, finance and accounting, legal and corporate development, and other departments that do not provide direct services to the Company's students.The Company has centralized many of these services to gain consistency in management reporting, efficiency in administrative effort,and control of costs.

Amortization of intangibles relates to the values assigned to identifiable intangible assets and goodwill.These intangible assets arose principally from the acquisitions of the schools discussed below.

In December 1997, the Company purchased certain assets of the Louise Salinger School in San Francisco, California for $0.6 million in cash. The Company also entered into a consulting agreement with its former president in exchange for an option to purchase 20,000 shares of Common Stock. The school was renamed The Art Institutes International at San Francisco.

In February 1998, the Company acquired certain assets related to the operations of Bassist College in Portland, Oregon, for approximately $0.9 million in cash.The purchase agreement provides for additional consideration based upon a specified percentage of gross revenues over a five-year period.The school was renamed The Art Institute of Portland.

In October 1998, the Company acquired the assets of Socrates Distance Learning Technologies Group for approximately $0.5 million in cash.This acquisition was made to further the development of the Company's distance learning capabilities.

In August 1999, the Company acquired the outstanding stock of the American Business & Fashion Institute in Charlotte, North Carolina, for $0.5 million in cash. The school was renamed The Art Institute of Charlotte.

In August 1999, the Company acquired the outstanding stock of Massachusetts Communications College in Boston, Massachusetts for approximately $7.2 million in cash.

Start-up schools and smaller acquisitions are expected to incur operating losses during the first two to three years following their opening or purchase.The combined operating losses of the Company's newer schools were approximately $6.7 million in 2000.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated the percentage relationships of certain income statement items to net revenues.

	YEAR ENDED JUNE 30,		
	1998	1999	2000
Net revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Educational services	66.4	65.5	65.5
General and administrative	21.7	21.9	21.5
Amortization of intangibles	0.7	0.5	0.5
	88.9	87.8	87.5
Income before interest and taxes	11.1	12.2	12.5
Interest expense (income), net	–	–	0.3
Income before income taxes	11.1	12.2	12.2
Provision for income taxes	4.7	5.0	4.9
Net income	6.5%	7.2%	7.3%

YEAR ENDED JUNE 30, 2000 COMPARED WITH YEAR ENDED JUNE 30, 1999

Net Revenues Net revenues increased by 17.8% to $307.2 million in 2000 from $260.8 million in 1999.The revenue increase was primarily due to an increase in average quarterly student enrollment ($25.4 million) and tuition increases of approximately 5% ($16.2 million).The average academic year (three academic quarters) tuition rate for a student attending classes at an Art Institute on a recommended full schedule increased to $11,703 in 2000 from $11,262 in 1999.

Net housing revenues increased by 23.2% to $18.1 million in 2000 from $14.7 million in 1999,and revenues from the sale of educational materials in 2000 increased by 11.8% to $13.8 million.Both increased primarily as a result of higher average student enrollment. Refunds increased from $8.0 million in 1999 to $8.6 million in 2000.As a percentage of gross revenue, refunds decreased from 1999.

Educational Services Educational services expense increased by $30.4 million, or 17.8%, to $201.2 million in 2000 from $170.7 million in 1999.The increase was primarily due to additional costs required to service higher student enrollment, accompanied by normal cost increases for wages and other services at the schools owned by EDMC prior to 1999 ($23.0 million) and schools added in 1999 and 2000 ($7.5 million). Higher costs associated with establishing and supporting new schools and developing new education programs contributed to

the increase.As a percentage of net revenues, educational services expense was consistent between years.

General and Administrative General and administrative expense increased by 15.8% to $66.2 million in 2000 from $57.2 million in 1999 due to the incremental marketing and student admissions expenses incurred to generate higher student enrollment at the schools owned by EDMC prior to 1999 ($5.0 million) and additional marketing and student admissions expenses at the schools added in 1999 and 2000 ($3.1 million). General and administrative expense decreased slightly as a percentage of net revenues in 2000 compared to 1999, reflecting operating leverage related to central support functions.

Amortization of Intangibles Amortization of intangibles increased by $0.3 million, or 25.6%, to $1.5 million in 2000 from $1.2 million in 1999, as a result of additional amortization associated with fiscal 2000 acquisitions.

Interest Expense (Income), Net The Company had net interest expense of $726,000 in 2000 as compared to interest income of $113,000 in 1999.The average outstanding debt balance increased from $4.6 million in 1999 to $15.6 million in 2000.The increase in borrowings relates primarily to capital expenditures, acquisitions, and the repurchase of shares of Common Stock.

Provision for Income Taxes The Company's effective tax rate decreased to 40.1% in 2000 from 41.1% in 1999.This reduction reflects a more favorable distribution of taxable income among the states in which the Company operates and a decrease in nondeductible expenses as a percentage of taxable income.The effective rates differed from the combined federal and state statutory rates due to expenses that are nondeductible for income tax purposes.

Net Income Net income increased by $3.8 million, or 20.1%, to $22.5 million in 2000 from $18.8 million in 1999. The increase resulted from improved operations at the Company's schools owned prior to 1999 and a lower effective income tax rate.

YEAR ENDED JUNE 30, 1999 COMPARED WITH YEAR ENDED JUNE 30, 1998

Net Revenues Net revenues increased by 17.6% to $260.8 million in 1999 from $221.7 million in 1998.The revenue increase was primarily due to an increase in average quarterly student enrollment ($23.2 million) and tuition increases of approximately 6% ($12.5 million).The average academic year (three academic quarters) tuition rate for a student attending classes at an Art Institute on a recommended full schedule increased to $11,262 in 1999 from $10,350 in 1998.

Net housing revenues increased by 13.4% to $14.7 million in 1999 from $12.9 million in 1998, and revenues from the sale of educational materials in 1999 increased by 17.3% to $12.3 million. Both increased primarily as a result of higher average student enrollment. Refunds increased from $7.1 million in 1998 to $8.0 million in 1999.As a percentage of gross revenue,refunds decreased slightly from 1998.

