

SYLVAN LEARNING SYSTEMS INC
Form 10-K
March 15, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
for the fiscal year ended December 31, 2003.

OR

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

Commission File Number 0-22844

SYLVAN LEARNING SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

52-1492296

(I.R.S. Employer
Identification No.)

1001 Fleet Street, Baltimore, Maryland

(Address of principal executive offices)

21202

(Zip Code)

Registrant's telephone number, including area code: **(410) 843-8000**

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

Title of each class
Common Stock, Par Value \$.01
Preferred Stock Purchase Rights

Name of each exchange on which registered
NASDAQ
None

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes . No

The aggregate market value of voting Common Stock held by non-affiliates of the registrant was approximately \$936.6 million as of June 30, 2003.

The registrant had 44,967,095 shares of Common Stock outstanding as of March 5, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information in Sylvan Learning Systems, Inc.'s definitive Proxy Statement for its 2003 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A no later than April 30, 2004, is incorporated by reference in Part III of this Form 10-K.

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Items 10, 11, 12, 13, and 14 are incorporated by reference to Sylvan Learning Systems, Inc.'s definitive Proxy Statement which will be filed with the Securities and Exchange Commission, pursuant to Regulation 14A, no later than April 30, 2004.

PART IV.

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SIGNATURES

PART I.

Item 1. Business

Sylvan Learning Systems, Inc. (the Company or Sylvan) is focused exclusively on providing a superior higher education experience to over 117,000 students through a leading global network of accredited Campus Based and online universities and other higher education institutions (higher education institutions). Sylvan offers a broad range of career-oriented undergraduate and graduate programs to traditional students through several Campus Based higher education institutions located in Latin America and Europe. In the United States, Sylvan offers working-adult students the convenience and flexibility of distance learning to pursue undergraduate, master s and Ph.D. degree programs in major career fields including engineering, education, business, and healthcare.

In many countries, demand for university-level education is rising - fueled by several demographic and economic factors including, a growing middle class, the need for a well-educated workforce, and rising numbers of traditional and non-traditional students who understand the value of higher education. To address this growing demand, Sylvan is expanding student enrollment at its existing Campus Based and online higher education institution locations by introducing new programs and curricula, increasing student capacity at current locations, adding new campus locations, and by leveraging the Company s education and marketing expertise. To further strengthen its leadership in the international higher education market, Sylvan will also enter into attractive new geographic markets and market segments.

The higher education institutions in Sylvan s network are generally characterized by a diverse array of career-oriented degree offerings, a curriculum with an international perspective, and strong academic and brand name recognition. Sylvan s higher education network offers students access to unique and specialized curricula from higher education institutions within Sylvan s network as well as study abroad programs.

While most of Sylvan s network higher education institutions have many years of successful operating history, the Company implements programs and strategies to increase the financial and operational performance of each higher education institution. Sylvan s higher education institutions share content and degree programs with other higher education institutions in the network and transfer best practices, including successful marketing, recruiting, and retention programs.

Sylvan benefits from revenue predictability as a result of high student retention and higher education institution program lengths of up to 6 years. Sylvan believes in the importance of expanding access to higher education and that its replicable business model and rigorous approach to growth will continue to generate increases in revenue and operating margins.

Sylvan s educational offerings are delivered though two separate business segments: a Campus Based higher education institution segment (Campus Based) and an online segment (Online Higher Education). The Campus Based segment owns or maintains controlling interests in nine separately accredited higher education institutions with operations located in Mexico, Chile, Spain, Switzerland, France, Ecuador, Panama and Costa Rica. The Online Higher Education segment provides career-oriented degree programs to working-adult students through Canter and Associates (Canter), Walden E-Learning, Inc. (Walden), and National Technological University, Inc. (NTU). For discussion of seasonality, see Results of Operations section of this report. For a discussion of segments, see note 16 of the consolidated financial statements.

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On June 30, 2003, the Company sold the principal operations comprising its K-12 segments (K-12 segments) and sold certain investments in Sylvan Ventures that are not strategic to Sylvan s higher education business in a transaction more fully described in Note 3 to the consolidated financial statements. As a result, Sylvan intends to change its corporate name and NASDAQ symbol by June 2004. As part of the Company s transformation to focus exclusively on post-secondary education, the Company committed to a plan to sell its English Language Instruction business, Wall Street Institute (WSI). See Note 3 to the consolidated financial statements. The business section that follows focuses only on continuing operations of the company.

Campus Based

The Campus Based segment owns and operates the leading network of private, post-secondary educational institutions outside the United States. Its program offerings address the fast-growing international demand for career-oriented education. In many international markets, public higher

education institutions are unable to increase capacity rapidly enough to address the burgeoning demand for university education. Sylvan is uniquely positioned to address higher education demand by expanding campus locations, opening new campus locations, developing new degree programs, and creating new education opportunities for students in new market segments such as the working adult and technical/vocational markets.

Higher Education Institution Descriptions

The Campus Based segment is composed of nine separately accredited higher education institutions with operations in Mexico, Chile, Spain, Switzerland, France, Ecuador, Panama and Costa Rica. Campus Based higher education institutions enroll approximately 101,400 full-time students and offer more than 100 degree programs through 33 campuses. The higher education institutions primarily serve 18- to 24-year-old students and offer an education that emphasizes career-oriented fields of study with undergraduate and graduate degrees in a wide range of disciplines, including international business, hotel management, health sciences, information technology and engineering. The Company believes that the higher education institutions benefit from strong academic reputations and brand awareness and established operating histories. Each higher education institution also has flexible, teaching-focused faculty led by an experienced local management team. In addition to expanding capacity, Sylvan is developing new degree programs and creating study abroad opportunities for both traditional students and working professionals.

The following table presents information about the higher education institutions in the Campus Based network:

Higher Education Institution	Principal Locations	Year Founded	Year Acquired	Current Ownership	No. of Campuses	Enrolled Students(1)	Average Annual Tuition(2)	Regulatory Oversight
Universidad del Valle de México	Mexico City, Mexico	1960	2000	80%	16	42,600	\$ 3,500	Mexican Secretary of Education
Universidad de Las Américas	Santiago, Chile	1988	2000	80%	6	20,300	\$ 2,800	Chilean Ministry of Education
Universidad Andrés Bello and AIEP	Santiago, Chile	1989	2003	80%	3	20,600	\$ 2,600	Chilean Ministry of Education
Universidad Europea de Madrid	Madrid, Spain	1995	1999	78%	2	7,500	\$ 9,000	Madrid Regional Education Authority
Hospitality (3) Les Roches and Glion	Bluche, Switzerland Marbella, Spain and Glion, Switzerland	1979 (Les Roches) and 1962 (Glion)	2000 (Les Roches) and 2002 (Glion)	100%	3	2,900	\$ 16,000	Swiss Government (license), Swiss Hotel Association/ NEASC (accreditation)

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École Supérieure du Commerce Extérieur	Paris, France	1968	2001	89%	1	1,100	\$	7,000	French Ministry of Education
Universidad Interamericana	San Jose, Costa Rica and Panama City, Panama	1986	2003	100%	2	6,400	\$	1,400	Costa Rican and Panamanian Ministries of Education

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- (1) Represents enrollment on the last day of the primary enrollment period rounded to the nearest hundred.
- (2) Based on 2003 calendar year data in U.S. dollars rounded to the nearest hundred.
- (3) Hospitality includes two universities Les Roches and Glion.

The higher education institutions provide a broad range of degrees and programs and are well regarded by students, employers and government authorities in their respective markets:

Universidad del Valle de México (UVM) offers 39 undergraduate and 20 graduate degree programs in a broad range of fields including accounting, architecture, business administration, education, engineering and law. The university is the third largest private university in Mexico in number of students and is the largest in number of campuses. During the 2003 primary enrollment period, UVM increased its new enrollment by 21% compared to the same period last year.

Universidad de Las Américas (UDLA) offers 50 undergraduate degree programs focused on business administration, education, engineering, law and psychology. In 2003, this university had the highest number of new enrollments of any private university in Chile, increasing its new enrollments by 34% compared to the same period in the prior year. UDLA also operates a satellite campus in Quito, Ecuador.

Universidad Andrés Bello (UNAB) offers 40 undergraduate and 18 graduate degree programs. With degree programs in medicine, dentistry, business administration, law, engineering, psychology, and education, UNAB ranks among the top Chilean universities for its academic quality and brand recognition among high school seniors.

Academia de Idiomas y Estudios Profesionales (AIEP) is a professional institute offering over 30 technical and vocational programs to traditional and working-adult students at seven locations throughout Chile. AIEP offers one- to four-year certificate and degree programs, which include technology, management, communications, art, social science, and health science. AIEP's modular curriculum is geared toward certification of technical/vocational job skills and competencies and is designed to help working adults advance existing careers, enter new career fields, or prepare for higher levels of university education.

Universidad Europea de Madrid (UEM) offers 43 diploma or bachelor's degree programs or double degree programs and 36 master's and Ph.D. degree programs. The university includes a well-known school of health sciences and schools of architecture, economics, engineering, journalism, law and sports sciences. In 2002, UEM began student exchange programs with the Company's universities in Mexico and Chile, bringing more than 100 students to UEM for study abroad.

Hospitality (Swiss Hotel Association Hotel Management School Les Roches (Les Roches) and Glion Hotel School (Glion)) offer globally recognized hospitality and hotel management programs. Hospitality specialized programs require students to complete at least two internships prior to graduation. Les Roches was the first English-speaking hotel management school established in Switzerland. In addition to the appropriate licenses in Switzerland and Spain (Swiss Hotel Association and Swiss Hotel Schools Association), Les Roches and Glion are both fully accredited by the New England Association of Schools and Colleges (NEASC), and Les Roches Marbella is a candidate for NEASC accreditation.

École Supérieure du Commerce Extérieur (ESCE) offers a four-year degree program in international commerce and management that features a combination of coursework and internships. This university was the first in France to specialize in international trade. In May 2002, ESCE was ranked 21st out of 200 business schools in France based on initial salary received by graduates in a supplement to the magazine *Le Expansion*.

Universidad Interamericana (UI) offers undergraduate and graduate degree programs in business, hospitality, engineering, communications, and education through locations in San Jose, Costa Rica and Panama City, Panama. In 1994, Universidad Interamericana opened its Panama City campus, demonstrating its ability to open new campuses across national borders. Universidad Interamericana was a founding member of the Interamericana Consortium of Higher Education.

Degree Programs and Areas of Study

The higher education institutions in the Campus Based segment offer more than 100 career-oriented undergraduate and graduate degree programs in a wide range of fields. The time typically required to complete a program varies by degree, with undergraduate degrees requiring four to five years on average and graduate degrees requiring an additional two to three

years on average. The Company's International Rector oversees the curriculum development and the deployment of programs in our network in cooperation with the deans of the higher education institutions. The Company also encourages its faculty to develop new educational programs and curricula. The programs are designed to satisfy three constituencies:

Students. The Company believes that students choose from career-oriented schools based on the type and quality of the educational offering and career placement opportunities. The Company focuses on providing students with a solid academic foundation and the technical and practical skills necessary to pursue and excel in their careers.

Employers. The relationship of each of the higher education institutions with the business community plays a significant role in the placement of the students and the development of curriculum. Each of the higher education institutions works with prominent members of relevant industries to evaluate and improve existing programs in order to maintain their relevance in the workplace. These employers provide critical input on the latest advancements within each field and the implications of these changes on the curriculum.

Regulating or licensing agencies. The degree programs of each of the higher education institutions have been approved in accordance with applicable law. For example, the Secretary of Education in Mexico has reviewed all of UVM's programs and given the university degree-granting authority for those programs. The Ministries of Education in Spain, France, Costa Rica, Panama, and Ecuador perform similar roles. The Company must generally work with the regulators of these higher education institutions to ensure that any new programs will be approved. In Chile, UDLA, UNAB, and AIEP have been granted full autonomy by the Ministry of Education. As a result, the Company is free to create new degree programs in Chile without additional regulatory approval. Les Roches and Glion (Hospitality) are licensed in Switzerland and accredited by the NEASC, one of six accrediting associations in the U.S, and must ensure that their curriculum continues to meet the standards of that association.

