NXP Semiconductors N.V.
Form 424B7
December 11, 2013

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be registered	Proposed maximum offering price per unit[1]	Proposed maximum aggregate offering price[1]	Amount of Registration Fee[2]
Shares of common stock, par value 0.20	25,000,000	$ 42.61	$ 1,065,250,000	$ 137,204.20

(1) Estimated solely for purposes of calculating the amount of the registration fee. In accordance with Rule 457(c) and Rule 457(r) of the Securities Act of 1933, as amended, the price shown is the average of the high and low selling prices of the shares of common stock on December 10, 2013, as reported on the NASDAQ Global Select Market.

(2) The registrant deposited the registration fee by wire transfer of same-day funds to the Securities and Exchange Commission s account at US Bank on December 11, 2013.

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Filed Pursuant to Rule 424(b)(7)
Registration No. 333-176435

Supplement to Prospectus dated August 23, 2011.

25,000,000 Shares

Common Stock

This is an offering of 25,000,000 shares of common stock of NXP Semiconductors N.V. by the selling stockholders named in this prospectus supplement (such stockholders, including entities affiliated with directors of our company and with members of our senior management, the Selling Stockholders). See Selling Stockholders. We will not receive any proceeds from the sale of shares of common stock by the Selling Stockholders.

Our common stock is listed on the NASDAQ Global Select Market under the symbol NXPI . On December 6, 2013, the last reported sale price of our common stock on the NASDAQ Global Select Market was $44.23 per share.

Investing in shares of our common stock involves risks. See Risk Factors beginning on page S-11 of this prospectus supplement, Risk Factors beginning on page 5 of the accompanying prospectus, and Risk Factors in our Annual Report on Form 20-F for the fiscal year ended December 31, 2012 (which document is incorporated by reference herein) and our financial statements and related notes, in order to read about factors you should consider before making a decision to invest in our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial price to the public	$ 42.50	$ 1,062,500,000
Underwriting discount to be paid by the Selling Stockholders	$ 0.25	$ 6,250,000
Proceeds, before expenses, to the Selling Stockholders	$ 42.25	$ 1,056,250,000

The underwriters expect to deliver the shares of common stock through the facilities of the Depository Trust Company against payment thereof on or about December 13, 2013.

Joint Book-Running Managers

Barclays **Credit Suisse**

Prospectus Supplement dated December 9, 2013.

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We have not and the underwriters have not authorized anyone to provide any information or to make any representations other than those contained or incorporated by reference herein or in any free writing prospectuses prepared by us or on behalf of us to which we have referred you. We and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus supplement is an offer to sell only the shares of common stock offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement is current only as of its date. Our business, financial condition, results of operation and prospects may have changed since that date.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document has two parts, a prospectus supplement and an accompanying prospectus dated August 23, 2011. This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission, which we refer to as the SEC, utilizing the SEC s shelf registration process. The prospectus supplement, which describes certain matters relating to us and the specific terms of this offering of shares of common stock, adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference herein. Generally, when we refer to this document, we are referring to both parts of this document combined. Both this prospectus supplement and the accompanying prospectus include important information about us, our shares of common stock and other information you should know before investing in our common stock. The accompanying prospectus gives more general information, some of which may not apply to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. To the extent the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus, you should rely on the information contained in this prospectus supplement. If the information contained in this prospectus supplement differs or varies from the information contained in a document we have incorporated by reference, you should rely on the information in the more recent document.

Before you invest in our common stock, you should read the registration statement of which this document forms a part and this document, including the documents incorporated by reference herein that are described under the heading Incorporation by Reference.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the shares of common stock in certain jurisdictions may be restricted by law. We are not making an offer of the common stock in any jurisdiction where the offer is not permitted. Persons who come into possession of this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

You should not consider any information in this prospectus supplement or the accompanying prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding the purchase of the common stock. We are not making any representation to you regarding the legality of an investment in the common stock by you under applicable investment or similar laws.

In this prospectus supplement, unless otherwise indicated or the context otherwise requires, references to NXP, the Company, we, us and our refer to NXP Semiconductors N.V. and its subsidiaries. References to the IPO refer to our initial public offering on the NASDAQ Global Select Market on August 5, 2010 of 34,000,000 shares of our common stock. References to the Selling Stockholders refer to the Selling Stockholders listed in the table under the caption Selling Stockholders in this prospectus supplement.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

Certain important business and financial information about us is not included in this prospectus supplement or the accompanying prospectus, but has been incorporated by reference. This means that we can disclose important information to you by referring you to another document filed with or furnished to the SEC. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus and information that we file with or furnish in the future to the SEC will, to the extent it is incorporated by reference herein, automatically update and supersede, as appropriate, this information.