Educational Services Educational services expense increased by $23.4 million, or 15.9%,to $170.7 million in 1999 from $147.3 million in 1998.The increase was primarily due to additional costs required to service higher student enrollment, accompanied by normal cost increases for wages and other services at the schools owned by EDMC prior to 1998 ($15.8 million) and schools added in 1998 and 1999 ($6.0 million). Higher costs associated with establishing and supporting new schools and developing new education programs contributed to the increase.As a percentage of net revenues,educational services expense decreased from 66.4% in 1998 to 65.5% in 1999, reflecting leverage on fixed costs.

General and Administrative General and administrative expense increased by 18.9% to $57.2 million in 1999 from $48.1 million in 1998 due to the incremental marketing and student admissions expenses incurred to generate higher student enrollment at the schools owned by EDMC prior to 1998 ($4.8 million),and additional marketing and student admissions expenses at the schools added in 1998 and 1999 ($2.9 million). General and administrative expense increased slightly as a percentage of net revenues in 1999 compared to 1998 as a result of increased advertising expenditures designed to promote awareness of and generate inquiries about the newer locations and new program offerings.

Amortization of Intangibles Amortization of intangibles decreased by $0.4 million,or 25.3%, to $1.2 million in1999 from $1.6 million in 1998, as a result of certain intangible assets becoming fully amortized.

Interest Expense (Income), Net The Company had net interest income of $113,000 in 1999 as compared to $3,000 in 1998.The average outstanding debt balance decreased from $5.6 million in 1998 to $4.6 million in 1999.Accordingly, less interest cost on borrowings has been offset against interest earned on investments.

Provision for Income Taxes The Company's effective tax rate decreased to 41.1% in 1999 from 42.0% in 1998. This reduction reflects a decrease in nondeductible expenses as a percentage of taxable income. The effective rates differed from the combined federal and state statutory rates due to expenses that are nondeductible for income tax purposes.

Net Income Net income increased by $4.4 million or 30.9% to $18.8 million in 1999 from $14.3 million in 1998. The increase resulted from improved operations at the Company's schools owned prior to 1998, reduced amortization of intangibles, and a lower effective income tax rate.

SEASONALITY AND OTHER FACTORS AFFECTING QUARTERLY RESULTS

The Company's quarterly revenues and income fluctuate primarily as a result of the pattern of student enrollment.The Company experiences a seasonal increase in new enrollment in the fall (fiscal year second quarter), which is traditionally when the largest number of new high school graduates begin

postsecondary education. Some students choose not to attend classes during summer months,although the Company's schools encourage year-round attendance.As a result, total student enrollment at the Company's schools is highest in the fall quarter and lowest in the summer months (fiscal year first quarter).The Company's costs and expenses, however, do not fluctuate as significantly as revenues on a quarterly basis. The Company anticipates that the seasonal pattern in revenues and earnings will continue in the future.

QUARTERLY FINANCIAL RESULTS (UNAUDITED)

The following table sets forth the Company's quarterly results for 1999 and 2000.

1999	Sept. 30 (Summer)	Dec. 31 (Fall)	Mar. 31 (Winter)	June 30 (Spring)
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net revenues	$50,079	$74,986	$70,575	$65,165
Income before interest and taxes	$ 698	$16,646	$10,249	$ 4,105
Income before income taxes	$ 732	$16,543	$10,365	$ 4,171
Net income	$ 425	$ 9,749	$ 6,105	$ 2,473
Net income per share				
—Basic	$ .01	$ .33	$ .21	$ .08
—Diluted	$ .01	$ .32	$ .20	$ .08

2000	Sept. 30 (Summer)	Dec. 31 (Fall)	Mar. 31 (Winter)	June 30 (Spring)
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net revenues	$60,850	$87,023	$83,195	$76,181
Income before interest and taxes	$ 1,693	$19,566	$11,968	$ 5,115
Income before income taxes	$ 1,570	$19,247	$11,881	$ 4,918
Net income	$ 926	$11,524	$ 7,113	$ 2,967
Net income per share				
—Basic	$ .03	$ .40	$ .25	$ .10
—Diluted	$ .03	$ .39	$ .24	$ .10

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flow from operations has been the primary source of financing for capital expenditures and growth. Additionally, the Company maintains a revolving credit facility. Cash flow from operations was $28.6 million, $35.7 million, and $46.8 million for 1998, 1999, and 2000, respectively. For the years ended June 30, 1999 and 2000, cash flow from operations and cash flow from investing activities are reflected net of approximately $5.1 million and $13.2 million of capital expenditures included in accounts payable as of June 30, 1999 and 2000, respectively. As a result of the significant increase in capital expenditures, the Company had net working capital of $3.8 million as of June 30, 2000,down from $10.5 million as of June 30, 1999.

As of June 30, 2000, gross trade accounts receivable increased by $6.7 million, or 34.3%, to $26.1 million from the prior year as a result of the increased net revenues and acquisitions. The allowance for doubtful accounts increased by $4.7 million, or 50.4%, to $14.1 million in 2000 from $9.4 million in 1999.

During the year, the Company entered into a Credit Agreement (the "Credit Agreement") which provides for borrowings up to $100.0 million and expires February 18, 2005. Borrowings under this facility are unsecured and bear interest at one of three rates set forth in the Credit Agreement at the election of the Company. Certain outstanding letters of credit reduce this facility. As of June 30,2000, the Company had approximately $35.3 million of borrowing capacity available under the Credit Agreement. The Credit Agreement contains customary covenants that, among other matters, require the Company to meet specified interest and leverage ratio requirements and restrict the repurchase of Common Stock and the incurrence of additional indebtedness. As of June 30, 2000, the Company was in compliance with all covenants under the Credit Agreement.

Borrowings under the Credit Agreement are used by the Company primarily to fund working capital needs resulting from the seasonal pattern of cash receipts throughout the year. The level of accounts receivable reaches a peak immediately after the billing of tuition and fees at the beginning of each academic quarter. Collection of these receivables is heaviest at the start of each academic quarter.

The Company believes that cash flow from operations, supplemented from time to time by borrowings under the Credit Agreement, will provide adequate funds for ongoing operations, planned expansion to new locations, planned capital expenditures, and debt service during the term of the Credit Agreement.