The Campus Based network allows the Company to share high-quality curricula among the higher education institutions, thereby broadening students' educational opportunities. For example, during 2001, UEM and Les Roches developed a new joint degree program in hospitality business management that is now being offered to students at UEM. Similarly, during the 2002-2003 academic term, UVM began offering a sports management degree program developed at UEM. The Company intends to use highly specialized course materials developed at ESCE and Les Roches throughout the Campus Based network, potentially creating new degree programs at minimal cost.

Tuition and Fees

Tuition varies at each of the higher education institutions depending on the curriculum and type of program. For the full-service higher education institutions (Mexico, Chile, Spain and Central America), average annual tuition ranges from \$1,400 to \$9,000 for the 2003-2004 academic year. For the specialized higher education institutions (Hospitality and ESCE), average tuition ranges from \$7,000 to \$16,000 for the 2003-2004 academic year. Tuition payment options vary by higher education institution and range from a lump sum payment at the beginning of the academic year to monthly installment payment plans. Historically, the Company has increased tuition as educational costs and inflation have risen. In 2003, the Company implemented average tuition increases of approximately 7.5%. The Company intends to continue increasing tuition at each of the higher education institutions as market conditions warrant.

Students are generally responsible for room and board fees, transportation expenses and costs related to textbook and supply purchases required for their educational programs. At some of the higher education institutions, the Company offers these services to the student body, which helps generate incremental revenue.

Students typically self-finance their education or seek non-higher education institution sponsored financing programs. Although none of the countries in which the higher education institutions currently operate provides student loan programs similar to those in the U.S., the Company is actively working to develop a variety of financing alternatives for students.

Online Higher Education

Online Higher Education offers undergraduate and graduate degree programs to working professionals through distance learning. Sylvan's Online Higher Education units consist of Canter, Walden, and NTU which collectively offer degree programs in education, psychology, health and human services, management, engineering, and information technology.

Online Higher Education's strategy is to expand program offerings in specific career fields and specializations that are experiencing rapid growth, undergoing major industry changes, and/or experiencing professional shortages. Each unit offers programs that present the most current academic theory and its practical application to the workplace allowing graduates to

apply their education to their occupation and successfully compete against other well-qualified professionals in the workforce.

As part of Sylvan's international network of higher education institutions, Online Higher Education is also focused on expanding student access to higher education outside the United States. The Company's online higher education institutions are assisting Sylvan's Campus Based higher education institutions in launching distance-learning initiatives, including joint and coordinated degree programs.

Canter

For over 25 years, Canter's mission has been to enhance the quality of teaching and learning by empowering educators with new teaching strategies. Canter, through partner universities, offers a master's degree in education, a M.S. degree in education and thousands of individual courses for teachers. Approximately 32% of students enrolled at Canter partners and in individual courses were enrolled online, with the remaining enrolled in more traditional distance-learning programs that includes video and study guides.

Canter's Distance Learning master's division works with six private universities that provide K-12 educators the opportunity to earn a master's degree in education. Additionally, Canter's Distance Learning master's division works with Walden University (Canter-Walden partnership) to provide working professionals the opportunity to earn a M.S. degree in education, with a specialty in reading, technology, or standards. The majority of Walden's students in these programs elect online learning as their mode of distance education.

In 2003, Canter discontinued certain partnerships with private universities in favor of its more strategic partners to achieve greater operational control, reduce the time to market for new products, and increase financial leverage and operating margins. While the discontinuation of these partnerships will temporarily impact student enrollment at Canter enrollment growth is expected to return to historical levels by year-end 2004. The Company believes that the remaining university partners, with a focus on the Canter-Walden partnership, will significantly enhance future revenue growth and operating margins.

Walden University

As one of the pioneers of distance education, Walden University has over 30 years of academic and operating history. Walden offers two undergraduate and 18 graduate degree programs in management, health and human services, psychology, and education to working professionals. Bachelor's and master's degree programs are delivered online. Ph.D. programs are delivered online with a short-term residency requirement. As part of its long-term strategy to expand program offerings, Walden plans to introduce four new degrees in 2004.

National Technological University

As the first regionally accredited virtual university in the United States, NTU offers 11 master's degree programs in engineering, information technology, and management delivered via videotape, CD-ROM, and online learning. NTU aggregates courses from partner universities into

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proprietary NTU degrees. NTU has developed a prestigious network of university partnerships with over 20 major U.S. engineering schools and key Fortune 100 Corporations.

The following table presents information about Canter, Walden, and NTU:

	Principal Location	Year Founded	Year Acquired	Current Ownership	Enrolled Students(1)	Average Annual Tuition	Accrediting Body
Canter	Distance Learning	1977	1998	100%	6,800(2) \$	5,000	
Walden University	Distance Learning	1970	2002	51%	8,400(3) \$	8,000	North Central Association of Colleges and Schools (NCA)
NTU	Distance Learning	1984	2002	100%	500 \$	8,000	North Central Association of Colleges and Schools (NCA)

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- (1) Represents enrollment as of December 31, 2003 rounded to the nearest hundred.
- (2) Represents Distance Learning master's enrollment, excludes over 40,000 non-degree students and excludes 4,900 students enrolled through Canter-Walden partnership.
- (3) Includes 4,900 students enrolled through the Canter-Walden partnership.

Tuition and Fees

Tuition varies at each of the higher education institutions, depending on the curriculum and type of program.

For Canter, tuition for a typical student enrolled in one of Canter's partner universities is approximately \$9,000, paid over the five semesters, or 20-month program.

For Walden, tuition ranges from \$220 per credit hour for bachelor's degree programs; to between \$265 and \$380 per credit hour for the master's degree programs; to \$3,665 per quarter for certain Ph.D. degree programs. Walden students are currently eligible for the Department of Education's Title IV federal financial aid under the Higher Education Act of 1965. Degree programs take between two to six years to complete, with a total cost ranging from \$9,000 to \$65,000, depending on the degree.

For NTU, tuition ranges from \$865 to \$1,316 per credit hour. Degree programs typically take a student two to three years to complete at a total tuition of \$25,000 to \$35,000 depending on the university and program. NTU students are currently eligible for the Department of Education's Title IV federal financial aid under the Higher Education Act of 1965.

Marketing

Campus Based. The Company markets its higher education institutions through professional broadcasts and targeted marketing campaigns. These campaigns reach prospective students indirectly through media advertising campaigns as well as directly by mail or one-on-one meetings. During annual enrollment periods, the Company supplements its advertising with local, regional and sometimes national campaigns on television, radio, print and the Internet. Each higher education institution is responsible for implementing its own marketing campaign, although the Company provides a forum for the marketing departments of each of the higher education institutions to share best practices.

Online Higher Education. The Company markets its Canter division primarily through cooperative programs with participating institutions and advertising aimed towards teachers. Walden University incorporates a diverse marketing mix of activities including online and mail. Programs are directed towards professionals in the areas of management, psychology, education and health and human services. NTU markets to engineering and IT professionals through partner cooperation and direct selling.

Competition

The Company faces competition in each of its business segments. The competition focuses on price, educational quality, reputation and location.

Campus Based. The market for post-secondary education outside the U.S. is highly fragmented and marked by large numbers of local competitors. The target demographics are primarily 18- to 24-year-olds in each country in which the Company competes, except for its Hospitality schools, which markets to students worldwide. The Company generally competes with both public and private higher education institutions on the basis of price, educational quality, reputation and location. Public higher education institutions tend to be less expensive, if not free, but more selective and less focused on career-oriented degree programs. The Company believes that it compares favorably with competitors because of its focus on quality, career-oriented curriculum and the efficiencies of its network. At present, the Company believes that no other company has a similar network of international higher education institutions. There are a number of other private and public higher education institutions in each of the countries where the Company owns a higher education institution. Because the concept of private, for-profit higher education institutions is fairly new in many countries, it is difficult to predict how the markets will evolve and how many competitors there will be in the future. The Company expects competition to increase as the markets mature.

Online Higher Education. Canter competes with both public and private higher education institutions in the U.S. that provide graduate courses and master's degree programs for teachers. The Company understands the needs of its customers based on Canter's 25 years of experience in the marketplace. Additionally, the Company believes it compares favorably to its competitors for customers due to the convenience of its online and video delivery systems.

The postsecondary education market in the U.S. is highly fragmented and competitive, with no single institution having a significant market share. The target demographics are adult working professionals who are over 25 years old. Walden and NTU compete with traditional public and private non-profit institutions and for-profit schools. Typically, public institutions charge lower tuition than Walden and NTU because they receive state subsidies, government and foundation grants, tax-deductible contributions and other financial sources not available to Walden and NTU. However, tuition at private non-profit institutions is typically higher than the average tuition rates charged by Walden and NTU. Walden and NTU compete with other educational institutions principally based upon the quality of its educational programs and student services.

Government Regulation

Campus Based Regulation and Licensing. In response to the growing demand for post-secondary education, governments in many countries have revised their regulations to permit the establishment of private post-secondary higher education institutions. Each country in which Campus Based higher education institutions currently operate has made this shift in regulatory policy. Typically, each applicable regulatory agency oversees higher education institutions, establishes requirements for creation of higher education institutions and sets the official qualifications and standards governing higher education institution departments and degree programs. Additionally, these regulatory agencies establish

prerequisites that students must satisfy in order to apply. These policies are designed to ensure that the higher education institutions have the resources and capability to provide the student body with a quality education.

Title IV. Walden and NTU students, mostly working professionals, finance their education through a variety of methods including self-financing, tuition reimbursement from employers, and through federal financial aid programs known as Title IV. The Higher Education Act of 1965 and related regulations govern all U.S. higher education institutions participating in Title IV programs. Walden and NTU maintain eligibility to participate in the following Title IV programs; Federal Pell Grant, Federal Family Education Loan, and Federal Parent Loan for Undergraduate Students.

For Title IV program eligibility, universities must comply with the standards and procedures set forth in the Higher Education Act of 1965 and related regulations. The U.S. Department of Education reviews all participating institutions for compliance with all applicable standards and regulations under the Higher Education Act. The institution must be certified by the Department of Education to participate in Title IV programs, based on meeting certain standards of administrative capability and financial responsibility. In addition, an institution must be authorized by each state within which it is physically located to offer its educational programs and maintain institutional accreditations.

Walden and NTU are two of only of 26 distance learning institutions qualified to participate in the Distance Education Demonstration Program. This program, authorized by Congress in the 1998 reauthorization of the Higher Education Act of 1965, is designed to test the quality and Title IV eligibility of expanded distance education programs currently restricted

under the original Act. Sixteen participants, including Walden and NTU, received waivers of provisions that prohibit Title IV eligibility at distance learning institutions. The Distance Education Demonstration Program requires reauthorization by the U.S. Congress in June 2005 to assure continued Title IV eligibility.

Walden and NTU are subject to announced and unannounced compliance reviews as well as annual and periodic audits by various state and federal government agencies and accrediting agencies. Material provisions of Title IV regulations that may impact eligibility include but are not limited to:

Standards of financial responsibility

Change in ownership or control

Student loan defaults

Changes in federal and state regulations and laws

Compensation of university representatives

Administrative capacity

Eligibility and certification

Accreditation

Changes in Title IV participation requirements, elimination or reduction in federal funding of Title IV programs, or loss of Title IV program eligibility, could reduce the ability of certain Walden and NTU students to finance their education, thereby leading to lower student enrollment. In 2003, approximately 26% of Online Higher Education revenues were derived from tuition financed directly under Title IV programs. The elimination or reduction of Title IV programs could have an adverse impact on the Company.

Intellectual Property

The Company received a license to use the federal trademark registration of the word "Sylvan", and distinctive logos, along with various other domestic and foreign trademarks and service marks from Educate until June 30, 2004. In addition, Sylvan has the rights to tradenames, logos, and other intellectual property at the higher education institutions that it owns and operates.