This prospectus supplement and the accompanying prospectus incorporate by reference the documents listed below that we have previously filed with or furnished to the SEC:

- Our Interim Reports on Form 6-K for the period ended March 31, 2013, furnished to the SEC on May 6, 2013 (our Q1 2013 Interim Report), for the period ended June 30, 2013, furnished to the SEC on August 2, 2013 (our Q2 2013 Interim Report) and for the period ended September 29, 2013, furnished to the SEC on November 1, 2013 (our Q3 2013 Interim Report); and

- Our Annual Report on Form 20-F for the fiscal year ended December 31, 2012, filed with the SEC on March 1, 2013, as amended by the Amendment No. 1, filed with the SEC on March 27, 2013 (our 2012 Annual Report).

We also incorporate by reference all documents that we file with or furnish to the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) after the date of this prospectus supplement from their respective dates of filing or furnishing, as the case may be, so long as any future reports on Form 6-K that we furnish to the SEC identify that they are incorporated by reference into the Registration Statement of which this prospectus supplement and the accompanying prospectus form part and until all the shares of the common stock to which this prospectus supplement relates are sold or the offering is otherwise terminated.

We will provide without charge to any person, including any beneficial owners, to whom a prospectus supplement and the accompanying prospectus is delivered, upon written or oral request, a copy of any or all the documents and reports described above and incorporated by reference into this prospectus supplement and the accompanying prospectus (other than exhibits to such documents, unless such documents are specifically incorporated by reference). Any such request may be made by writing or by telephoning us at the following address or phone number:

NXP Semiconductors N.V.

Attn: Legal Department	Attn: Investor Relations, Mr. Jeff Palmer
High Tech Campus 60	411 E. Plumeria Drive
5656 AG Eindhoven	San Jose CA 95134
The Netherlands	USA
Telephone: +31 40 2729233	Telephone: +1 408 518 5411

The documents incorporated by reference into this prospectus supplement and the accompanying prospectus can also be requested through, and are available in, the Investor Relations section of our website, which is located at www.nxp.com. The reference to our website address does not constitute incorporation by reference of the information contained in our website. We have not authorized anyone else to provide you with different information.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information presented in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus include forward-looking statements. When used in, or incorporated by reference into, this document, the words anticipate, believe, estimate, forecast, expect, intend, plan and project and similar expressions, as they relate to us, our management or third parties, identify forward-looking statements. Forward-looking statements include statements regarding our business strategy, financial condition, results of operations and market data, as well as any other statements that are not historical facts. These statements reflect beliefs of our management, as well as assumptions made by our management and information currently available to us. Although we believe that these beliefs and assumptions are reasonable, these statements are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. These factors, risks and uncertainties expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf and include, in addition to those listed under Risk Factors and those included elsewhere in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus, the following:

- market demand and semiconductor industry conditions;
- our ability to successfully introduce new technologies and products;
- the demand for the goods into which our products are incorporated;
- our ability to generate sufficient cash, raise sufficient capital or refinance our debt at or before maturity to meet both our debt service and research and development and capital investment requirements;
- our ability to accurately estimate demand and match our production capacity accordingly;
- our ability to obtain supplies from third-party producers;
- our access to production from third-party outsourcing partners, and any events that might affect their business or our relationship with them;
- our ability to secure adequate and timely supply of equipment and materials from suppliers;
- our ability to avoid operational problems and product defects and, if such issues were to arise, to rectify them quickly;
- our ability to form strategic partnerships and joint ventures and successfully cooperate with our alliance partners;
- our ability to win competitive bid selection processes;
- our ability to develop products for use in our customers equipment and products;

- our ability to successfully hire and retain key management and senior product engineers; and

- our ability to maintain good relationships with our suppliers.

In addition, this prospectus supplement and the accompanying prospectus contain or incorporate by reference information concerning the semiconductor industry and our market and business segments generally, which is forward-looking in nature and is based on a variety of assumptions regarding the ways in which the semiconductor industry and our market and business segments will develop. We have based these assumptions on information currently available to us, including through the market research and industry reports referred to in this prospectus supplement, the accompanying prospectus or any of the documents incorporated by reference herein. Although we believe that this information is reliable, we have not independently verified and cannot guarantee its accuracy or completeness. If any one or more of these assumptions turn out to be incorrect, actual market results may differ from those predicted. While we do not know what impact any such differences may have on our business, if there are such differences, they could have a material adverse effect on our future results of operations and financial condition, and the trading price of our common stock.