Capital Expenditures Capital expenditures made during the three years ended June 30, 2000 reflect the implementation of the Company's initiatives emphasizing the addition of new schools and education programs, and investment in classroom technology. The aggregate purchase price and costs of subsequent improvements made during the fiscal year related to the buildings acquired in Denver and Pittsburgh was approximately $29.2 million. The Company's capital expenditures were $18.0 million, $54.9 million, and $57.1 million for 1998, 1999, and 2000, respectively. The Company expects that total capital spending for 2001 will decrease as a percentage of net revenues, as compared to 2000. The anticipated expenditures relate principally to the investment in schools acquired or started during the previous several years and to be added in 2001, continued improvements to current facilities, additional or replacement school and housing facilities, and classroom and administrative technology.

The Company leases the majority of its facilities. Future commitments on existing leases will be paid from cash provided by operating activities.

REGULATION

The Company indirectly derived approximately 62% of its net revenues from Title IV Programs in 2000. U.S. Department of Education regulations prescribe the timing of disbursements of funds under Title IV Programs. Students must apply for a new loan for each academic year. Lenders in multiple disbursements each academic year generally provide loan funds. For first-time students in their first academic quarter, the initial loan disbursement is generally received at least 30 days after the commencement of that academic quarter. Otherwise, the first loan disbursement is received, at the earliest, 10 days before the commencement of the student's academic quarter.

U.S. Department of Education regulations require Title IV Program funds received by the Company's schools in excess of the tuition and fees owed by the relevant students at that time to be, with these students' permission, maintained and classified as restricted until they are billed for the portion of their education program related to those funds. Funds transferred through electronic funds transfer programs are held in a separate cash account and released when certain conditions are satisfied. These restrictions have not significantly affected the Company's ability to fund daily operations.

Education institutions participating in Title IV Programs must satisfy a series of specific standards of financial responsibility. The U.S. Department of Education has adopted standards to determine an institution's financial responsibility to participate in Title IV Programs.The regulations establish three ratios: (i) the equity ratio,measuring an institution's capital resources, ability to borrow, and financial viability; (ii) the primary reserve ratio, measuring an institution's ability to support current operations from expendable resources; and (iii) the net income ratio, measuring an institution's profitability. Each ratio is calculated separately, based on the figures in the institution's most recent annual audited financial statements, and then weighted and combined to arrive at a single composite score. Such composite score must be at least 1.5 for the institution to be deemed financially responsible without conditions or additional oversight.

Regulations promulgated under the HEA also require all proprietary education institutions to comply with the "90/10 Rule," which prohibits participating schools from deriving 90% or more of total revenue from Title IV Programs in any year.

If an institution fails to meet any of these requirements, it may be deemed to be not financially responsible by the U.S. Department of Education,or otherwise ineligible to participate in Title IV Programs.The Company believes that all of its participating schools met these requirements as of June 30,2000.

EFFECT OF INFLATION

The Company does not believe its operations have been materially affected by inflation.

IMPACT OF NEW ACCOUNTING STANDARDS

In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. The statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. Additionally, SFAS No. 133 requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. This statement has been amended by SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities—Deferral of the effective date of SFAS No.133." SFAS No. 137 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company does not anticipate that these standards will have a significant impact on its financial statements.

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101,Revenue Recognition ("SAB No. 101"), to provide guidance on the recognition, presentation, and disclosure of revenue in financial statements. SAB No. 101 explains the SEC staff's general framework for revenue recognition. SAB No. 101 does not change existing literature on revenue recognition, but rather clarifies the SEC's position on pre-existing literature. SAB No. 101 did not require the Company to change existing revenue recognition policies and, therefore, had no impact on the Company's financial position or results of operations at June 30, 2000.

RISK FACTORS

In addition to the important factors described elsewhere in this Annual Report and the Company's Form 10-K, the following factors, among others, could affect the Company's business, results of operations, financial condition, and prospects in fiscal 2001 and later years: (i) the perceptions of the U.S. Congress, the U.S. Department of Education, and the public concerning proprietary postsecondary education institutions to the extent those perceptions could result in changes in the HEA in connection with its reauthorization; (ii) EDMC's ability to comply with federal and state regulations and accreditation standards, including any changes therein or changes in the interpretation thereof; (iii) the Company's ability to forsee changes in the skills required of its graduates and to design new courses and programs to develop those skills; (iv) the ability of the Company to gauge successfully which markets are underserved in the skills that the Company's schools teach; (v) the Company's ability to gauge appropriate acquisition and start-up opportunities and to manage and integrate them successfully; (vi) the Company's ability to defend litigation successfully; and (vii) competitive pressures from other education institutions.

Report of Independent Public Accountants

TO THE SHAREHOLDERS OF EDUCATION MANAGEMENT CORPORATION AND SUBSIDIARIES:

We have audited the accompanying consolidated balance sheets of Education Management Corporation (a Pennsylvania corporation) and Subsidiaries as of June 30, 1999 and 2000, and the related consolidated statements of income, shareholders' investment, and cash flows for each of the three years in the period ended June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Education Management Corporation and Subsidiaries as of June 30, 1999 and 2000, and their results of operations and their cash flows for each of the three years in the period ended June 30, 2000 in conformity with accounting principles generally accepted in the United States.

Pittsburgh, Pennsylvania,
July 27, 2000

Education Management Corporation and Subsidiaries
Consolidated Balance Sheets (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	AS OF JUNE 30,	
	1999	2000
Assets		
Current assets:		
Cash and cash equivalents, including restricted balances of $725 and $679	$ 32,871	$ 39,538
Receivables:		
Trade,net of allowances of $9,367 and $14,088	10,100	12,057
Notes, advances,and other	5,233	4,678
Inventories	2,038	3,145
Deferred income taxes	2,476	2,872
Other current assets	2,991	4,423
Total current assets	55,709	66,713
Property and equipment,net	96,081	135,358
Deferred income taxes and other long-term assets	7,514	10,677
Intangible assets, net of amortization of $4,532 and $5,516	19,442	27,927
Total assets	$178,746	$240,675
Liabilities and shareholders' investment		
Current liabilities:		
Current portion of long-term debt	$ 731	$ 16
Accounts payable	12,110	19,898
Accrued liabilities	11,438	13,062
Advance payments	20,909	29,915
Total current liabilities	45,188	62,891
Long-term debt, less current portion	36,500	64,267
Other long-term liabilities	253	567
Commitments and contingencies		
Shareholders' investment:		
Common Stock, par value $.01 per share; 60,000,000 shares authorized; 29,546,833 and 29,877,025 shares issued	295	299
Additional paid-in capital	93,736	96,585
Treasury stock, 85,646 and 907,446 shares at cost	(495)	(9,733)
Retained earnings	3,269	25,799
Total shareholders' investment	96,805	112,950
Total liabilities and shareholders' investment	$178,746	$240,675