Employees

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As of December 31, 2003, the Company had 13,374 employees, 6,426 of whom were classified as full-time and 6,948 of whom were classified as part-time. Most of the Company's part-time employees are higher education institution employees. The Company's employees at UEM and UVM are covered by labor agreements. The UEM agreement has been negotiated by a national union with a committee representing all of the private, for-profit universities in the country. Substantially all of the faculty at UVM is represented by a union. The economic provisions of the labor agreement at UVM are scheduled to be revised in 2004. The agreements govern salaries, benefits and working conditions for all union members at the higher education institutions. The Company considers itself to be in good standing with these unions and with all of its employees.

Effect of Environmental Laws

The Company believes it is in compliance with all applicable environmental laws, in all material respects. The Company does not expect future compliance with environmental laws to have a material effect on the business.

Available Information

The Registrant's Internet Address is www.sylvan.net. The Registrant makes available, free of charge through its website, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act soon after they are electronically filed with the SEC. In addition, the Registrant's earnings conference calls and presentations to the financial community are web cast live via the Registrant's website.

Item 2. Properties

The Company leases many of its administrative facilities, consisting principally of office space and academic facilities. The Company's headquarters consist of four leased facilities in Baltimore, Maryland.

The Company leases approximately 74% of its square footage in its facilities worldwide and own the other 26%. The Online Higher Education segment leases two facilities, one in Los Angeles, California and the other in Minneapolis, Minnesota. The Company's Campus Based segment leases various sites, primarily in Central America, South America and Europe. The Campus Based segment leases 13 UVM sites, 10 UNAB and AIEP sites, 5 UDLA sites, 3 UEM sites, and one site each at Costa Rica, Panama, ESCE, Les Roches, Marbella, and India.

The Company's owned facilities consist of academic buildings and dormitories on the campuses of UVM, UDLA, Glion, Les Roches, and UEM. Some of the academic buildings and dormitories at UEM, Les Roches, Glion and UDLA are subject to mortgages.

The Company monitors the capacity of its higher education institutions on a regular basis and makes decisions to expand capacity based on existing facilities and enrollments.

Item 3. Legal Proceedings

The Company is not currently a party to any litigation that management believes to be material.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to be voted on by security holders during the fourth quarter ended December 31, 2003.

PART II.**Item 5. Market for Registrants' Common Equity and Related Stockholder Matters**

The Company's Common Stock trades on the NASDAQ National Market under the ticker symbol "SLVN". The high and low trade prices for 2003 and 2002 for the Company's Common Stock are set out in the following table. These prices are as reported by NASDAQ, and reflect inter-day price quotations, without retail mark-up, mark down or commission, and may not necessarily represent actual transactions. The table below sets forth the 2002 and 2003 high and low trade prices for the Company's common stock as reported by the NASDAQ National Market:

2003	High	Low
1st Quarter	\$ 17.44	\$ 11.25
2nd Quarter	\$ 24.00	\$ 15.74
3rd Quarter	\$ 30.28	\$ 22.38
4th Quarter	\$ 32.78	\$ 26.45

2002	High	Low
1st Quarter	\$ 28.36	\$ 21.41
2nd Quarter	\$ 29.15	\$ 19.64
3rd Quarter	\$ 19.93	\$ 11.75
4th Quarter	\$ 18.78	\$ 9.46

No dividends were declared on the Company's common stock during 2003 and 2002, and the Company does not anticipate paying dividends in the foreseeable future.

The number of registered shareholders of record as of February 27, 2004 was 560.

During the year ended December 31, 2003, the Company issued 581,000 shares of Sylvan common stock which is restricted from sale for three years, as consideration for the acquisition of membership interests in Sylvan Ventures that were not owned by Sylvan or Apollo Management L.P. ("Apollo") valued at \$5.2 million. These shares were not registered under the Securities Act of 1933, in reliance upon the exemption contained in Section 4(2) of the Act.

Item 6. Selected Consolidated Financial Data

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The selected consolidated financial data for the years ended December 31, 2003, 2002, 2001, 2000, and 1999 have been derived from Sylvan's consolidated financial statements. The financial data should be read in conjunction with the consolidated financial statements and notes thereto.

The Company consummated several significant purchase business combinations in the five-year period ended December 31, 2003. These business combinations affect the comparability of the amounts presented. Additionally, the accompanying financial data presents the continuing operations of the Company, and excludes the results of operations of several businesses that were sold during the periods presented. Note 3 to the consolidated financial statements describes the operations that were discontinued in 2003.

SYLVAN LEARNING SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations Data

(Dollar amounts in thousands, except per share data)

	Year Ended December 31,				
	2003 (1)(2)(3)	2002 (1)(3)(4)	2001 (1)(5)	2000 (5)(6)(7)	1999 (5)(8)(9)
Revenues					
Core operating segments	\$ 471,903	\$ 335,608	\$ 244,529	\$ 97,687	\$ 67,089
Sylvan Ventures	903	395			
Total revenues	472,806	336,003	244,529	97,687	67,089
Costs and Expenses					
Direct Costs:					
Core operating segments	394,512	291,921	209,579	85,312	50,800
Sylvan Ventures	2,122	2,592			
General and administrative expense					
Core operating segments	17,774	21,318	22,003	20,306	26,855
Sylvan Ventures	1,756	4,804	9,211	5,473	
Non-cash stock compensation expense	23,050	1,046			
Restructuring and asset impairment charges					899
Total costs and expenses	439,214	321,681	240,793	111,091	78,554
Operating income (loss)	33,592	14,322	3,736	(13,404)	(11,465)
Other income (expense)					
Investment and other income	6,867	6,905	11,274	22,250	1,380
Interest expense	(8,844)	(8,256)	(8,700)	(6,738)	(3,707)
Sylvan Ventures investment income (losses)	(8,394)	(2,308)	22,131	(11,441)	
Loss on investments		(8,253)	(14,231)		
Foreign currency exchange gain (loss)	257	641	(80)	(2,932)	
	(10,114)	(11,271)	10,394	1,139	(2,327)
Income (loss) from continuing operations before income taxes, minority interest, equity in net income (loss) of affiliates and cumulative effect of change in accounting principle	23,478	3,051	14,130	(12,265)	(13,792)
Income tax benefit (expense)	2,930	8,789	(1,517)	6,852	6,368
Minority interest in income (loss) of consolidated subsidiaries:					
Sylvan Ventures	487	2,058	2,590	9,133	
Other	(14,947)	(6,880)	(7,598)	(1,674)	(319)
	(14,460)	(4,822)	(5,008)	7,459	(319)

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Equity in net income (loss) of affiliates:

Sylvan Ventures	(4,055)	(4,029)	(31,428)	(12,733)	
Other	194	309	28	(485)	(1,685)
	(3,861)	(3,720)	(31,400)	(13,218)	(1,685)

Income (loss) from continuing operations before cumulative effect of change in accounting principle	\$ 8,087	\$ 3,298	\$ (23,795)	\$ (11,172)	\$ (9,428)
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Income (loss) from continuing operations before cumulative effect of change in accounting principle per share, basic	\$ 0.19	\$ 0.08	\$ (0.62)	\$ (0.26)	\$ (0.18)
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Income (loss) from continuing operations before cumulative effect of change in accounting principle per share, diluted	\$ 0.18	\$ 0.08	\$ (0.62)	\$ (0.26)	\$ (0.18)
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Consolidated Balance Sheet Data:

Cash and cash equivalents	\$ 92,145	\$ 94,068	\$ 86,463	\$ 103,335	\$ 5,172
Available-for-sale securities	16,765	22,282	59,563	201,748	8,280
Net working capital (deficit)	(43,110)	73,709	117,912	157,313	252,988
Intangible assets and deferred costs	334,096	219,247	153,258	141,362	71,460
Net assets of discontinued operations	71,914	198,281	277,383	245,590	493,556
Total assets	1,149,914	967,811	909,191	1,016,963	764,625
Long-term debt, including current portion and other long-term liabilities	148,207	200,175	148,706	197,959	185,685
Stockholders equity	669,150	485,928	545,855	553,263	474,093

(1) During 2003, 2002, and 2001, the Company completed significant acquisitions as discussed further in note 4 to the consolidated financial statements.

(2) During 2003, the Company recorded non-cash stock compensation expense related to the modification of stock options as discussed further in note 13 to the consolidated financial statements.

(3) During 2003, 2002, and 2001, the Company recorded losses on investments as discussed further in note 7 to the consolidated financial statements.

(4) During 2002, the Company wrote-off \$3.5 million of previously deferred costs of a terminated initial public offering of the Campus Based operating segment and one terminated Campus Based acquisition. These charges are included in core operating direct costs.

(5) Prior to the adoption of Statement of Financial Accounting Standards No. 142, the Company was required to amortize goodwill and all intangible assets. During 2001, 2000, and 1999, the Company recorded \$15.6 million, \$3.9 million, and \$2.6 million, respectively, of goodwill amortization. For the year ended December 31, 2001, equity in net losses of affiliates included amortization of \$8.9 million related to Sylvan Ventures.

(6) The following material acquisitions were completed during the year ended December 31, 2000. The Company's 2000 results of continuing operations include the results of the acquired companies from the effective date of the acquisitions through December 31, 2000.

Effective June 30, 2000, the Company acquired for cash the controlling interests in Gesthotel, S.A. which owns and operates Les Roches. The purchase price totaled \$12.3 million and was allocated to acquired assets totaling \$32.4 million and assumed liabilities totaling \$20.1 million. In connection with this acquisition, variable amounts of contingent consideration were payable to the sellers based on 2002 earnings. In 2003 the Company reached an agreement with the sellers of Gesthotel, S.A. to pay them additional consideration of \$3.6 million, which was allocated to assets of \$4.6 million and liabilities of \$1.0 million.

Effective November 24, 2000, the Company acquired for cash the controlling interests in Planeacion de Sistemas, S.A. which controls and operates Universidad del Valle de Mexico (UVM). The purchase price totaled \$49.9 million and was allocated to acquired assets totaling \$67.7 million and assumed liabilities totaling \$17.8 million. Contingent consideration is also payable to the sellers if specified levels of earnings before interest and taxes are achieved in 2002. Consideration of \$0.5 million based on the attainment of these earnings levels was paid to the

sellers and recorded as additional goodwill in 2002.

Effective December 12, 2000, the Company acquired for cash the controlling interests in Desarrollo del Conocimiento S.A., a holding company that controls and operates Universidad de Las Americas (UDLA) in Chile. The purchase price totaled \$26.0 million, including acquisition costs of \$1.7 million, \$13.0 million of which was paid in 2001 after finalization of UDLA 's 2000 operating results. The purchase price was allocated to acquired assets totaling \$34.8 million and assumed liabilities totaling \$8.8 million.

(7) The Company recognized realized investment losses of \$11.4 million in 2000. The most significant transactions giving rise to these losses are described below.

In 2000, Sylvan Ventures incurred a \$3.0 million realized loss upon the disposal of its \$4.9 million investment in the common stock of ZapMe! Corporation for cash proceeds of \$1.9 million.

Sylvan Ventures also recorded realized investment losses of \$8.4 million in 2000 based on an assessment that two investments were permanently impaired due to a significant deterioration in operating results and concerns regarding the ability of these companies to successfully implement their business plan.

(8) On April 1, 1999, the Company acquired a controlling interest in Universidad Europea de Madrid (UEM) for cash of \$29.2 million and was allocated to acquired assets totaling \$95.7 million and assumed liabilities totaling \$69.7 million. The Company 's 1999 results of operations include the results of UEM from April 1, 1999 through December 31, 1999.

(9) During 1999, the Company recognized restructuring costs of \$0.9 million related to continuing operations. Additionally, the Company recognized significant non-recurring operating charges related to continuing operations during the fourth quarter of 1999, which totaled \$2.5 million and is included in core operating general and administrative expenses above. These charges were principally related to asset impairment charges, which resulted from management's focus on simplification of the business model and a return to the core business strengths.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The statements contained herein include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information about possible or assumed results of operations, business strategies, financing plans, competitive position and potential growth opportunities. Forward-looking statements include all statements that are not historical facts and are generally accompanied by words such as may, will, intend, anticipate, believe, estimate, expect, should or similar expressions. These statements also relate to the Company's contingent payment obligations relating to acquisitions, future capital requirements, potential acquisitions and the Company's future development plans and are based on current expectations. Forward-looking statements involve various risks, uncertainties and assumptions. The Company's actual results may differ materially from those expressed in these forward-looking statements.