These and other factors are discussed in more detail under Risk Factors and elsewhere in our 2012 Annual Report, which is incorporated by reference herein. We do not assume any obligation to update any forward-looking statements and disclaim any obligation to update our view of any risks or uncertainties described or incorporated by reference herein or to publicly announce the result of any revisions to the forward-looking statements made in, or incorporated by reference into, this prospectus supplement, except as required by law.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained elsewhere in, or incorporated by reference into, this prospectus supplement or the accompanying prospectus. The information set forth in this summary does not contain all of the information that you should consider before investing in shares of our common stock. You should carefully read this entire prospectus supplement and the accompanying prospectus, including the factors described or referred to under the heading Risk Factors herein and in our 2012 Annual Report, as well as the financial statements and related notes and other information incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision. This summary contains forward-looking statements that contain risks and uncertainties. Our actual results may differ significantly from future results as a result of factors such as those set forth in Risk Factors and Forward-Looking Statements.

Our Company

We are a global semiconductor company and a long-standing supplier in the industry, with over 50 years of innovation and operating history. We provide leading High-Performance Mixed-Signal and Standard Products solutions that leverage our deep application insight and our technology and manufacturing expertise in radio frequency, analog, power management, interface, security and digital processing products. Our product solutions are used in a wide range of application areas including: automotive, identification, wireless infrastructure, lighting, industrial, mobile, consumer, computing and software solutions for mobile phones. We engage with leading original equipment manufacturers (OEMs) worldwide. For the twelve months ended September 29, 2013, 64% of our revenue was derived from Asia Pacific (excluding Japan). Since our separation from Koninklijke Philips Electronics N.V. (Philips) in 2006, we have significantly repositioned our business to focus on High-Performance Mixed-Signal solutions and implemented several restructuring initiatives, including between 2008 and 2011 a redesign program (the Redesign Program), aimed at achieving a world-class cost structure and processes. As of September 29, 2013, we had approximately 25,600 full-time equivalent employees located in more than 25 countries, with research and development activities in Asia, Europe and the U.S., and manufacturing facilities in Asia and Europe.

For the twelve months ended September 29, 2013, we generated revenue of $4,638 million and operating income of $486 million.

The NXP Solution

We design and manufacture High-Performance Mixed-Signal semiconductor solutions to meet the challenging requirements of systems and sub-systems in our target markets. High-Performance Mixed-Signal solutions are an optimized mix of analog and digital functionality integrated into a system or sub-system. These solutions are fine-tuned to meet the specific performance, cost, power, size and quality requirements of applications. High-Performance Mixed-Signal solutions alleviate the need for OEMs to possess substantial system, sub-system and component-level design expertise required to integrate discrete components into an advanced fully functional system. We have what we believe is an increasingly uncommon combination of capabilities our broad range of analog and digital technologies, application insights and world-class process technology and manufacturing capabilities to provide our customers with differentiated solutions that serve their critical requirements. Customers often engage with us early, which allows us to hone our understanding of their application requirements and future product roadmaps and to become an integral partner in their system design process. Within our High-Performance Mixed-Signal segment we have four business units, a business unit focusing on solutions for portable and computing, a business unit focusing on solutions for industrial and infrastructure, a business unit focusing on solutions for automotive and a business unit focusing on solutions for identification.

Our Strengths

We believe we have a number of strengths that create the opportunity for us to be a leader in our target markets. Some of these strengths include:

- **Market-leading products**. For the year ended December 31, 2012, approximately 80% of our High-Performance Mixed-Signal sales and 73% of our Standard Products sales were generated by products for which we held a top three market position based on product sales.

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Strong intellectual property portfolio. We have an extensive intellectual property portfolio of approximately 9,400 issued and pending patents covering the key technologies used in our target application areas.

Deep applications expertise. We have built, and continue to build, through our relationships with leading OEMs and through internal development efforts in our advanced systems lab, deep insight into the component requirements and architectural challenges of electronic system solutions in our target end-market applications, thereby enhancing our engagement in our customers product platforms. The fact that we have dedicated business units within our High-Performance Mixed-Signal segment underlines this.

Strong, well-established customer relationships. We have strong, well-established relationships with almost every major automotive, identification, mobile handset, consumer electronics, mobile base station and lighting supplier in the world. Some of our top OEM customers, in terms of revenue, include Apple, Bosch, Continental Automotive, Giesecke/Devrient, Ericsson, Harman/Becker, Huawei, Nokia, Nokia Siemens Networks, Oberthur, Panasonic, Philips, Samsung, Sony, Visteon and ZTE. We also serve customers through our distribution partners.