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

Education Management Corporation and Subsidiaries
Consolidated Statements of Income (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	FOR THE YEARS ENDED JUNE 30,		
	1998	1999	2000
Net revenues	$221,732	$260,805	$307,249
Costs and expenses:			
Educational services	147,336	170,742	201,187
General and administrative	48,094	57,162	66,209
Amortization of intangibles	1,611	1,203	1,511
	197,041	229,107	268,907
Income before interest and taxes	24,691	31,698	38,342
Interest expense (income), net	(3)	(113)	726
Income before income taxes	24,694	31,811	37,616
Provision for income taxes	10,372	13,059	15,086
Net income	$ 14,322	$ 18,752	$ 22,530
Earnings per share:			
Basic	$ .50	$ .64	$ .78
Diluted	$ .48	$ .61	$ .75
Weighted average number of shares outstanding (in 000's):			
Basic	28,908	29,314	28,964
Diluted	29,852	30,615	29,921

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

Education Management Corporation and Subsidiaries
Consolidated Statements of Cash Flows (DOLLARS IN THOUSANDS)

	FOR THE YEARS ENDED JUNE 30,		
	1998	1999	2000
Cash flows from operating activities:			
Net income	$ 14,322	$ 18,752	$ 22,530
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	14,316	16,766	20,200
Deferred credit for income taxes	(1,184)	(1,992)	(1,895)
Changes in current assets and liabilities:			
Receivables	(1,084)	(3,655)	(1,237)
Inventories	(577)	(105)	(978)
Other current assets	(87)	(650)	(1,312)
Accounts payable	1	57	(724)
Accrued liabilities	473	3,940	2,148
Advance payments	2,413	2,571	8,090
Total adjustments	14,271	16,932	24,292
Net cash flows from operating activities	28,593	35,684	46,822
Cash flows from investing activities:			
Acquisition of subsidiaries, net of cash acquired	(1,488)	(500)	(8,602)
Expenditures for property and equipment	(17,951)	(49,862)	(48,983)
Other items, net	(233)	(674)	(1,241)
Net cash flows from investing activities	(19,672)	(51,036)	(58,826)
Cash flows from financing activities:			
Net borrowings under revolving credit facilities	8,000	1,500	27,650
Principal payments on debt	(3,689)	(2,651)	(1,666)
Net proceeds from issuance of Common Stock	851	2,205	1,925
Repurchase of shares	–	(141)	(9,238)
Net cash flows from financing activities	5,162	913	18,671
Net change in cash and cash equivalents	14,083	(14,439)	6,667
Cash and cash equivalents, beginning of year	33,227	47,310	32,871
Cash and cash equivalents, end of year	$ 47,310	$ 32,871	$ 39,538

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

Education Management Corporation and Subsidiaries
Consolidated Statements of Shareholders' Investment (DOLLARS IN THOUSANDS)

	Common Stock at Par Value	Additional Paid-in Capital	Treasury Stock	Stock Subscriptions Receivable	Retained Earnings	Total Shareholders' Investment
Balance, June 30, 1997	$289	$87,748	$ (354)	$(122)	$(29,805)	$ 57,756
Net income	–	–	–	–	14,322	14,322
Payments on stock subscriptions receivable	–	–	–	114	–	114
Exercise of stock options	1	611	–	–	–	612
Stock options issued in connection with acquisition of subsidiary	–	77	–	–	–	77
Issuance of Common Stock under employee stock purchase plan	–	444	–	–	–	444
Balance, June 30, 1998	290	88,880	(354)	(8)	(15,483)	73,325
Net income	–	–	–	–	18,752	18,752
Payments on stock subscriptions receivable	–	–	–	8	–	8
Purchase of Common Stock	–	–	(141)	–	–	(141)
Exercise of stock options	5	4,278	–	–	–	4,283
Issuance of Common Stock under employee stock purchase plan	–	578	–	–	–	578
Balance, June 30, 1999	295	93,736	(495)	–	3,269	96,805
Net income	–	–	–	–	22,530	22,530
Purchase of Common Stock	–	–	(9,238)	–	–	(9,238)
Exercise of stock options	3	2,126	–	–	–	2,129
Issuance of Common Stock under employee stock purchase plan	1	723	–	–	–	724
Balance, June 30, 2000	$299	$96,585	$(9,733)	$ –	$ 25,799	$112,950

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

Education Management Corporation and Subsidiaries
Notes to Consolidated Financial Statements

1. OWNERSHIP AND OPERATIONS:

Education Management Corporation ("EDMC" or the "Company") is among the largest providers of proprietary postsecondary education in the United States, based on student enrollment and revenues.Through its operating units, primarily The Art Institutes ("The Art Institutes"), the Company offers bachelor's and associate's degree programs and nondegree programs in the areas of design, media arts,culinary arts, fashion, and paralegal studies.The Company has provided career-oriented education programs for over 35 years.

As of June 30, 2000, EDMC operated 20 schools in 17 major metropolitan areas throughout the United States.The Art Institute of Washington and The Art Institute of Los Angeles — Orange County began operations in July, 2000.The Company's main operating unit,The Art Institutes, offers programs designed to provide the knowledge and skills necessary for entry-level employment in various fields, including graphic design, media arts & animation, multimedia & web design, video production, interior design, industrial design, culinary arts, photography, and fashion. Those programs typically are completed in 18 to 48 months and culminate in a bachelor's or associate's degree. As of June 30, 2000, 12 Art Institutes offered bachelor's degree programs.

As of June 30, 2000,the Company offered a culinary arts curriculum at 11 Art Institutes and The New York Restaurant School ("NYRS"), a culinary arts and restaurant management school located in New York City. NYRS offers an associate's degree program and certificate programs.