Future events and actual results could differ materially from those set forth in the forward-looking statements as a result of many factors. These factors may include, without limitation: the Company's ability to continue to make acquisitions and to successfully integrate and operate acquired businesses; changes in student enrollment; tuition pricing; the effect of new technology applications in the educational services industry; failure to maintain or renew required regulatory approvals, accreditations or authorizations; the Company's ability to effectively manage business growth; increased competition from other educational service providers; the effect on the business and results of operations of fluctuations in the value of foreign currencies; and the many risks associated with the operation of an increasingly global business, including complex legal structures, foreign currency, legal, tax and economic risks and the risk of changes in the business climates in the markets where the Company operates. These forward-looking statements are based on estimates, projections, beliefs and assumptions of management and speak only as of the date made and are not guarantees of future performance.

Overview

The Company is focused exclusively on providing a superior experience to over 117,000 students through the leading global network of accredited Campus Based and online higher education institutions. On June 30, 2003, the Company sold the principal operations comprising its K-12 segments (K-12 segment) and sold certain investments in Sylvan Ventures that are not strategic to its post-secondary education business in a transaction more fully described in Note 3 of the consolidated financial statements. In connection with these transactions, the Company realigned its business segments. The Company's educational services are offered through two separate business segments: Campus Based and Online Higher Education segments. The Campus Based segment owns or maintains controlling interests in nine separately accredited higher education institutions with locations in Mexico, Chile, Spain, Switzerland, France, Ecuador, Panama and Costa Rica. The Online Higher Education segment provides career-oriented degree programs to over 15,000 students through Canter, Walden, and NTU.

Sale of Business Units

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On June 30, 2003, the Company completed the sale to Educate, Inc. (Educate), a newly-formed company by Apollo, of substantially all of its K-12 segment (Principal K-12 Disposal Group). In addition, during the second quarter of 2003, management committed to a plan to dispose of its WSI business. See note 3 to the consolidated financial statements for more information regarding these transactions.

Critical Accounting Policies and Estimates

The Company's accounting policies are more fully described in Note 2 of Notes to Consolidated Financial Statements. As disclosed in Note 1 of Notes to Consolidated Financial Statements, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and these differences may be

material to the financial statements. The Company believes the following key accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements and are critical to its business operations and the understanding of its results of operations.

Revenue Recognition. Revenues from educational services, tuition and fees, are recorded on a straight-line basis over the length of period in which services are provided. Textbook sales and the related cost of the textbooks are recognized at the beginning of each academic quarter with respect to students who are attending courses in which textbooks are charged separately from tuition. Approximately 90% of the Company's revenues represent tuition charges and approximately 10% of revenues represent bookstore sales and student fees. For each student, billings issued or payments received in excess of tuition earned are recorded as deferred revenue. Refunds to students have been immaterial and generally limited to amounts paid for which educational services have not been rendered. Since the company does not recognize revenues until the services have been rendered, these refunds are charged to the deferred revenue account. The amount of tuition earned depends on the fee per semester or per credit hour of the courses, how many program courses a student takes during each period of enrollment, and the total number of students enrolled in each program. Each of these factors is known at the time our tuition revenues are calculated and is not subject to estimation. If the Company were to add additional fees related to educational services, the fees would need to be assessed for proper revenue recognition treatment.

Revenue from the sale of educational products is generally recognized when shipped and collectibility is reasonably assured.

Accounts and Notes Receivable. The Company routinely makes estimates of the collectibility of its accounts and notes receivable. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company estimates the amount of the required allowance by reviewing the status of past-due receivables and analyzing historical bad debt trends. Actual collection experience has not varied significantly from estimates, due primarily to credit policies, and a lack of concentration of accounts receivable. If the financial condition of students were to deteriorate, resulting in an impairment of their ability to make required payments for tuition, additional allowances may be required.

Goodwill and Other Intangible Assets. During each of the years presented, the Company acquired various businesses accounted for using the purchase method of accounting. A portion of the purchase prices for these businesses was allocated to identifiable tangible and intangible assets and assumed liabilities based on estimated fair values at the dates of acquisitions. Any excess purchase price was allocated to goodwill. This goodwill and other indefinite-lived intangibles are evaluated at least annually for impairment.

Goodwill is considered impaired when the carrying amount of a reporting unit's goodwill exceeds its implied fair value, as determined under a two-step approach. The first step is to determine the estimated fair value of each reporting unit with goodwill. The reporting units of the Company for purposes of the impairment test are those components of operating segments for which discrete financial information is available and segment management regularly reviews the operating results of that component. Components are combined when determining reporting units if they have similar economic characteristics. Because the Company manages its Campus Based segment geographically, the reporting units for this segment are also geographic components of this operating segment. The Online Higher Education segment is one reporting unit for

purposes of the impairment tests.

The Company estimates the fair value of each reporting unit by estimating the present value of the reporting unit's future cash flows. If the recorded net assets of the reporting unit are less than the reporting unit's estimated fair value, then no impairment is indicated. Alternatively, if the recorded net assets of the reporting unit exceed its estimated fair value, then goodwill is assumed to be impaired and a second step is performed. In the second step, the implied fair value of the goodwill is determined by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit from the estimated fair value of the reporting unit. If the recorded amount of goodwill exceeds this implied fair value, an impairment charge is recorded for the excess.

Other intangible assets include acquired student rosters, accreditation, tradenames, non-competition agreements and curriculum. The assumptions used to calculate the initial fair value of these identified intangible assets included estimates of future operating results and cash flows, as well as discount rates and weighted average cost of capital for each acquisition. The assigned useful lives, which range from 2 to 7 years, are based upon estimated matriculation rates and other factors.

If the Company used different assumptions and estimates in the calculation of the initial fair value of identified

intangible assets and the estimation of the related useful lives, the amounts allocated to these assets, as well as the related amortization expense, could have been significantly different than the amounts recorded.

In assessing the recoverability of the Company's goodwill and other intangible assets, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets not previously recorded.

Income Taxes. The Company earns a significant portion of its income from subsidiaries located in countries outside of the United States. At December 31, 2003, undistributed earnings of foreign subsidiaries totaled approximately \$174.7 million. Deferred tax liabilities have not been recognized for these undistributed earnings because it is management's intention to reinvest such undistributed earnings outside of the United States. APB Opinion No. 23, *Accounting for Income Taxes - Special Areas*, requires that a company evaluate its circumstances to determine whether or not there is sufficient evidence to support the assertion that it has or will reinvest undistributed foreign earnings indefinitely.

The Company's assertion that earnings from its foreign operations will be permanently reinvested is supported by projected working capital and long-term capital needs in each subsidiary location in which the earnings are generated. Additionally, the Company believes that it has the ability to permanently reinvest foreign earnings based on a review of projected cash flows from domestic operations, projected working capital and liquidity for both short-term and long-term domestic needs, and the expected availability of debt or equity markets to provide funds for those domestic needs.

If circumstances change and it becomes apparent that some or all of the undistributed earnings of the Company's foreign subsidiaries will be remitted to the United States in the foreseeable future, the Company will be required to recognize deferred tax liabilities on those amounts. As of December 31, 2003, if all undistributed earnings had been remitted to the United States, the amount of incremental U.S. federal income tax liabilities, net of foreign tax credits, would have been approximately \$116.2 million, of which \$83.4 million is related to discontinued operations.

The Company has generated significant deferred tax assets, primarily as a result of its equity in the net losses of affiliated companies. The Company records a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. The primary factor used by the Company to determine the amount of valuation allowance needed to offset deferred tax assets related to these losses is that when realized, these capital losses may be carried back to offset the Company's substantial prior year capital gains, subject to certain limitations. The Company also has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the amount of valuation allowance needed. If the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. Likewise, should the Company determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the valuation allowance would increase income in the period such determination was made.

Results of Operations

Sylvan's two continuing business segments generate revenues as follows:

Campus Based earns tuition and related fees paid by the students of the Company's campus based higher education institutions.

Online Higher Education earns revenues from instructional services that are provided through an online format, as well as other forms of distance learning.

The Campus Based and Online Higher Education Segments when presenting aggregated statements of operations data are referred to as Core Operating Segments.

Enrollments

Management closely follows trends in new and total enrollment because total enrollment growth is highly correlated with revenue growth. New enrollments are particularly important as they impact future results.

Enrollment Reporting

Each of the higher education institutions has a different enrollment cycle depending on geography and academic

program. Each higher education institution has a Primary Enrollment Cycle at the start of each academic year, during which most of the enrollment occurs. The first quarter coincides with the Primary Enrollment Cycle for the Company's higher education institutions in the Chile region. The third quarter coincides with the Primary Enrollment Cycle for the Company's higher education institutions in the Mexico region, as well as higher education institutions in Spain, Switzerland, U.S. and France. The timing of the higher education institutions' Primary Enrollment Cycles impacts the seasonality of the business.

Seasonality

Most of the higher education institutions have a summer break when classes are generally not in session, during which minimal revenues are recognized. Operating expenses, however, do not fully correlate to our enrollment and revenue cycles as the higher education institutions continue to incur fixed expenses during summer breaks. As a result, the fourth quarter is the strongest quarter because all of the higher education institutions are in session. The second quarter is also seasonally strong as all higher education institutions have classes in session; however, the Company's largest university, located in Mexico, is in session for only part of the quarter. The first and third quarters are weaker quarters because the four largest higher education institutions have summer breaks for some portion of those quarters. Due to the seasonality, revenues and profits in any period are not necessarily indicative of results in subsequent periods.

The following chart shows the enrollment cycles for each higher education institution. In the chart, shaded areas represent periods when classes are generally in session and revenues are recognized. Areas that are not shaded represent summer breaks during which revenues are not typically recognized. The large circles indicate the Primary Enrollment start dates of the Company's higher education institutions, and the small circles represent Secondary Enrollment start dates (smaller intake cycles).

Student Attrition

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Management defines attrition as those students that leave the higher education institution prior to graduation. Attrition may be due to academic, financial or other personal reasons. Management closely monitors attrition levels at its higher education institutions. To address the key reasons for student attrition, management has implemented programs, such as assistance with financing, remedial educational programs, mentoring and counseling. In general, attrition at the higher education institutions has been stable as a percentage of total revenue over the past five years. Historically, attrition rates have not changed materially from year to year.

Average Length of Stay

Management actively monitors the average length of stay of students. The average length of stay is defined as the average time necessary to complete a given course of study, adjusted for attrition. Management believes that the company's 3-4 year average length of stay and low attrition levels contribute to the predictability of future revenues. Due to the Company's multi-year average length of stay, historically changes in enrollment from one cycle to the next have not materially impacted quarterly or annual results.

Pricing

Each higher education institution has different pricing based upon local demand level, economic conditions, and competitive environment. Increases in tuition have historically exceeded local market inflation.

Foreign Exchange

All of the higher education institutions in the Campus Based segment are located outside the United States. Therefore, management actively monitors the impact of foreign currency movements and the correlation between the local currency and the U.S. Dollar. Our diversified portfolio of currencies has mitigated the impact of translation risk based on currency movements. Since all of our revenues and expenses in a particular country are denominated in the local currency, our exposure is limited to the operating margin of our higher education institutions in that country. Also, since the company has historically reinvested each higher education institution's cash flow locally, our principal exposure is the translation risk into U.S. Dollars for purposes of our financial statements, as required by U.S. GAAP. Currently, the Mexican Peso is our largest currency, followed by the Chilean Peso, U.S. Dollar, Euro and Swiss Franc, respectively.

The following table is derived from the Company's consolidated financial statements and represents financial information of the Company's reportable segments for the years ended December 31, 2003, 2002 and 2001, respectively (in thousands).