Differentiated process technologies and competitive manufacturing. We focus our internal and joint venture wafer manufacturing operations on running a portfolio of proprietary specialty process technologies that enable us to differentiate our products on key performance features. By concentrating our manufacturing activities in Asia and by significantly streamlining our operations through our Redesign Program, we believe we have a competitive manufacturing base.

NXP Repositioning and Redesign

Since our separation from Philips in 2006, we have significantly repositioned our business and market strategy. Further, between 2008 and 2011, we executed our Redesign Program to better align our costs with our more focused business scope, and in November 2012 we announced the introduction of an operating expenses (OPEX) reduction program focusing specifically on selling, general and administrative expenses and aimed at finding ways to run our company more efficiently in our cyclical industry. Key elements of our repositioning and redesign are:

Our Repositioning

New leadership team. Ten of the thirteen members of our executive management team have been recruited from outside NXP. Prior to joining NXP, our chief executive officer, Rick Clemmer, and chief financial officer, Peter Kelly, played leading roles in a program that significantly enhanced the performance of Agere Systems Inc. (Agere). Ruediger Stroh, our executive vice president and general manager High-Performance Mixed-Signal identification, joined us from LSI Corporation and previously Agere, where he helped to turn around the hard disk-drive business. Alexander Everke, our executive vice president and general manager High-Performance Mixed-Signal industrial and infrastructure came to us from Infineon Technologies AG (Infineon), where he led the global sales organization and helped to restructure the company s go-to-market model. Dave French, our executive vice president and general manager of High-Performance Mixed-Signal portable and computing, joined in April 2012 with more than 30 years of experience in the semiconductor industry, having served as president and CEO of Cirrus Logic. Loh Kin Wah, our executive vice president of sales, was previously President and CEO of Qimonda AG, and prior to that responsible for the Communication Business Group and subsequently the Memories Product Group at Infineon. Chris Belden, our executive vice president operations, implemented the manufacturing redesign program of Freescale Semiconductor, Inc. (Freescale), formerly part of Motorola, Inc., between 2002 and 2005. Sean Hunkler, executive vice president of our operations, sharing responsibility with Mr. Belden for managing our operations, joined in July 2012 with more than 28 years of experience in the semiconductor and materials industries in the U.S. and Asia, including leading roles in internal and external manufacturing operations for MEMC Electronic Materials, Inc. and Freescale. Hai Wang joined us in July 2010, after having held senior executive positions in several leading semiconductor companies, including LSI Corporation, Agere Systems and Flextronics Semiconductors. Effective September 1, 2013, Hai Wang became the new head of our research and development department.

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Focus on High-Performance Mixed-Signal solutions. We have implemented our strategy of focusing on High-Performance Mixed-Signal solutions because we believe it to be an attractive market in terms of growth, barriers to entry, relative market share, relative business and pricing stability, and capital intensity. Several transactions have been core to our strategic realignment and focus on High-Performance Mixed-Signal: in July 2008, we contributed our wireless activities to the ST-NXP Wireless joint venture (our stake in which was subsequently sold, with the business being renamed ST-Ericsson); and in February 2010, we merged our television systems and set-top box business with Trident Microsystems, Inc. (Trident). Our primary motivations for exiting the system-on-chip markets for wireless activities and consumer applications were the significant research and development investment requirements and high customer concentration inherent in these markets. In addition, we sold two non-semiconductor component businesses. In July 2011, we sold our Sound Solutions business (formerly included in our Standard Products segment), which makes mobile speakers and receivers, to Knowles Electronics, an affiliate of Dover Corporation. This has enabled us to significantly increase our research and development investments in the High-Performance Mixed-Signal applications on which we focus. To further strengthen our High Performance Mixed Signal position, we have made a number of acquisitions in recent years, such as the acquisition on July 21, 2010 of Jennic Ltd., a developer of low power RF solutions for wireless applications. On April 12, 2012 we acquired Catena Holding B.V., a design and IP company, specialized in radio frequency communication, analog, mixed signal and digital signal processing.

New customer engagement strategy. We have implemented a new approach to serving our customers and have invested significant additional resources in our sales and marketing organizations. We have created application marketing teams that focus on delivering solutions that include as many suitable NXP components as possible in their system reference designs, which helps us achieve greater cross-selling between our various product lines, while helping our customers accelerate their time to market. With the increased number of application engineers and our applications marketing approach, we are able to engage with more design locations ranging from our largest, highest volume customers to the mid-size customers who typically have lower volumes but more attractive margins.

Our Redesign

Streamlined cost structure. As a result of our Redesign Program, we have achieved between 2008 and 2011 manufacturing and operating cost savings through a combination of headcount reductions, factory closings and restructuring of our IT infrastructure.