The Company offers paralegal and legal nurse consulting training and financial planning certificate programs for college graduates and working adults at The National Center for Paralegal Training ("NCPT") in Atlanta, and through relationships with five colleges and universities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Consolidation and Presentation The consolidated financial statements include the accounts of Education Management Corporation and its subsidiaries.All significant intercompany transactions and balances have been eliminated.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements,and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Government Regulations The Art Institutes and NYRS ("the participating schools") participate in various federal student financial assistance programs ("Title IV Programs") under Title IV of the Higher Education Act of 1965,as amended (the "HEA").Approximately 62% of the Company's net revenues in 2000 were indirectly derived from funds distributed under these programs to students at the participating schools.

The participating schools are required to comply with certain federal regulations established by the U.S. Department of Education.Among other things, they are required to classify as restricted certain Title IV Program funds in excess of charges currently applicable to students' accounts.Such funds are reported as restricted cash in the accompanying consolidated balance sheets.

The participating schools are required to administer Title IV Program funds in accordance with the HEA and U.S. Department of Education regulations and must use due diligence in approving and disbursing funds and servicing loans. In the event a participating school does not comply with federal requirements or if student loan default rates are at a level considered excessive by the federal government, that school could lose its eligibility to participate in Title IV Programs or could be required to repay funds determined to have been improperly disbursed. Management believes that the participating schools are in substantial compliance with the federal requirements and that student loan default rates are not at a level considered to be excessive.

EDMC makes contributions to Federal Perkins Loan Programs (the "Funds") at certain Art Institutes. Current contributions to the Funds are made 75% by the federal government and 25% by EDMC.The Company carries its investments in the Funds at cost,net of an allowance for estimated future loan losses.

Cash and Cash Equivalents The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. These investments are stated at cost which, based upon the scheduled maturities, approximates market value.

U.S. Department of Education regulations require Title IV Program funds received by the Company's schools in excess of the tuition and fees owed by the relevant students at that time to be, with these students' permission, maintained and classified as restricted until the students are billed for the portion of their education program related to those funds. Funds transferred through electronic funds transfer programs are held in a separate cash account and released when certain conditions are satisfied. These restrictions have not significantly affected the Company's ability to fund daily operations.

Acquisitions On December 19, 1997, the Company purchased certain assets of the Louise Salinger School in San Francisco, California,for $600,000 in cash.The Company also entered

into a consulting agreement with the former president in exchange for an option to purchase 20,000 shares of the Company's Common Stock at an exercise price of $12.97 (the closing price as of the acquisition date).The assets acquired were principally accounts receivable and equipment.The school was renamed The Art Institutes International at San Francisco.

On February 7, 1998, the Company acquired certain assets related to the operations of Bassist College in Portland, Oregon for approximately $900,000 in cash.The purchase agreement provides for certain adjustments based upon the resolution of certain liabilities and additional consideration based upon a specified percentage of gross revenues over a five-year period.The assets acquired were principally accounts receivable and equipment.The school was renamed The Art Institute of Portland.

On October 1,1998, the Company acquired the assets of Socrates Distance Learning Technologies Group for approximately $500,000 in cash.This acquisition was made to further the development of the Company's distance learning capabilities.

On August 17, 1999, the Company acquired the outstanding stock of the American Business & Fashion Institute in Charlotte,North Carolina, for $500,000 in cash. The school was renamed The Art Institute of Charlotte.

On August 26, 1999, the Company acquired the outstanding stock of Massachusetts Communications College in Boston, Massachusetts for approximately $7.2 million in cash.

These acquisitions were accounted for using the purchase method of accounting, with the excess of the purchase price over the fair value of the assets acquired being assigned to identifiable intangible assets and goodwill.The results of the acquired entities have been included in the Company's results from the respective dates of acquisition.The pro forma effects, individually and collectively, of the acquisitions in the Company's consolidated financial statements would not materially impact the reported results.

Lease Arrangements The Company conducts a major part of its operations from leased facilities.In addition, the Company leases a portion of its furniture and equipment. In those cases in which the lease term approximates the useful life of the leased asset or the lease meets certain other prerequisites, the leasing arrangement is classified as a capitalized lease.The remaining lease arrangements are treated as operating leases.

Property and Equipment Property and equipment are stated at cost, net of accumulated depreciation. Expenditures for additions and major improvements are capitalized, while those for maintenance, repairs, and minor renewals are expensed as incurred.The Company uses the straight-line method of depreciation for financial reporting, while using different methods for tax purposes. Depreciation is based upon estimated useful lives, ranging from 3 to 30 years.Leasehold improvements are amortized over the term of the lease, or over their estimated useful lives, whichever is shorter.

Financial Instruments The fair values and carrying amounts of the Company's financial instruments, primarily accounts receivable and debt, are approximately equivalent.The debt instruments bear interest at floating rates based upon market rates or at fixed rates that approximate market rates.All other financial instruments are classified as current and will be utilized within the next operating cycle.

Revenue Recognition and Receivables The Company's net revenues consist of tuition and fees, student housing charges, and supply store and restaurant sales.In fiscal 2000, the Company derived 89.6% of its net revenues from tuition and fees paid by, or on behalf of, its students. Net revenues, as presented, are reduced for student refunds and scholarships.

The Company recognizes tuition and housing revenues on a monthly pro rata basis over the term of instruction,typically an academic quarter. Student supply store and restaurant sales are recognized as they occur. Refunds are calculated in accordance with federal,state, and accrediting agency standards.Advance payments represent that portion of payments received but not earned and are reflected as a current liability in the accompanying consolidated balance sheets.

The trade receivable balances are comprised of individually insignificant amounts due primarily from students throughout the United States.

Costs and Expenses Educational services expense consists of costs related to the development, delivery, and administration of the Company's education programs. Major cost components are faculty compensation,administrative salaries, costs of educational materials,facility leases and school occupancy costs, information systems costs, and bad debt expense,along with depreciation and amortization of property and equipment.

General and administrative expense consists of marketing and student admissions expenses and certain central staff departmental costs such as executive management, finance and accounting, legal, corporate development, and other departments that do not provide direct services to the Company's students.

Amortization of intangibles relates primarily to the values assigned to identifiable intangibles and goodwill, which arose principally from the acquisitions discussed above.These intangible assets are amortized over periods ranging from 2 to 40 years.