Reportable Segment Chart

	Campus Based	Online Higher Education	Other (1)	Unallocated	Consolidated
	(in thousands)				
2003					
Segment revenues	\$ 376,088	\$ 95,815	\$ 903	\$	\$ 472,806
Segment direct costs	(311,985)	(82,527)	(3,878)		(398,390)
Segment profit	64,103	13,288	(2,975)		74,416
Non-cash compensation expense				(23,050)	(23,050)
General and administrative expenses				(17,774)	(17,774)
Operating income	\$ 64,103	\$ 13,288	\$ (2,975)	\$ (40,824)	\$ 33,592
2002					
Segment revenues	\$ 261,265	\$ 74,343	\$ 395	\$	\$ 336,003
Segment direct costs	(226,631)	(65,290)	(7,396)		(299,317)
Segment profit	34,634	9,053	(7,001)		36,686
Non-cash compensation expense				(1,046)	(1,046)
General and administrative expenses				(21,318)	(21,318)
Operating income	\$ 34,634	\$ 9,053	\$ (7,001)	\$ (22,364)	\$ 14,322

2001										
Segment revenues	\$	200,201	\$	44,328	\$	\$	244,529			
Segment direct costs		(174,355)		(35,224)		(9,211)	(218,790)			
Segment profit		25,846		9,104		(9,211)	25,739			
Non-cash compensation expense										
General and administrative expenses						(22,003)	(22,003)			
Operating income	\$	25,846	\$	9,104	\$	(9,211)	\$	(22,003)	\$	3,736

(1) Other represents results from the Sylvan Ventures business which is being disbanded.

The Company's direct costs include all expenses incurred by operating units including selling and administrative expenses.

The following comparisons of results of operations focus on the continuing operations of the Company.

Comparison of results for the year ended December 31, 2003 to results for the year ended December 31, 2002.

Revenues. Total revenues increased by \$136.8 million, or 41%, to \$472.8 million for the year ended December 31, 2003 (the 2003 fiscal year) from \$336.0 million for the year ended December 31, 2002 (the 2002 fiscal year). This revenue increase was primarily driven by increases in tuition and enrollment at higher education institutions in the Campus Based segment and the May 2003 acquisition of UNAB.

Campus Based revenue for the 2003 fiscal year increased by \$114.8 million, or 44%, to \$376.1 million compared to the 2002 fiscal year. This increase was primarily due to higher tuition and enrollments at higher education institutions owned in both fiscal years, as well as the impact of acquisitions. On an overall basis enrollment increases of 20.0% in schools owned in both fiscal years added revenues of \$40.0 million over the 2002 fiscal year. The Company increased local currency tuition by a weighted average of 7.5% in the 2003 fiscal year compared to the 2002 fiscal year, which served to increase revenues by \$19.7 million. Campus Based revenue increased by \$53.0 million due to the acquisitions of Glion in the third quarter of 2002 and UNAB, in the second quarter of 2003. The Company operates in several countries and is subject to the effects of foreign currency exchange rates in each of those countries. For the 2003 fiscal year, the effects of currency translations have increased revenues by \$2.1 million, primarily due to the strengthening of the Euro and Swiss franc against the U.S. Dollar offset by the Mexican Peso devaluation against the U.S. Dollar during 2003. Campus Based revenue represented 80% of total revenues for the 2003 fiscal years.

Online Higher Education revenue increased by \$21.5 million, or 29%, to \$95.8 million for the 2003 fiscal year compared to the 2002 fiscal year. For fiscal 2003, revenues reflect an overall student increase of 6% and an increase in new students of 11%. Fiscal 2003 revenue includes an average tuition increase of approximately 5% in all of Online Higher Education programs. Online Higher Education revenue represented 20% of total revenues for the 2003 fiscal year.

Direct Costs. Total direct costs of revenues increased \$102.1 million, or 35%, to \$396.6 million for the 2003 fiscal year from \$294.5 million for the 2002 fiscal year. Direct costs decreased to 84% of total revenues in the 2003 fiscal year from 88% in the 2002 fiscal year.

Campus Based expenses increased by \$85.4 million to \$312.0 million, or 83% of Campus Based revenue for the 2003 fiscal year, compared to \$226.6 million, or 87% of Campus Based revenue for the 2002 fiscal year. The increase in expenses reflected the increased enrollments and operating activities at the higher education institutions compared to the 2002 fiscal year, which increased expenses by \$43.9 million, and the effect of the acquisitions of controlling interests in Glion in the third quarter of 2002 and UNAB in the second quarter of 2003, which increased expenses by \$39.7 million. For the 2003 fiscal year, the effects of currency translations increased expenses by \$1.8 million, primarily due to the strengthening of the Euro and Swiss Franc against the U.S. Dollar during 2003 offset partially by the Mexican Peso devaluation against the U.S. Dollar over the same period. The decrease in operating expenses as a percentage of revenue was primarily due to the fact that 2003 includes the results of UNAB from the acquisition date in the second quarter of 2003. UNAB was in session during the rest of the year from our acquisition and generates higher operating margins than the Campus Based segment average.

Online Higher Education expenses increased by \$17.2 million to \$82.5 million, or 86% of Online Higher Education revenue for the 2003 fiscal year, compared to \$65.3 million, or 88% of Online Higher Education revenue for the 2002 fiscal year. The decrease in direct costs as a percentage of Online Higher Education revenues is due to the allocation of fixed costs over a greater revenue base as well as the implementation of cost cutting initiatives.

Other Expenses. Other expenses increased \$14.3 million to \$52.7 million for the 2003 fiscal year from \$38.4 million for the 2002 fiscal year. A \$22.0 million increase in non-cash compensation expense was partially offset by a \$6.5 million decrease in general and administrative expenses

Core operating segment general and administrative expenses decreased by \$3.5 million in the 2003 fiscal year compared to the 2002 fiscal year. As a result of the sale of the K-12 business, certain employees that were principally dedicated to servicing the K-12 segment were employed by Educate effective July 1, 2003. Contemporaneously, a service agreement was executed with Educate whereby the Company agreed to obtain certain administrative services from Educate. Also, a sub-lease agreement was executed with Educate for certain space in the Company's headquarters facility. (See related contractual obligations discussion for further description of these agreements later in this report). The reduction of the core operating segment general and administrative expenses was the direct result of this reduction in labor costs and facilities costs, partially offset by expenses incurred under the services agreement. The Company does not expect any further reduction in general and administrative expenses as a result of discontinued operations in 2003.

Sylvan Ventures general and administrative expenses decreased by \$3.0 million to \$1.8 million for the 2003 fiscal year compared to \$4.8 million for the 2002 fiscal year. The decrease was due to the sale of Sylvan Ventures' portfolio and related discontinuation of Sylvan Ventures' administrative costs in the second quarter of 2003.

Non-cash compensation expense increased to \$23.1 million for the 2003 fiscal year from \$1.0 million for the 2002 fiscal year. This expense consisted primarily of \$21.9 million of compensation expense resulting from the exchange of employee stock options of a subsidiary for stock options to acquire Sylvan common stock during the second quarter of 2003. The Company also recorded non-cash compensation of \$1.0 million related to current grants of restricted stock.

Sylvan Ventures loss on investments of \$8.4 million was primarily attributable to the write-off of the cost of its investment in ClubMom, Inc. during the first quarter of 2003.

Other non-operating items decreased by \$7.2 million for the 2003 fiscal year compared to the 2002 fiscal year primarily due to a decrease in loss of investment of \$8.3 million which was recorded in the 2002 fiscal year. Interest expense increased \$0.6 million primarily due to debt assumed in the August 2002 Glion acquisition and incurred in the May 2003 UNAB acquisition.

Income Taxes. The Company has operations in multiple countries, many of which have statutory tax rates lower than the United States. Since approximately 80% of the Company's revenues are generated outside the United States, the impact of lower foreign tax rates in the jurisdictions where the Company operates results in an effective tax rate significantly lower than the United States statutory rate as outlined in Note 14 to the consolidated financial statements.

Comparison of results for the year ended December 31, 2002 to results for the year ended December 31, 2001.

Revenues. Total revenues increased by \$91.5 million, or 37%, to \$336.0 million for the year ended December 31, 2002 (the 2002 fiscal year) from \$244.5 million for the year ended December 31, 2001 (the 2001 fiscal year). This revenue increase was primarily driven by increases in tuition and enrollment at higher education institutions in the Campus Based segment.

Campus Based revenue for the 2002 fiscal year period increased by \$61.1 million, or 31%, to \$261.3 million compared to the 2001 fiscal year. This increase was primarily due to an increase in enrollments at UDLA, UVM, Les Roches and UEM. Additionally, revenue increased by \$18.0 million due to the full year effect of the acquisition of the controlling interest in ESCE, which occurred in the fourth quarter of 2001, and the acquisitions of controlling interests in Marbella and Glion, which occurred in the first and third quarters of 2002, respectively. Campus Based operating revenue represented 78% of total revenues for the 2002 fiscal year.

Online Higher Education revenue increased by \$30.0 million, or 68%, to \$74.3 million for the 2002 fiscal year compared to the 2001 fiscal year. Approximately \$21.9 million of the increase was due to the acquisitions of Walden in

February 2002 and NTU in November 2002, respectively. Canter teacher-training revenue increased by \$9.2 million, or 22%, to \$51.5 million during the 2002 fiscal year compared to the 2001 fiscal year. Canter's revenue increase was due to greater demand for its products, particularly the distance learning master's programs, which saw enrollments for the Spring 2003 semester increase by 17% to 12,800 students. Sylvan Teacher Institute revenue decreased by \$1.1 million, or 54%, to \$0.9 million in the 2002 fiscal year compared to the 2001 fiscal year. This decrease was due to the planned reduction in professional development workshops performed in the 2002 fiscal year compared to the 2001 fiscal year. Online Higher Education operating revenue represented 22% of total revenues of the Company for the 2002 fiscal year.

Direct Costs. Total direct costs of revenues increased \$84.9 million, or 41%, to \$294.5 million for the 2002 fiscal year from \$209.6 million for the 2001 fiscal year. Excluding the impact of goodwill amortization in the 2001 fiscal year of \$5.5 million, direct costs increased \$90.5 million, or 44%, for the 2002 fiscal year. Direct costs as a percentage of total revenues increased to 88% in the 2002 fiscal year from 86% in the 2001 fiscal year. Excluding the impact of goodwill amortization, direct costs as a percentage of revenues were 83% in the 2001 fiscal year.

Campus Based expenses increased by \$52.3 million to \$226.6 million, or 87% of Campus Based revenue for the 2002 fiscal year, compared to \$174.4 million, or 87% of Campus Based revenue for the 2001 fiscal year. The increase in expenses reflected i) higher expenses, particularly labor and marketing expenses, given the higher volume of enrollments and operating activities at the higher education institutions compared to the 2001 fiscal year, ii) the full year effect of the acquisition of the controlling interest in ESCE, which occurred in the fourth quarter of 2001 and the acquisitions of controlling interests in Marbella and Glion, which occurred in the first and third quarters of 2002, respectively, and iii) an increase in overhead costs, including staffing expenses, as a result of the increase in the higher education institutions business. Included in the fiscal 2002 expenses was the write-off of \$3.5 million of deferred costs related to the terminated initial public offering of the Campus Based segment and one terminated acquisition. Excluding these charges, Campus Based expenses represented 85% of Campus Based revenues for the 2002 fiscal year. The decrease in expenses as a

percentage of revenue is primarily due to operating efficiencies achieved throughout the Campus Based segment, particularly at UDLA, UEM, and UVM.

Online Higher Education expenses increased by \$30.1 million to \$65.3 million, or 88% of Online Higher Education revenue for the 2002 fiscal year, compared to \$35.2 million, or 79% of Online Higher Education revenue for the 2001 fiscal year. Approximately \$27.3 million of this increase was due to the acquisitions of Walden in February 2002 and NTU in November 2002. Canter had a decrease in expenses as a percentage of revenue for the 2002 year primarily due to the adoption of Statement No. 142 in 2002, which discontinued the amortization of goodwill. The amortization of goodwill related to the Canter acquisition was \$3.1 million in the 2001 fiscal year. This decrease in Canter's expenses as a percentage of its revenue was partially offset by an increase in expenses as a percentage of revenue due to the inclusion of the operating results of OnlineLearning.net in the 2002 fiscal year. The acquisition of OnlineLearning.net, effective July 1, 2001, resulted in lower margin revenue for Canter in the fiscal 2002 year.