Leaner manufacturing base. As a part of our Redesign Program, we have significantly reduced our overall manufacturing footprint, particularly in high-cost geographies. Our current manufacturing strategy focuses on capabilities that differentiate NXP in terms of product features, process capabilities, cost, supply chain and quality. Accordingly, we have closed or sold a number of facilities, including but not limited to, the sale of our wafer factory in Caen, France in June 2009, the closure of our production facility in Fishkill, New York in July 2009, the closure of part of our front-end manufacturing in Hamburg, Germany in January 2010, and the closure of our ICN5 facility in Nijmegen, the Netherlands at the end of 2010. As a result, we have reduced the number of our front-end manufacturing facilities from fourteen at the time of our separation from Philips in 2006 to six by the end of 2012. Also, since the fourth quarter of 2011 we have taken steps for the closure of the ICN4 and ICN6 wafer fabs in Nijmegen, the Netherlands, which will be substantially completed in the fourth quarter of 2013.

Operating Expenses (OPEX) Reduction Program. We are currently working towards optimizing future business growth from a sustainable foundation. In November 2012, we announced the introduction of our OPEX Reduction Program, focusing specifically on Selling, General and Administrative expenses and aimed at finding ways to run our company more efficiently in our cyclical industry. The objective of the OPEX Reduction Program is to bring these expenditures down to 12% of our revenue, meaning around two percentage points lower for the fiscal year ending December 31, 2013, compared to 2012.

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Our Strategy

Our strategy is to be the leading provider of High-Performance Mixed-Signal solutions, supported by a strong Standard Products business, addressing our priority application areas. Key elements of this strategy are:

Extend our leadership in High-Performance Mixed-Signal markets. We intend to leverage our industry-leading RF, analog, power management, interface, security and digital processing technologies and capabilities to extend our leadership positions in providing High-Performance Mixed-Signal solutions for automotive, identification, wireless infrastructure, lighting, industrial, mobile, consumer and computing applications. Based on a combination of external and internal sources, we estimate that the consolidated market size of these addressed High-Performance Mixed-Signal markets was $17 billion in 2012.

Focus on significant, fast growing opportunities. We are focused on providing solutions that address the macro trends of energy efficiency, mobility and connected mobile devices, security and healthcare, as well as rapid growth opportunities in emerging markets given our increasing market share in Asia Pacific (excluding Japan), which represented 62% of our revenue for the year ended December 31, 2012.

Deepen relationships with our key customers through our application marketing efforts. We intend to increase our market share by focusing on and deepening our customer relationships, further growing the number of our field application engineers at our customers sites and increasing product development work we conduct jointly with our lead customers. We have dedicated business units within our High-Performance Mixed-Signal segment to help cultivate key customer relationships.

Expand gross and operating margins. We continue to actively consider operational improvement programs aimed at accelerating revenue growth, expanding gross margins and improving overall profitability through better operational execution and streamlining of our cost structure.

Recent Developments

On October 10, 2013, an extraordinary general meeting of NXP resolved to appoint Dr. Marion Helmes and Julie Southern as non-executive directors to the board of directors. Both Dr. Helmes and Ms. Southern are also appointed as members of the board s Audit Committee. Dr. Helmes is Chief Financial Officer and speaker of the management board of pharmaceutical company Celesio AG. Prior to joining Celesio, Dr. Helmes was Chief Financial Officer of Q-Cells SE and held various management roles at ThyssenKrupp AG. Ms. Southern is a former Chief Financial Officer and Chief Commercial Officer of Virgin Atlantic Ltd., the UK s second largest long-haul airline; prior to that, she was chartered accountant at Price Waterhouse.

Vikram Bhatia, who was originally nominated to the board by the Philips UK Pension Fund (PPTL) in May 2011, has resigned as of October 10, 2013 as non-executive director due to PPTL no longer holding shares in NXP.

On October 15, 2013, NXP repaid of all of its outstanding $422 million 9.75% senior secured notes.

On November 28, 2013, NXP agreed a repricing of its Tranche C secured term loans, pursuant to which such loans are to be refinanced with Tranche D loans bearing a margin of LIBOR plus 2.5%.

Immediately following this Offering it is expected that Egon Durban and Roy Mackenzie will resign from NXP s board of directors due to the decreased shareholdings of funds advised by Silver Lake and Apax, respectively. It has not yet been decided whether Mr. Durban and Mr. Mackenzie will be replaced by new directors.