New Accounting Standards In December 1999, the Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No.101, Revenue Recognition ("SAB No. 101"), to provide guidance on the recognition, presentation, and disclosure of revenue in financial statements. SAB No. 101 explains the SEC staff's general framework for revenue recognition. SAB No. 101 does not change existing literature on revenue recognition, but rather clarifies the SEC's position on pre-existing literature. SAB No. 101 did not require the Company to change existing revenue recognition policies and, therefore, had no impact on the Company's financial position or results of operations at June 30, 2000.

Supplemental Disclosures of Cash Flow Information

	YEAR ENDED JUNE 30,		
	1998	1999 (IN THOUSANDS)	2000
Cash paid during the period for:			
Interest (net of amount capitalized)	$ 771	$ 313	$ 175
Income taxes	13,373	13,846	15,590
Noncash investing and financing activities:			
Expenditures for property and equipment included in accounts payable	–	5,071	13,161
Tax deduction for options exercised	291	2,664	928

Reclassifications Certain prior year balances have been reclassified to conform to the current year presentation.

3. SHAREHOLDERS' INVESTMENT:

Pursuant to the Company's Preferred Share Purchase Rights Plan (the "Rights Plan"), one Preferred Share Purchase Right (a "Right") is associated with each outstanding share of Common Stock. Each Right entitles its holder to buy one two-hundredth of a share of Series A Junior Participating Preferred Stock, $.01 par value, at an exercise price of $50, subject to adjustment (the "Purchase Price").The Rights Plan is not subject to shareholder approval.

The Rights will become exercisable under certain circumstances following a public announcement by a person or group of persons (an "Acquiring Person") that they acquired or commenced a tender offer for 17.5% or more of the outstanding shares of Common Stock. If an Acquiring Person acquires 17.5% or more of the Common Stock, each Right will entitle its holder, except the Acquiring Person, to acquire upon exercise a number of shares of Common Stock having a market value of two times the Purchase Price. In the event that the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold after a person or group of persons becomes an Acquiring Person, each Right will entitle its holder to purchase, at the Purchase Price,that number of shares of the acquiring company having a market value of two times the Purchase Price. The Rights will expire on the tenth anniversary of the closing of the IPO and are subject to redemption by the Company at $.01 per Right,subject to adjustment.

On December 2, 1998,the Company's Board of Directors authorized a two-for-one stock split effected in the form of a stock dividend.The distribution was made on December 29, 1998 to shareholders of record as of the close of business on December 8, 1998. Shareholders received one share of Common Stock for each outstanding share of Common Stock owned.

On November 10, 1997,certain principal shareholders of the Company sold 6,141,984 shares of Common Stock in a public offering. The Company did not receive any proceeds from this offering and was reimbursed by the selling shareholders for all out-of-pocket expenses related to this offering.

4. EARNINGS PER SHARE:

Basic EPS is computed using the weighted average number of shares actually outstanding during the period, while diluted EPS is calculated to reflect the potential dilution related to stock options.

Reconciliation of Diluted Shares

	YEAR ENDED JUNE 30,		
	1998	1999 (IN THOUSANDS)	2000
Basic shares	28,908	29,314	28,964
Dilution for stock options	944	1,301	957
Diluted shares	29,852	30,615	29,921

5. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following as of June 30:

	1999	2000
	(IN THOUSANDS)	
Assets (asset lives in years)		
Land	$ 2,800	$ 4,400
Buildings and improvements (15 to 30)	16,075	29,272
Equipment and furniture (3 to 10)	89,528	114,272
Leasehold interests and improvements (2 to 20)	50,399	59,446
Construction in progress	12,550	19,707
Total	171,352	227,097
Less accumulated depreciation	75,271	91,739
	$ 96,081	$135,358

6. LONG-TERM DEBT:

The Company and its subsidiaries were indebted under the following obligations as of June 30:

	1999	2000
	(IN THOUSANDS)	
Revolving credit facilities	$36,500	$64,150
Other indebtedness	731	133
	37,231	64,283
Less current portion	731	16
	$36,500	$64,267

During the year, the Company entered into a revolving credit agreement (the "Credit Agreement") which provides for borrowings up to $100.0 million and expires February 18, 2005.Borrowings under this facility are unsecured and bear interest at one of three rates set forth in the Credit Agreement, at the election of the Company. Certain outstanding letters of credit reduce this facility. The Credit Agreement contains customary covenants that, among other matters,require the Company to meet specified interest and leverage ratio requirements and restrict the repurchase of Common Stock and the incurrence of additional indebtedness.As of June 30, 2000, the Company was in compliance with all covenants under the Credit Agreement.As of June 30, 2000, the average interest rate for borrowings under the Credit Agreement was 8.00%.

Relevant information regarding borrowings under the revolving credit facilities under both the Credit Agreement and the prior borrowing agreement is reflected below:

	YEAR ENDED JUNE 30,		
	1998	1999	2000
		(IN THOUSANDS)	
Outstanding borrowings, end of period	$35,000	$36,500	$64,150
Approximate average outstanding balance throughout the period	530	2,550	15,215
Approximate maximum outstanding balance during the period	35,000	37,000	79,850
Weighted average interest rate for the period	8.50%	7.48%	7.45%

7. COMMITMENTS AND CONTINGENCIES:

The Company and its subsidiaries lease certain classroom, dormitory, and office space under operating leases which expire on various dates through August 2019. Rent expense under these leases was approximately $24,904,000, $28,250,000,and $33,645,000 respectively for 1998, 1999, and 2000.The approximate minimum future commitments under non-cancelable,long-term operating leases as of June 30,2000 are reflected below:

FISCAL YEARS	(IN THOUSANDS)
2001	$ 31,038
2002	27,080
2003	24,844
2004	24,444
2005	24,205
Thereafter	156,621
	$288,232

The Company has a management incentive compensation plan that provides for the awarding of cash bonuses to management personnel using formalized guidelines based upon the operating results of each subsidiary and the Company.