Sylvan Ventures operating expenses increased to \$2.6 million in the 2002 fiscal year as a result of operating costs related to the acquisitions of EdVerify, Inc. and ESS, Inc.

Other Expenses. Other expenses increased by \$17.6 million to \$38.4 million for the 2002 fiscal year from \$20.8 million for the 2001 fiscal year. This increase was primarily due to a Sylvan Ventures investment gain recognized in the 2001 fiscal year.

Core operating segment general and administrative expenses decreased by \$0.7 million in the 2002 fiscal year compared to the 2001 fiscal year. This decrease was primarily due to increased leveraging of centralized costs and effective cost control efforts. Core operating general and administrative expenses decreased to 6% of core operating revenues in the 2002 fiscal year compared to 9% of revenues in the 2001 fiscal year due to strong revenue expansion combined with cost controls.

Sylvan Ventures general and administrative expenses decreased by \$4.4 million to \$4.8 million for the 2002 fiscal year compared to \$9.2 million for the 2001 fiscal year. The decrease was due to significant reduction in labor, travel and consulting costs associated with the research, evaluation and acquisition of new investment opportunities as management shifted its focus towards solely managing and reinvesting in its current investment portfolio.

Sylvan Ventures investment gain in fiscal year 2001 of \$22.1 million was primarily generated by the sale of the Classwell investment in September 2001.

Other non-operating items increased by \$2.8 million for the 2002 fiscal year compared to the 2001 fiscal year. Investment losses totaled \$8.3 million in the 2002 fiscal year compared to \$14.2 million in the 2001 fiscal year. The 2002 fiscal year loss on investments was primarily due to \$7.4 million related to the write-off of the Company's investment in and advances to the Frontline Group. This investment write-off was a result of challenges facing the corporate training industry in general, and Frontline Group specifically. The Company originally accepted shares of common stock in Frontline Group as consideration for the sale of the PACE business unit in 1999.

The 2001 loss on investment was related to the Company's investment in Caliber. The Company recorded a loss on investment of \$14.2 million in the 2001 fiscal year, consisting of bad debt expense for uncollected notes receivable and advances to Caliber of \$7.5 million, as well as the accrual of a \$6.7 million estimated liability relating to the Company's guarantee of certain non-cancelable Caliber lease obligations and other Caliber related liabilities incurred by the Company. In 2002, the Company recorded an additional \$0.7 million of liabilities related to Caliber lease guarantees. Due to the uncertainties surrounding the bankruptcy proceedings and the ultimate settlement of Caliber's lease and other liabilities, it is possible that the Company's loss estimate may change prior to finalization.

The reduction in investment loss was partially offset by a decrease of investment and other income of \$4.4 million resulting from lower investment balances and a reduced interest rate environment

Equity in net income (loss) of affiliates. Sylvan Ventures equity in net losses of affiliates, net of income taxes, decreased to \$4.0 million for the 2002 fiscal year from \$31.4 million for the 2001 fiscal year. These losses relate to Sylvan Ventures' share of operating losses generated by the early stage enterprises in the investment portfolio not under Sylvan Ventures' control. This decrease was primarily due to Sylvan Ventures change in strategy to focus on managing its current

investments rather than investing in new early stage enterprises, as well as the consolidation of Walden and EdVerify. The reduction in the number of early stage enterprises and the decision of certain portfolio companies to cease operations slowed the losses absorbed by Sylvan Ventures, as these companies initially generate significant losses. Additionally, a number of the enterprises in which Sylvan Ventures invested throughout 2000 and 2001 have matured, and thus are generating reduced losses, relative to their earlier stages in the 2001 fiscal year. In addition, in fiscal 2001, the Sylvan Ventures investment in Caliber of \$2.9 million was reduced to \$0 upon recording its allocable share of losses related to Caliber prior to the bankruptcy proceedings, which is included in Sylvan Ventures' equity in net loss of affiliates. The adoption of Statement No. 142 also resulted in Sylvan Ventures no longer amortizing goodwill associated with equity method investments. The amortization of goodwill related to the Sylvan Ventures equity investments in the 2001 fiscal year was \$8.9 million.

Income Taxes. The Company has operations in multiple countries, many of which have statutory tax rates lower than the United States. Since approximately 78% of the Company's revenues are generated outside the United States, the impact of lower foreign tax rates in the jurisdictions where the Company operates results in an effective rate significantly lower than the United States statutory rate as outlined in Note 14 to the consolidated financial statements.

Cumulative Effect of Change in Accounting Principle. As a result of adopting Statement No. 142 as of January 1, 2002 and performing the required transitional impairment tests, the Company recorded a non-cash charge of \$78.6 million, net of income tax benefit of \$7.7 million, which was included in cumulative effect of change in accounting principle in the consolidated statements of operations. The impairment charge related solely to WSI.

Liquidity and Capital Resources

The Company generates revenue from tuition and other fees charged to students in connection with its various education program offerings. Students typically self-finance the costs of their education or seek third-party sponsored financing programs. Tuition is generally collected in advance. As such, working capital is generally a source rather than use of funds. Given the favorable cash flow characteristics of the Company's post-secondary business, Sylvan anticipates generating sufficient cash flow from operations within each of the individual countries where we operate to satisfy the working capital and financing needs of the Company's organic growth plan of each respective country. Accordingly, liquidity is managed locally with oversight provided by Corporate staff in Baltimore, Maryland.

The Company incurs significant costs at its headquarters location in Baltimore, Maryland relating to 1) meeting U.S. and group corporate governance, reporting and compliance requirements, 2) stewardship and financing of its ownership in investments and subsidiaries, and (3) development of group synergies among its investments and subsidiaries. Cash flow from operations generated by the Company's domestic businesses included within Online Higher Education, coupled with incremental borrowing capacity, are expected to be sufficient to meet future working capital, financing and investment needs.

The following table presents the condensed Statement of Cash Flows for the year ended December 31, 2003 for segregated for core operating segments and Sylvan Ventures activity. The Company is disbanding Sylvan Ventures. The following table illustrates the uses of cash by Sylvan Ventures during the year ended December 31, 2003. Management does not believe that the operations of Sylvan Ventures will be a significant use of cash in 2004.

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	Core Operating Segments	Sylvan Ventures (in thousands)	Consolidated	
Operating activities				
Net income (loss)	\$ 70,383	\$ (24,248)	\$	46,135
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	30,693	228		30,921
Loss on Ventures investments held for sale		8,394		8,394
Gain on disposal of discontinued operations	(41,930)			(41,930)
Non-cash compensation	27,109			27,109
Other non-cash items	8,649	4,433		13,082
Changes in working capital	(25,019)	203		(24,816)
Net cash provided by (used in) operating activities	69,885	(10,990)		58,895
Investing activities				
Purchases of property and equipment	(80,543)	(535)		(81,078)
Proceeds from sale of Principal K-12 Disposal Group and fixed assets	96,244	127		96,371
Cash paid for acquired businesses, net of cash received	(61,889)			(61,889)
Other investing activities, net	3,543	186		3,729
Net cash used in investing activities	(42,645)	(222)		(42,867)
Financing activities				
Net cash received from minority members of Sylvan Ventures		2,263		2,263
Intercompany funding	(6,039)	6,039		
Other financing activities, net	(5,050)			(5,050)
Net cash (used in) provided by financing activities	(11,089)	8,302		(2,787)
Effect of exchange rate changes on cash	(19,538)			(19,538)
Net decrease in cash and cash equivalents	(3,387)	(2,910)		(6,297)
Cash and cash equivalents at beginning of year	101,734	2,951		104,685
Cash and cash equivalents at end of year	\$ 98,347	\$ 41	\$	98,388
Cash and cash equivalents classified as:				
Continuing operations	\$ 92,104	\$ 41	\$	92,145
Discontinued operations	6,243			6,243
Cash and cash equivalents at end of period year	\$ 98,347	\$ 41	\$	98,388

During 2003, cash provided by operations was \$58.9 million, net of cash used by operations of Sylvan Ventures of \$11.0 million. This compares to cash provided by operations of \$81.1 million in the 2002 fiscal year, net of cash used by Sylvan Ventures operations of \$24.8 million. The reported net income of \$46.1 million included significant non-cash elements such as the gain on the sale of discontinued operations of \$41.9 million, equity in loss of affiliates, primarily due to Sylvan Ventures, of \$3.7 million, depreciation and amortization charges of \$30.9 million, net loss on sale of investments, primarily due to Sylvan Ventures, of \$8.4 million, minority interest of \$14.5 million, and charges related to non-cash compensation expenses of \$27.1 million. Working capital decreased liquidity by \$24.8 million, primarily due to core operating segments. This use of cash consisted primarily of a decrease in income taxes payable of \$44.7 million related to payments of income taxes on the gain from the sale of the Principal K-12 Disposal Group partially offset by decreases in inventory, prepaid expenses and other current assets

and increased accounts payable and accrued expenses.

Cash used by investing activities was \$42.9 million in the 2003 fiscal year, including cash used by Sylvan Ventures of \$12.6 million. This compares to cash used by investing activities of \$97.5 million in the 2002 fiscal year including cash used by Sylvan Ventures of \$0.8 million. The 2003 investment activity was primarily the result of net proceeds from the sale of available-for-sale securities of \$12.5 million and net proceeds from the sale of discontinued operations of \$96.4 million partially offset by cash paid for acquisitions of \$61.9 million, purchases of property, plant and equipment of \$81.1 million, and expenditures for deferred contract costs and increases in other long-term assets of \$8.8 million. The 2002 investment

activity was primarily the result of net proceeds from the sale of available-for-sale securities of \$37.3 million, more than offset by cash paid for acquisitions of \$56.2 million, purchases of property, plant and equipment of \$69.8 million, increases in investments of \$4.1 million and expenditures for deferred contract costs and increases in other long-term assets of \$4.7 million.

Cash used in financing activities was \$2.8 million in the 2003 fiscal year, net of \$2.3 million of cash provided by financing activities related to Sylvan Ventures, excluding intercompany funding. The 2003 financing activity related primarily to the net repayment of long-term debt of \$17.4 million, net capital contributions from minority interest members of \$2.3 million, proceeds from the exercise and issuance of options of \$15.0 million and decreases in other long-term liabilities of \$2.7 million. Cash provided by financing activities was \$21.8 million in the 2002 fiscal year, including \$3.7 million of cash used in financing activities related to Sylvan Ventures, excluding intercompany funding. The 2002 fiscal year financing activity related primarily to net capital contributions from the minority interest members of Sylvan Ventures of \$3.4 million, proceeds from the exercise of options of \$14.7 million and increases in other long-term liabilities of \$2.0 million.

The Company anticipates that cash flow from operations, available cash and existing credit facilities will be sufficient to meet its operating requirements, including expansion of its existing business, funding Campus Based higher education institution acquisitions, and payment of contingent consideration. The Company continues to examine opportunities in the educational services industry for potential synergistic acquisitions. Sylvan expects that existing capital resources (including credit facilities) will be sufficient to continue to acquire businesses in the educational services industry for at least the next several years. However, if the Company were to pursue a number of large acquisitions, additional debt or equity capital may be required. The Company cannot be certain that this capital would be available on attractive terms, if at all. The amount of capitalized costs incurred in connection with potential acquisitions and greenfield projects was \$1.8 million at December 31, 2003. These costs become part of the purchase price when the acquisition is completed or are expensed when the potential acquisition does not materialize.