COMPANY INFORMATION

We were incorporated in the Netherlands as a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the name KASLION Acquisition B.V. on August 2, 2006, in connection with the sale by Philips of 80.1% of its semiconductor business on September 29, 2006, to a consortium of funds advised by Kohlberg Kravis Roberts & Co. L.P. (KKR), Bain Capital Partners, LLC (Bain), Silver Lake Technology Management, L.L.C. (Silver Lake), Apax Partners LLP (Apax) and AlpInvest Partners B.V. (AlpInvest, and, collectively, the Private Equity Consortium). For a list of the specific funds that hold our common stock and their respective share ownership, see Selling Stockholders elsewhere in this prospectus supplement. On May 21, 2010, we converted from a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) into a Dutch public company with limited liability (*naamloze vennootschap*) and changed our name from KASLION Acquisition B.V. to NXP Semiconductors N.V. On August 5, 2010, we made an initial public offering and listed on the NASDAQ Global Select Market.

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We had one class of shares of common stock and an aggregate of 251,751,500 shares of common stock outstanding as of November 30, 2013, of which 25,000,000 are to be sold by the Selling Stockholders as part of this offering.

We are a holding company whose only material assets are the direct ownership of 100% of the shares of NXP B.V., a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*).

Our corporate seat is in Eindhoven, the Netherlands. Our principal executive office is at High Tech Campus 60, 5656 AG Eindhoven, the Netherlands, and our telephone number is +31 40 2729233. Our website address is www.nxp.com. The information contained on our website or that can be accessed through our website neither constitutes part of this prospectus supplement nor is incorporated by reference herein.

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THE OFFERING

The following summary of the offering contains basic information about the offering and the common stock and is not intended to be complete. It does not contain all the information that may be important to you. For a more complete understanding of the common stock, please refer to the section of the accompanying prospectus entitled Description of Common Stock.

Common stock offered by the Selling Stockholders	25,000,000 shares of common stock, par value 0.20 per share.
Selling Stockholders	The Selling Stockholders include the members of the Private Equity Consortium and certain co-investors thereof. Some of the Selling Stockholders are affiliated with directors of the Company, and with members of our senior management. See Selling Stockholders.
Use of proceeds	We will not receive any proceeds from this sale of shares by the Selling Stockholders.
Dividend policy	Our ability to pay dividends on our common stock is limited by the covenants of our secured revolving credit agreement dated April 27, 2012 (the Revolving Credit Agreement), the secured term credit agreement that we entered into on March 4, 2011 (the 2017 Term Loan) and the joinder agreement to the secured term credit agreement that we entered into on December 10, 2012 (the 2020 Term Loan and, together with the 2017 Term Loan, the Term Loans) and the indentures (collectively, the Indentures) governing the terms of our U.S. dollar-denominated 5.75% senior notes due February 15, 2021 (the 2021 Unsecured Notes), our U.S. dollar-denominated 5.75% senior notes due March 15, 2023 (our 2023 Unsecured Notes), our U.S. dollar-denominated 3.5% senior notes due September 15, 2016 (the 2016 Unsecured Notes) and our U.S. dollar-denominated 3.75% senior notes due June 1, 2018 (our 2018 Unsecured Notes, and together with the 2016 Unsecured Notes, the 2021 Unsecured Notes and the 2023 Unsecured Notes, the Unsecured Notes), and may be further restricted by the terms of any future debt or preferred securities. As a result, we currently expect to retain future earnings for use in the operation and expansion of our business and the repayment of our debt and do not anticipate paying any cash dividends in the foreseeable future. See Dividend Policy.
Risk factors	You should carefully read and consider the information set forth under Risk Factors herein, in the accompanying prospectus and in the documents incorporated by reference herein, including our 2012 Annual Report, before investing in our common stock.
NASDAQ Global Select Market symbol	NXPI

The number of shares of common stock that will be outstanding after this offering is calculated based on 251,751,500 shares outstanding as of November 30, 2013 and excludes stock options and other rights to shares, outstanding as of November 30, 2013 and representing in total 27,183,752 shares of common stock. A number of 8,857,033 of such shares of common stock relate to so-called management equity plan stock options (MEP Options) and are now fully exercisable. If MEP Options owned by former employees are not exercised within a period to be specified by us, which is expected to be December 19, 2013, such MEP Options will become null and void; current employees owning MEP Options may exercise such MEP Options during the period of five years as of this offering, subject to these employees remaining employed by

us.

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The number of 27,183,752 shares of common stock representing the stock options and other rights to shares outstanding as of November 30, 2013, can be described as follows:

19,367,294 shares of common stock underlying stock options outstanding as of November 30, 2013, of which 8,857,033 were MEP Options at a weighted average exercise price of 29.56 (or $40.22 based on the exchange rate as of November 30, 2013) per share and 10,510,261 were stock options (LTIP Options) at a weighted average exercise price of $22.69. Of these MEP Options, 3,311,603 are held by former employees and will expire during the course of 2013, and 5,545,430 are held by current employees and are exercisable during a period of five years as of this offering, subject to these employees remaining employed by us; and

7,816,458 shares of common stock underlying performance and restricted share units outstanding as of November 30, 2013.