The Company and its wholly-owned subsidiaries The Art Institutes International, Inc.("AII") and The Art Institute of Houston, Inc. and its president are defendants in a suit brought by former and current students who allege being misled about the benefits or quality of educational services provided to them at The Art Institute of Houston.The complaint does not specify the amount of damages being sought. Given the nature of plaintiffs' claims and the inherent uncertainties of litigation,

management is unable to predict the ultimate number, scope, or duration of any such claims or the eventual outcome or costs of defending any such claims.

The Company is also a defendant in certain other legal proceedings arising out of the conduct of its businesses. In the opinion of management, based upon its investigation of these claims and discussion with legal counsel, the ultimate outcome of such legal proceedings, individually and in the aggregate, will not have a material adverse effect on the consolidated financial position, results of operations,or liquidity of the Company.

8. RELATED PARTY TRANSACTIONS:

The Art Institute of Philadelphia, Inc., a wholly-owned subsidiary of AII, leases one of the buildings it occupies from a partnership in which the subsidiary serves as a 1% general partner and an executive officer/director and a director of EDMC are minority limited partners. The Art Institute of Fort Lauderdale, Inc.,another wholly-owned subsidiary of AII, leases part of its facility from a partnership in which an executive officer/director of EDMC is a minority limited partner. Total rental payments under these arrangements were approximately $1,894,000, $1,901,000, and $2,214,000 for the years ended June 30,1998, 1999, and 2000, respectively.

9. EMPLOYEE BENEFIT PLANS:

The Company sponsors a retirement plan which covers substantially all employees.This plan provides for matching Company contributions of 100% of employee 401(k) contributions up to 3% of compensation and 50% of contributions between 4% and 6% of compensation. Other contributions to the plan are at the discretion of the Board of Directors.The expense relating to these plans was approximately $1,198,000,$2,198,000, and $1,181,000 for the years ended June 30, 1998, 1999, and 2000, respectively.

The Company's retirement plan includes an ESOP which enables eligible employees to have stock ownership in the Company. The ESOP provides for the allocations of forfeited shares and cash to be made to the accounts of eligible participating employees based upon each participant's compensation level relative to the total compensation of all eligible employees. Eligible employees vest their ESOP accounts based on a seven-year schedule which includes credit for past service.Distribution of shares from the ESOP is made following the retirement, disability, or death of an employee. For employees who terminate for any other reason, their vested balance is offered for distribution in accordance with the terms of the ESOP.

10. DEFERRED INCOME TAXES AND OTHER LONG-TERM ASSETS:

Deferred income taxes and other long-term assets consist of the following as of June 30:

	1999	2000
	(IN THOUSANDS)	
Investment in Federal Perkins Loan Program, net of allowance for estimated future loan losses of $1,155 and $1,209	$ 2,617	$ 2,819
Cash value of life insurance, net of loans of $781 each year; face value of $6,065	2,324	2,620
Deferred income taxes	548	2,046
Other	2,025	3,192
	$ 7,514	$10,677

11. ACCRUED LIABILITIES:

Accrued liabilities consist of the following as of June 30:

	1999	2000
	(IN THOUSANDS)	
Payroll taxes and payroll related	$ 6,924	$ 7,714
Income and other taxes	545	404
Other	3,969	4,944
	$11,438	$13,062

12. INCOME TAXES:

The provision for income taxes includes current and deferred taxes as reflected below:

	YEAR ENDED JUNE 30,		
	1998	1999	2000
	(IN THOUSANDS)		
Current taxes:			
Federal	$ 9,780	$11,824	$14,020
State	1,776	3,227	2,961
Total current taxes	11,556	15,051	16,981
Deferred taxes	(1,184)	(1,992)	(1,895)
Total provision	$10,372	$13,059	$15,086

The provision for income taxes reflected in the accompanying consolidated statements of income vary from the amounts that would have been provided by applying the federal statutory income tax rate to earnings before income taxes as shown below:

	YEAR ENDED JUNE 30,		
	1998	1999	2000
Federal statutory income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax benefit	4.7	4.9	4.4
Amortization of goodwill and other intangibles	.6	.5	.4
Nondeductible expenses	1.0	.7	.4
Other, net	.7	–	(.1)
Effective income tax rate	42.0%	41.1%	40.1%

Net deferred income tax assets (liabilities) consist of the following as of June 30:

	1998	1999	2000
Deferred income tax—current	$ 2,361	$ 2,476	$ 2,872
Deferred income tax—long-term	(1,329)	548	2,046
Net deferred income tax asset	$ 1,032	$ 3,024	$ 4,918
Consisting of:			
Allowance for doubtful accounts	$ 3,494	$ 3,850	$ 5,649
Assigned asset values in excess of tax basis.	(1,753)	(1,585)	(1,767)
Depreciation	(314)	1,508	1,687
Financial reserves and other	(395)	(749)	(651)
Net deferred income tax asset	$ 1,032	$ 3,024	$ 4,918

13. STOCK-BASED COMPENSATION:

The Company adopted a Stock Incentive Plan in October 1996 (the "1996 Plan") for directors, executive management, and key personnel.During fiscal 2000, the 1996 Plan was amended to provide for the issuance of stock-based incentive awards with respect to a maximum of 5,000,000 (previously 2,500,000) shares of Common Stock. During 1998, 1999, and 2000, options covering a total of 40,000,1,372,523, and 1,253,500 shares, respectively, were granted under the 1996 Plan.Options issued under this plan provide for time-based vesting over four years.

The Company also has two nonqualified management stock option plans under which options to purchase a maximum of 1,119,284 shares of Common Stock were granted to management employees, prior to 1996.Substantially all outstanding options under these nonqualified plans are fully vested. Under the terms of the three plans, the Board of Directors granted options to purchase shares at prices varying from $1.27 to $19.38 per share,representing the fair market value at the time of the grant. Compensation expense related to vesting of certain options of $375,000 was recognized for the year ended June 30, 1997.

The Company also has an employee stock purchase plan. The plan allows eligible employees of the Company to purchase up to an aggregate of 1,500,000 shares of Common Stock at quarterly intervals through periodic payroll deduction. The number of shares of Common Stock issued under this plan was 36,508, 37,620,and 59,800 in 1998,1999, and 2000, respectively.