Commitments and Contingent Matters

The following tables reflect the Company's contractual obligations and other commercial commitments as of December 31, 2003 (amounts in thousands):

Contractual Obligations	Total	Due in less than 1 year	Payments Due by Period		
			Due in 1-3 years	Due in 4-5 years	Due after 5 years
(in thousands)					
Long-term debt	\$ 96,754	\$ 21,654	\$ 29,822	\$ 11,088	\$ 34,190
Operating leases	233,773	22,669	64,096	37,144	109,864
Due to shareholders of acquired companies	34,688	4,747	29,941		
Other long term liabilities(1)	7,500	3,000	4,500		
Total contractual cash obligations of continuing operations	\$ 372,715	\$ 52,070	\$ 128,359	\$ 48,232	\$ 144,054
Operating leases of discontinued operations	\$ 12,246	\$ 7,755	\$ 3,590	\$ 833	\$ 68

Amount of Commitment
Expiration Per Period

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Other Commercial Commitments	Total Amounts Committed	Due in less than 1 year	Due in 1-3 years	Due in 4-5 years	Due after 5 years
			(in thousands)		
Lines of credit(2)	\$	\$	\$	\$	\$
Guarantees(3)	13,655	7,039	6,479	137	
Standby letters of credit(4)	1,439	1,439			
Total commercial commitments of continuing operations	\$ 15,094	\$ 8,478	\$ 6,479	\$ 137	\$

(1) In connection with the sale of the Principal K-12 Disposal Group to Educate, the Company entered into a three-year management service agreement with Educate. Under the terms of the agreement, Educate will provide certain support.

services, including, but not limited to, specified accounting, benefits, IT, human resources, purchasing and payroll services to Sylvan. Conversely, Sylvan will provide certain support services, primarily in the areas of tax and treasury, to Educate. The agreement requires the Company to pay a fixed fee, adjusted as appropriate based on increases to predetermined service volumes. The net fee due to Educate on an annual basis is approximately \$3.0 million.

(2) As of June 30, 2003, the Company terminated its \$100.0 million line of credit as a result of the sale of the Principal K-12 Disposal Group. There was no balance on the line of credit at the time of the termination. Effective June 30, 2003, the Company entered into a new unsecured line of credit agreement in the amount of \$30.0 million, with a \$5.0 million sub-limit for standby letters of credit, which is intended for working capital purposes. The line of credit expires August 2004. There was no balance outstanding under the line of credit as of December 31, 2003. Individual units in our Campus Based operations have unsecured lines of credit, which total \$16.1 million, primarily for working capital purposes. The outstanding balance of these lines of credit was \$3.7 million as of December 31, 2003 and is included in the long-term debt line above.

(3) Subsequent to the divestiture of the Principal K-12 Disposal Group, all leases related to Sylvan Learning Centers were renegotiated or assigned in the name of Educate during the third quarter of 2003. Leases with remaining payments of \$12.6 million through December 2008 are guaranteed by the Company. Under the terms of Asset Purchase Agreement with Educate, the Company is indemnified against any losses suffered as a result of any lease guarantees.

(4) The Company has approximately \$1.4 million outstanding in standby letters of credit. The Company is self-insured for health care, workers compensation, and other insurable risks up to predetermined amounts above which third party insurance applies. The Company is contingently liable to insurance carriers under some of these policies and has provided a letter of credit in favor of the insurance carriers for approximately \$1.3 million.

Additional amounts of contingent consideration are due the sellers of UDLA based on operating results for the three years ended December 31, 2006. No later than March 31, 2006, the Company is obligated to the sellers for an amount equal to 60% of six times (i) average EBIT for 2004 and 2005, less (ii) 2000 EBIT; this result is reduced by (iii) 42% of certain specified debt. Assuming EBIT remains at 2003 levels for 2004 and 2005, the Company would be obligated to the sellers for approximately \$40.0 million. No later than March 31, 2007, the Company is obligated to the sellers for an amount equal to 20% of four times (i) average EBIT for 2005 and 2006; this result is reduced by (ii) 20% of certain specified debt and (iii), \$6.5 million. Assuming EBIT remains at 2003 levels for 2005 and 2006, the Company would be obligated to the sellers for approximately \$8.0 million. The Company has pledged its shares of Decon, the holding company that controls and operates UDLA, to satisfy its payment obligations to the sellers. The Company cannot dispose of, lien or encumber the shares without the prior approval of the sellers.

Effective April 1, 2008 the sellers of UDLA have the right to require the Company to purchase their remaining 20% interest in Decon for a variable purchase price based on average EBIT for certain specified periods. Effective April 1, 2009 the Company has a call right to acquire the remaining 20% interest under a similar methodology for certain specified periods.

Effective April 1, 2009 the minority owners of UNAB and AIEP have the right to require the Company to purchase their 20% interest for a variable purchase price based on average EBIT for certain specified periods. Effective April 1, 2009 the Company has a call right to acquire this 20% interest under a similar methodology for certain specified periods.

Related Party Transactions

Transactions between UI and Certain Officers

The Company entered into a lease agreement during August 2003 with certain officers and former owners of the Company's Universidad Interamericana located in Costa Rica and Panama. The lease has an initial term of 15 years, with an additional five-year extension available at the Company's option. The lease also contains a provision for the Company, at its option, to purchase the real estate at the then fair market value at any time. Monthly rental payments are based on eight percent of net revenues for the first two years and ten percent of net revenues in year three. Year three rental payments will be the basis for monthly rental payments in years four through fifteen, plus inflationary adjustments. For the period from October 15, 2003 through December 31, 2003, the Company incurred approximately \$0.1 million of rent under this lease. The lease agreement enables the Company to operate the UI at its established campuses.

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Transactions between UVM and Certain Officers and Minority Shareholders

The Company entered into lease agreements for UVM's university campuses with certain of its officers and minority owners. The leases have an initial term of ten years with an additional two-year extension available at the Company's option. During 2002, this lease was amended to include an additional three-year extension available at the Company's option, for a total term of up to 15 years. The amended lease also gives the Company the option to purchase the real estate at the fair market value of the property at the end of the lease term. Rents are adjusted monthly for inflation. For the year ended December 31, 2003, the Company incurred approximately \$5.1 million of rent under these leases. The lease agreements enable the Company to operate UVM at its already established campuses. The value of the contracts was determined by arms-length negotiation between the parties and based upon the then prevailing market rates, and was corroborated by an independent real estate appraisal.

These officers and minority shareholders also provide staffing services to UVM for four of its campuses under a contract with an open-ended term, allowing either party to cancel with a one-year written notification to the other party. UVM incurred approximately \$3.0 million of expenses for the 2003 fiscal year in connection with this contract.

UVM subcontracts educational programs provided to government employees to a company partially owned by some of its officers and minority shareholders. UVM pays 50% of the revenue, net of related expenses, associated with each government contract to this company, which amounted to \$0.1 million for the 2003 fiscal year. This is an arms-length, agreement between three parties, in which one of the parties is a government agency. The agreement enables the Company to provide educational services outside UVM's walls or physical limits to government agencies, thus increasing UVM's operating capacity.

Transactions between Les Roches and Certain Officers

Les Roches entered into lease agreements for some of its dormitories and other facilities with the former owners of Les Roches. Pursuant to these agreements, the Company incurred rent expense of approximately \$0.5 million for the 2001 fiscal year and \$0.3 million from July 26, 2000, the date of acquisition of Les Roches, through December 31, 2000. In January 2002, the Company entered into an agreement with the officers to purchase these properties for approximately \$2.7 million.

Transactions between the Company and Affiliates

As discussed more fully in note 3 to the consolidated financial statements, on June 30, 2003, the Company completed the sale of its Principal K-12 Disposal Group to Educate. Prior to the sale, Apollo held the rights to appoint two seats on the Company's Board of Directors. As a result of the sale transaction, these rights were modified to one Board seat.

As discussed more fully in note 10 to the consolidated financials, in connection with the sale of the Company's Principal K-12 Disposal Group, the Company entered into a three-year management service agreement with Educate.

Effects of Inflation

Inflation has not had a material effect on Sylvan's revenues and income from continuing operations in the past three years. Inflation is not expected to have a material effect in the foreseeable future. The Company historically has been able to increase tuition pricing at a rate at or above the rate of inflation.

International Exposure

The Company maintains diverse operations in a broad range of international locations. The international aspects of the Company's operations create additional exposure to political uncertainties, currency devaluations and local country regulations affecting the provision of educational services. Revenues and profits in any period may be significantly impacted by international developments outside the control of the Company.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from the changes in the price of financial instruments. The Company is exposed to financial market risks, including changes in foreign currency exchange rates, interest rates, equity prices and investment values. The Company occasionally uses derivative financial instruments to protect against adverse currency movements related to significant foreign acquisitions. Exposure to market risks related to operating activities is managed through the Company's regular operating and financing activities.

Foreign Currency Risk

The Company derives approximately 80% of its revenues from customers outside the United States. This business is transacted through a network of international subsidiaries, generally in the local currency that is considered the functional currency of that foreign subsidiary. Expenses are also incurred in the foreign currencies to match revenues earned and minimize the Company's exchange rate exposure to operating margins. A hypothetical 10% adverse change in average annual foreign currency exchange rates would have decreased operating income and decreased cash flows for the 2003 fiscal year by \$8.3 million. The Company generally views its investment in most of its foreign subsidiaries as long-term. The effects of a change in foreign currency exchange rates on the Company's net investment in foreign subsidiaries are reflected in other comprehensive income (loss). A 10% depreciation in functional currencies relative to the U.S. dollar would have resulted in a decrease in the Company's net investment in foreign subsidiaries of approximately \$35.3 million at December 31, 2003.

Interest Rate Risk

The Company holds its cash and cash equivalents in high quality, short-term, fixed income securities. Consequently, the fair value of the Company's cash and cash equivalents would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due to the short-term nature of the Company's portfolio. The Company's revolving credit facility bears interest at variable rates, and the fair value of this instrument is not significantly affected by changes in market interest rates. A 100 basis point decrease in interest rates would have reduced net interest income for the 2003 fiscal year by \$0.8 million.

The table below provides information about the Company's financial instruments that are sensitive to changes in interest rates. The table presents cash flows of weighted-average interest rates and principal payments for the following years ended December 31. The fair value of the debt below approximates book value.

Total debt and due to shareholders of acquired companies:	2004	2005	2006	2007	2008	Thereafter	Total
	(in millions)						
Fixed rate (Chilean peso)	\$ 10.4	\$ 11.3	\$ 13.3	\$ 18.2	\$ 3.1	\$ 0.5	\$ 56.8
Average interest rate	6.3%	6.3%	6.3%	6.4%	6.6%	8.5%	
Fixed rate (Swiss franc)	4.3	1.7	1.6	1.5	1.5	26.7	37.3
Average interest rate	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	
Fixed rate (Other)	0.8	0.7	4.0			3.2	8.7
Average interest rate	3.6%	3.5%	2.4%			0.2%	
Variable rate (Chilean peso)	1.1	0.2	0.2	0.2	0.2	1.2	3.1
Average interest rate	6.1%	6.0%	6.0%	6.1%	6.1%	6.1%	
Variable rate (Swiss franc)	3.9	1.0	1.0	0.8	0.8	8.4	15.9
Average interest rate	3.3%	3.5%	3.6%	3.7%	3.8%	3.8%	
Variable rate (Euro)	5.6	1.9	1.1	0.7			9.3
Average interest rate	4.3%	4.5%	4.5%	4.5%			
Variable rate (Other)	0.3	0.1					0.4
Average interest rate	4.8%	4.9%					

Equity Price Risk

The Company is exposed to equity price risks on equity securities included in the portfolio of investments entered into for the promotion of business and strategic objectives. The Company typically does not attempt to reduce or eliminate its market exposure on these securities. A 10% adverse change in equity prices would not materially impact the fair value of the Company's marketable securities or other comprehensive income (loss).

Investment Risk

The Company's investment portfolio includes debt securities that mature within one year. A hypothetical 10% adverse change in the fair value of the debt securities would not materially adversely impact earnings or cash flows because of the Company's ability to hold the debt securities until maturity.

In addition to the debt securities, the Company has an investment portfolio that includes short-term investments in available-for-sale debt and equity securities. The Company's investment portfolio is exposed to risks arising from changes in these investment values.

All the potential impacts noted above are based on sensitivity analysis performed on the Company's financial position at December 31, 2003. Actual results may differ materially.

Item 8. Financial Statements and Supplementary Data

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Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

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The Board of Directors and Stockholders

Sylvan Learning Systems, Inc.