RISK FACTORS

Elsewhere in this prospectus supplement and the accompanying prospectus we have described several categories of risks that affect our business. These include risks related to this offering and ownership of our common stock that can affect your investment in the shares of our common stock. You should read the Risk Factors beginning on page S-11 of this prospectus supplement, beginning on page 5 of the accompanying prospectus, and in our 2012 Annual Report (which document is incorporated by reference herein) and our financial statements and related notes, for a more detailed explanation of these and other risks.

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CORPORATE STRUCTURE

The following chart reflects our corporate structure as of September 29, 2013.

(1) Includes the Private Equity Consortium.

(2) As of September 29, 2013, 19,829,450 shares of common stock underlying stock options were outstanding. Furthermore, we had an aggregate of 7,202,383 shares of common stock underlying performance and restricted share units outstanding as of September 29, 2013. As of November 30, 2013, 19,367,294 shares of common stock underlying stock options were outstanding. Furthermore, we had an aggregate of 7,816,458 shares of common stock underlying performance and restricted share units outstanding as of November 30, 2013.

(3) As of September 29, 2013, we had no borrowings under the Revolving Credit Agreement.

(4) As of September 29, 2013, we had $986 million of borrowings under the Term Loans.

(5) As of September 29, 2013, $2,250 million aggregate principal amount of Unsecured Notes (as defined herein) were outstanding.

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SUMMARY HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The following table summarizes our historical consolidated financial data at the dates and for the periods indicated. The summary historical consolidated financial data as of December 31, 2011 and 2012 and for each of the years in the three-year period ended December 31, 2012, have been derived from our audited consolidated financial statements, incorporated by reference into this document. The summary historical consolidated financial data as of and for the nine months ended September 30, 2012 and September 29, 2013 have been derived from our unaudited interim consolidated financial statements, incorporated by reference into this document. In the opinion of our management, such unaudited financial data reflect all adjustments necessary for a fair presentation of the results for those periods. The first fiscal nine months of 2012 consisted of 274 days and ended on September 30, 2012 compared to the first fiscal nine months of 2013, which consisted of 272 days and ended on September 29, 2013.

The results of operations for prior years are not necessarily indicative of the results to be expected for any future period. We prepare our financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP). The summary historical consolidated financial data should be read in conjunction with the Operating and Financial Review and Prospects, in our 2012 Annual Report, the Management s Discussion and Analysis of Financial Condition and Results of Operations in our Q1 2013 Interim Report, the Management s Discussion and Analysis of Financial Condition and Results of Operations in our Q2 2013 Interim Report and the Management s Discussion and Analysis of Financial Condition and Results of Operations in our Q3 2013 Interim Report and the consolidated financial statements and accompanying notes incorporated by reference into this document.

	For the years ended			For the nine months ended	
	December 31, 2010	**December 31, 2011**	**December 31, 2012**	**September 30, 2012**	**September 29, 2013**
	($ in millions unless otherwise indicated)				
Consolidated Statements of Operations:					
Revenue	4,402	4,194	4,358	3,242	3,522
Cost of revenue	(2,579)	(2,288)	(2,370)	(1,744)	(1,934)
Gross Profit	1,823	1,906	1,988	1,498	1,588
Research and development	(568)	(635)	(628)	(457)	(471)
Selling, general and administrative[1]	(966)	Additional paid-in capital	333,166	257,924	
Retained earnings	267,152	246,842			
Accumulated other comprehensive income (loss)	5,248	(19,245)			
Total stockholders equity	606,004	485,924			
Total liabilities and stockholders equity	$ 1,050,533	$ 965,375			

See accompanying notes to consolidated financial statements.

SYLVAN LEARNING SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

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

	Three months ended September 30,	
	2003	2002
	(Unaudited)	
		(Restated, see Note 4)
Revenues		
Core operating segments	$ 106,327	$ 71,949
Sylvan Ventures		72
Total revenues	$ 106,327	72,021
Costs and expenses		
Direct costs:		
Core operating segments	92,474	65,699
Sylvan Ventures		902
General and administrative expenses:		
Core operating segments	2,592	5,207
Sylvan Ventures		1,344
Non-cash compensation expense	355	166
Total costs and expenses	95,421	73,318
Operating income (loss)	10,906	(1,297)
Other income (expense)		
Investment and other income	3,162	1,815
Interest expense	(1,858)	(2,060)
Loss on investments		(7,359)
Foreign currency exchange (loss) gain	(27)	248
Equity in net income (loss) of affiliates:		
Sylvan Ventures		(965)
Other	38	72
	38	(893)
Minority interest in consolidated subsidiaries:		
Sylvan Ventures		594
Other	(2,753)	(381)
	(2,753)	213
Income (loss) from continuing operations before income taxes	9,468	(9,333)
Income tax (expense) benefit	(3,698)	5,508
Income (loss) from continuing operations	5,770	(3,825)
	(345)	1,134