The Company accounts for these plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Had compensation expense for the stock option and stock purchase plans been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

	1998	1999	2000
Net income (in 000's):			
As reported	$14,322	$18,752	$22,530
Pro forma	$13,591	$16,850	$19,407
Basic EPS:			
As reported	$ .50	$ .64	$ .78
Pro forma	$ .47	$ .57	$ .67
Diluted EPS:			
As reported	$ .48	$ .61	$ .75
Pro forma	$ .46	$ .55	$ .65

Summary of Stock Options

	1998		1999		2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,192,716	$ 5.00	2,110,240	$ 5.21	2,872,653	$ 10.11
Granted	60,000	13.14	1,372,523	15.54	1,253,500	9.47
Exercised	115,476	5.09	544,610	4.42	270,392	4.44
Forfeited	27,000	7.50	65,500	13.29	86,770	12.72
Outstanding, end of year	2,110,240	$ 5.21	2,872,653	$ 10.11	3,768,991	$ 10.25
Exercisable,end of year	1,267,164		1,031,753		1,403,885	
Weighted average fair value of options granted*	$5.21		$7.97		$5.58	

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Range of Exercise Prices	Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$1.59 – $1.75	283,624	1.39	$ 1.65	283,624	$ 1.65
2.85 – 3.60	193,704	3.62	3.02	193,704	3.02
7.50 – 11.13	1,952,033	8.25	8.70	555,400	7.60
12.38 – 19.38	1,339,630	8.25	15.36	371,158	15.23
	3,768,991	7.49	$10.25	1,403,885	$ 7.78

** The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for grants:*

	1998	1999	2000
Risk-free interest rate	6.12%	4.97%	6.45%
Expected dividend yield	0	0	0
Expected life of options (years)	6	6	6
Expected volatility rate	33.7%	46.0%	55.0%

Education Management Corporation and Subsidiaries
Selected Financial and Operating Data (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	FOR THE FISCAL YEARS ENDED JUNE 30,				
	1996	1997	1998	1999	2000
Income Statement Data:					
Net revenues	$147,863	$182,849	$221,732	$260,805	$307,249
Costs and expenses					
Educational services	98,841	120,918	147,336	170,742	201,187
General and administrative	32,344	41,036	48,094	57,162	66,209
Amortization of intangibles	1,060	2,076	1,611	1,203	1,511
ESOP expense	1,366	–	–	–	–
	133,611	164,030	197,041	229,107	268,907
Income before interest and taxes	14,252	18,819	24,691	31,698	38,342
Interest expense (income), net	3,371	1,603	(3)	(113)	726
Income before income taxes	10,881	17,216	24,694	31,811	37,616
Provision for income taxes	4,035	7,231	10,372	13,059	15,086
Income before extraordinary item	6,846	9,985	14,322	18,752	22,530
Extraordinary loss on early extinguishment of debt	926	–	–	–	–
Net income	$ 5,920	$ 9,985	$ 14,322	$ 18,752	$ 22,530
Per Share Data:[1]					
Income before extraordinary item	$ .19	$ .36	$ .48	$ .61	$ .75
Net income	$ .15	$ .36	$ .48	$ .61	$ .75
Weighted average shares outstanding (in 000's)[2]	23,748	27,342	29,852	30,615	29,921
Balance Sheet Data:					
Cash and cash equivalents	$ 27,399	$ 33,227	$ 47,310	$ 32,871	$ 39,538
Current assets	39,858	48,886	65,623	55,709	66,713
Total assets	101,412	126,292	148,783	178,746	240,275
Current liabilities	27,264	36,178	38,097	45,188	62,891
Long-term debt (including current portion)	65,919	34,031	38,382	37,231	64,283
Shareholders' investment	9,656	57,756	73,325	96,805	112,950
Other Selected Data:					
Net cash flows from operating activities	$ 15,546	$ 28,279	$ 28,593	$ 35,684	$ 46,822[3]
Capital expenditures	$ 14,981	$ 18,487	$ 17,951	$ 49,862	$ 48,983[3]
Enrollment at beginning of fall quarter[4]	13,407	15,838	18,763	21,518	24,502
Schools operating at end of period	12	14	17	18	20

(1) Represents diluted earnings per share.Income before extraordinary item and net income have been reduced for Series A Preferred Stock transactions in calculating per share amounts.

(2) The weighted average number of shares outstanding used to calculate diluted earnings per share includes,where dilutive,the equivalent shares of Common Stock calculated under the treasury stock method for the assumed exercise of options and warrants and the assumed conversion of Series A Preferred Stock.

(3) Approximately $5.1 million of fiscal 1999 and $13.2 million of fiscal 2000 capital expenditures are included in accounts payable at year-end. Net cash flow from operating activities and capital expenditures is reflected net of this amount.

(4) Excludes students enrolled at colleges and universities in programs under consulting agreements.

Board of Directors

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Chief Executive Officer
Education Management
Corporation

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President Emeritus
American Council on
Education

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Operating Officer

John R. McKernan,Jr.
Vice Chairman

Robert T. McDowell
Executive Vice President
and Chief Financial Officer

David J. Pauldine
Executive Vice President

Corporate Offices

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Stock Registrar and Transfer Agent

For address changes,account consolidation,registration changes,lost certificates,and other shareholder services, contact:
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85 Challenger Road
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Ridgefield Park,NJ 07660
1-800-756-3353
1-800-231-5469 (for speech and hearing impaired)

Investor Relations/Form 10-K

A shareholder may receive, without charge,a copy of the form 10-K Annual Report filed with the Securities and Exchange Commission by contacting the following:
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Stock Prices and Dividends

The Company's Common Stock is traded on the Nasdaq National Market under the symbol "EDMC." The prices set forth below reflect the high and low sales prices for the Common Stock for the periods indicated,as reported in the consolidated transaction reporting system of the Nasdaq National Market.

Three Months Ended		
2000	**High**	**Low**
September 30	$21.13	$12.38
December 31	14.81	8.69
March 31	14.63	11.00
June 30	18.69	14.88
1999		
September 30 (a)	$20.13	$14.50
December 31 (a)	24.00	15.63
March 31	31.75	21.75
June 30	30.75	14.56

(a) Adjusted to reflect 2-for-1 stock split effective December 29,1998.

The Company has not declared or paid any cash dividends on its capital stock during the last two years.

Credits
Concept,Editorial, and Production Management: EDMC Advertising and Marketing Services
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