We have audited the accompanying consolidated balance sheets of Sylvan Learning Systems, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. The financial statements of iLearning, Inc., (a corporation in which the Company had a 40% interest) for the year ended December 31, 2001 were audited by other auditors who have ceased operations and whose report has been furnished to us. Insofar as our opinion on the consolidated financial statements relates to data included for iLearning, Inc., it is based solely on their report. In the consolidated financial statements, the Company's equity in the net losses of iLearning, Inc. is stated at \$2,637 for the year ended December 31, 2001. The financial statements of Chancery Software Limited (a corporation in which the Company had a 42% interest) for the years ended September 30, 2002 and 2001, have been audited by other auditors and whose report has been furnished to us; insofar as our opinion on the consolidated financial statements relates to data included for Chancery Software Limited, it is based solely on their report. In the consolidated financial statements, the Company's investment in Chancery Software Limited is stated at \$6,964 at December 31, 2002, and the Company's equity in the net losses of Chancery Software Limited is stated at \$1,020 and \$3,986 for the years ended December 31, 2002 and 2001, respectively.

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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sylvan Learning Systems, Inc. and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2002 the Company changed its method of accounting for goodwill.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 18, 2004

SYLVAN LEARNING SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollar and share amounts in thousands, except per share data)

	December 31, 2003	December 31, 2002 (as restated, Note 3)
Assets		
Current assets:		
Cash and cash equivalents	\$ 92,145	\$ 94,068
Available-for-sale securities	16,765	22,282
Receivables:		
Accounts receivable	90,636	42,965
Trade notes receivable	44,240	11,342
Other receivables	7,366	2,862
	142,242	57,169
Allowance for doubtful accounts	(15,550)	(5,939)
	126,692	51,230
Inventory	3,375	2,475
Income tax receivable	16,542	5,290
Prepaid expenses and other current assets	14,338	21,186
Current assets of discontinued operations		104,865
Total current assets	269,857	301,396
Notes receivable from related party, net of discount of \$14,406	43,155	
Property and equipment:		
Land	68,441	38,028
Buildings	179,911	157,834
Construction in-progress	30,578	14,496
Furniture, computer equipment and software	110,852	76,133
Leasehold improvements	39,824	28,747
	429,606	315,238
Accumulated depreciation and amortization	(63,756)	(42,002)
	365,850	273,236
Intangible assets:		
Goodwill	233,561	176,190
Other intangible assets, net of accumulated amortization of \$4,519 and \$2,480 at December 31, 2003 and 2002, respectively	88,634	36,457
	322,195	212,647
Investments in and advances to affiliates	471	8,730
Other investments	3,288	10,885

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Deferred income taxes	29,760	8,366
Deferred costs, net of accumulated amortization of \$6,663 and \$4,417 at December 31, 2003 and 2002, respectively	11,901	6,600
Other assets	31,523	21,887
Long-term assets of discontinued operations	71,914	124,064
Total assets	\$ 1,149,914	\$ 967,811

	December 31, 2003	December 31, 2002 (as restated - Note 3)
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 33,992	\$ 24,428
Accrued expenses	76,080	59,054
Income tax payable	20,346	10,792
Current portion of long-term debt	21,654	11,194
Due to shareholders of acquired companies	4,747	8,802
Deferred revenue	152,922	76,773
Deferred income tax	204	4,324
Other current liabilities	3,022	1,672
Current liabilities of discontinued operations		30,648
Total current liabilities	312,967	227,687
Long-term debt, less current portion	75,100	153,543
Due to shareholders of acquired companies, less current portion	29,941	9,538
Other long-term liabilities	16,765	17,098
Total liabilities	434,773	407,866
Commitments and contingent liabilities		
Minority interest	45,991	74,017
Stockholders equity:		
Preferred stock, par value \$.01 per share authorized 10,000 shares, no shares issued and outstanding as of December 31, 2003 and 2002		
Common stock, par value \$.01 per share authorized 90,000 shares, issued and outstanding shares of 44,984 as of December 31, 2003 and 40,331 as of December 31, 2002	450	403
Additional paid-in capital	353,522	257,926
Retained earnings	292,978	246,843
Accumulated other comprehensive income (loss)	22,200	(19,244)
Total stockholders equity	669,150	485,928
Total liabilities and stockholders equity	\$ 1,149,914	\$ 967,811

See accompanying notes to financial statements.

SYLVAN LEARNING SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(Dollar and share amounts in thousands, except per share data)

	Year ended December 31		
	2003	2002	2001
			(as restated - Note 3)
Revenues			
Core operating segments	\$ 471,903	\$ 335,608	\$ 244,529
Sylvan Ventures	903	395	
Total revenues	472,806	336,003	244,529
Costs and expenses			
Direct costs:			
Core operating segments	394,512	291,921	209,579
Sylvan Ventures	2,122	2,592	
General and administrative expenses:			
Core operating segments	17,774	21,318	22,003
Sylvan Ventures	1,756	4,804	9,211
Non-cash stock compensation expense	23,050	1,046	
Total costs and expenses	439,214	321,681	240,793
Operating income	33,592	14,322	3,736
Other income (expense)			
Investment and other income	6,867	6,905	11,274
Interest expense	(8,844)	(8,256)	(8,700)
Sylvan Ventures investment income (loss)	(8,394)	(2,308)	22,131
Loss on other investments		(8,253)	(14,231)
Foreign currency exchange gain (loss)	257	641	(80)
	(10,114)	(11,271)	10,394
Income (loss) from continuing operations before income taxes, minority interest, equity in net income (loss) of affiliates and cumulative effect of change in accounting principle	23,478	3,051	14,130
Income tax benefit (expense)	2,930	8,789	(1,517)
Minority interest in (income) loss of consolidated subsidiaries, net of tax:			
Sylvan Ventures	487	2,058	2,590
Other	(14,947)	(6,880)	(7,598)
	(14,460)	(4,822)	(5,008)
Equity in net income (loss) of affiliates, net of tax:			
Sylvan Ventures	(4,055)	(4,029)	(31,428)
Other	194	309	28
	(3,861)	(3,720)	(31,400)

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Income (loss) from continuing operations before cumulative effect of change in accounting principle	8,087	3,298	(23,795)
(Loss) income from discontinued operations, net of income tax expense of \$6,211 in 2003, \$12,830 in 2002 and \$13,709 in 2001	(3,882)	(3,964)	6,349
Gain (loss) on disposal of discontinued operations, net of income tax expense (benefit) of \$32,557 in 2003 and \$(7,632) in 2002	41,930	(16,643)	
Income (loss) before cumulative effect of change in accounting principle	46,135	(17,309)	(17,446)
Cumulative effect of change in accounting principle, net of income tax benefit of \$7,700		(78,634)	
Net income (loss)	\$ 46,135	\$ (95,943)	\$ (17,446)

Earnings (loss) per common share, basic:

Income (loss) from continuing operations before cumulative effect of change in accounting principle	\$ 0.19	\$ 0.08	\$ (0.62)
Net income (loss)	\$ 1.10	\$ (2.40)	\$ (0.46)

Earnings (loss) per common share, diluted:

Income (loss) from continuing operations before cumulative effect of change in accounting principle	\$ 0.18	\$ 0.08	\$ (0.62)
Net income (loss)	\$ 1.05	\$ (2.40)	\$ (0.46)

See accompanying notes to financial statements

SYLVAN LEARNING SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity

(Dollar and share amounts in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at January 1, 2001	\$ 373	\$ 205,343	\$ 360,232	\$ (12,685)	\$ 553,263
Options exercised for purchase of 1,440 shares of common stock, including income tax benefit of \$6,152	14	23,064			23,078
Issuance of 29 shares of common stock in connection with the Employee Stock Purchase Plan		404			404
Other		575			575
Comprehensive loss:					
Net loss for the year ended December 31, 2001			(17,446)		(17,446)
Foreign currency translation adjustment				(13,394)	(13,394)
Unrealized loss on available-for-sale securities				(414)	(414)
Minimum pension liability adjustment				(211)	(211)
Total comprehensive loss					(31,465)
Balance at December 31, 2001	387	229,386	342,786	(26,704)	545,855
Options exercised for purchase of 1,106 shares of common stock, including income tax benefit of \$4,257	11	18,960			18,971
Issuance of 24 shares of common stock in connection with the Employee Stock Purchase Plan		376			376
Issuance of 318 shares of common stock in connection with the conversion of debentures	3	4,997			5,000
Issuance of 144 shares of common stock in connection with acquisitions	2	2,999			3,001
Other		1,208			1,208
Comprehensive loss:					
Net loss for the year ended December 31, 2002			(95,943)		(95,943)
Foreign currency translation adjustment				7,366	7,366
Unrealized loss on available-for-sale securities				(117)	(117)
Minimum pension liability adjustment				211	211
Total comprehensive loss					(88,483)
Balance at December 31, 2002	403	257,926	246,843	(19,244)	485,928
Options exercised for purchase of 953 shares of common stock, including income tax benefit of \$4,638	10	19,230			19,240
		422			422

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Issuance of 40 shares of common stock in connection with the Employee Stock Purchase Plan										
Issuance of 2,823 shares of common stock in connection with the conversion of debentures	28	43,531					43,559			
Issuance of 581 shares of common stock in connection with acquisition of minority interest in Sylvan Ventures LLC	6	5,148					5,154			
Issuance of 256 shares of restricted common stock to employees	3	(3)								
Vesting of restricted common stock		975					975			
Remeasurement of employee stock options		25,967					25,967			
Other equity activity		326					326			
Comprehensive income:										
Net income for the year ended December 31, 2003			46,135				46,135			
Foreign currency translation adjustment				48,783			48,783			
Unrealized gain on available-for-sale securities				63			63			
Reclassification adjustment for foreign currency translation adjustments realized in net income				(7,402)			(7,402)			
Total comprehensive income							87,579			
Balance at December 31, 2003	\$	450	\$	353,522	\$	292,978	\$	22,200	\$	669,150

See accompanying notes to financial statements

SYLVAN LEARNING SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Dollar amounts in thousands)

	Year Ended December 31,		
	2003	2002	2001
Operating activities			
Net income (loss)	\$ 46,135	\$ (95,943)	\$ (17,446)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization of fixed assets	25,087	28,820	24,474
Amortization	5,834	2,217	13,494
(Gain) loss from discontinued operations	(41,930)	2,434	
Non-cash stock compensation expense - continuing operations	23,050	1,046	
Non-cash stock compensation expense - discontinued operations	4,058		
Loss on assets sold	7,894		
Loss on assets sold-discontinued operations		20,244	
Loss (gain) on investments	500	22,135	(7,905)
Other non-cash items	1,232	(649)	253
Minority interest in consolidated subsidiaries	14,460	4,822	3,743
Cumulative effect of change in accounting principle		86,334	
Equity in net loss of affiliates	3,694	3,968	31,971
Deferred income taxes	(6,471)	(9,108)	(1,213)
Changes in operating assets and liabilities:			
Receivables	(16,058)	(13,038)	(10,409)
Inventory, prepaid expenses and other current assets	4,814	4,398	(1,764)
Accounts payable and accrued expenses	8,537	14,410	423
Income tax payable	(44,709)	(8,363)	(79,917)
Deferred revenue and other current liabilities	22,768	17,398	(1,108)
Net cash provided by (used in) operating activities	58,895	81,125	(45,404)
Investing activities			
Purchase of available-for-sale securities	(54,573)	(24,958)	(151,030)
Proceeds from sale or maturity of available-for-sale securities	67,068	62,210	293,697
Investment in and advances to affiliates and other investments	(739)	(4,117)	(19,148)
Purchase of property and equipment, net	(81,078)	(69,755)	(55,785)
Proceeds from sale of discontinued operations	96,371		
Cash paid for acquisitions, net of cash acquired	(53,711)	(56,207)	(22,433)
Payment of contingent consideration for prior period acquisitions	(8,178)		(38,044)
Expenditures for deferred contract costs	(5,108)	(1,905)	(3,582)
Increase in other assets	(2,919)	(2,776)	(3,139)
Net cash provided by (used in) investing activities	(42,867)	(97,508)	536

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Financing activities

Proceeds from exercise of options	14,602	14,714	16,926
Proceeds from issuance of common stock	422	964	
Proceeds from issuance of long-term debt	22,090	20,816	191,450
Payments on long-term debt	(39,482)	(20,142)	