Income (loss) from discontinued operations, net of income tax expense (benefit) of $(285) in 2003 and $3,676 in 2002				
Gain (loss) on disposal of discontinued operations				(3,000)
Net income (loss)	$	5,425	$	(5,691)
Earnings (loss) per common share, basic:				
Income (loss) from continuing operations	$	0.14	$	(0.09)
Net income (loss)	$	0.13	$	(0.14)
Earnings (loss) per common share, diluted:				
Income (loss) from continuing operations	$	0.13	$	(0.09)
Net income (loss)	$	0.12	$	(0.14)

See accompanying notes to consolidated financial statements.

SYLVAN LEARNING SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

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

	Nine months ended September 30,	
	2003	2002
	(Unaudited)	
		(Restated, see note 4)
Revenues		
Core operating segments	$ 316,990	$ 227,723
Sylvan Ventures	903	98
Total revenues	317,893	227,821
Costs and expenses		
Direct costs:		
Core operating segments	279,144	202,352
Sylvan Ventures	2,122	1,396
General and administrative expenses:		
Core operating segments	14,286	16,028
Sylvan Ventures	1,756	3,614
Non-cash compensation expense	22,688	879
Total costs and expenses	319,996	224,269
Operating income (loss)	(2,103)	3,552
Other income (expense)		
Investment and other income	3,756	4,537
Interest expense	(7,394)	(6,337)
Loss on Ventures investments held for sale	(8,394)	
Loss on investments		(7,359)
Foreign currency exchange gain	209	558
Equity in net income (loss) of affiliates:		
Sylvan Ventures	(7,752)	(4,631)
Other	169	121
	(7,583)	(4,510)
Minority interest in consolidated subsidiaries:		
Sylvan Ventures	487	1,583
Other	(7,009)	(3,608)
	(6,522)	(2,025)
Loss from continuing operations before income taxes and cumulative effect of change in accounting principle	(28,031)	(11,584)
Income tax benefit	7,537	9,461
Loss from continuing operations before cumulative effect of change in accounting principle	(20,494)	(2,123)

Income from discontinued operations, net of income tax expense of $4,815 in 2003 and $12,673 in 2002		1,381		5,141
Gain (loss) on disposal of discontinued operations, net of income tax expense (benefit) of $32,870 in 2003 and $(6,035) in 2002		39,423		(14,209)
Income (loss) before cumulative effect of change in accounting principle		20,310		(11,191)
Cumulative effect of change in accounting principle, net of income tax benefit of $7,700				(78,634)
Net income (loss)	$	20,310	$	(89,825)
Earnings (loss) per common share, basic and diluted:				
Loss from continuing operations before cumulative effect of change in accounting principle	$	(0.50)	$	(0.05)
Net income (loss)	$	0.49	$	(2.25)

See accompanying notes to consolidated financial statements.

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SYLVAN LEARNING SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Dollar amounts in thousands)

	Nine months ended September 30,	
	2003	2002
	(Unaudited)	
Operating activities		
Net income (loss)	$ 20,310	$ (89,825)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Cumulative pre-tax effect of change in accounting principle		86,334
Depreciation	19,127	20,500
Amortization	4,408	1,307
Gain on disposal of discontinued operations	(39,423)	
Non-cash stock compensation expense continuing operations	22,688	879
Non-cash stock compensation expense - discontinued operations	4,599	
Loss on impairment of assets held for sale	8,394	
(Gain) Loss on assets sold	(318)	20,244
Deferred income taxes	(5,847)	2,009
Loss on investments		6,914
Equity in net loss of affiliates	7,583	4,596
Minority interest in income of consolidated subsidiaries	6,522	2,025
Other non-cash items	1,550	44
Changes in operating assets and liabilities:		
Receivables	13,487	(4,898)
Inventory, prepaid expenses and other current assets	(2,200)	(1,852)
Payables and accrued expenses	2,270	11,506
Income taxes payable	(27,190)	(11,552)
Deferred revenue and other current liabilities	(18,692)	5,186
Net cash provided by operating activities	17,268	53,417
Investing activities		
Purchase of available-for-sale securities	(50,086)	(17,592)
Proceeds from sale or maturity of available-for-sale securities	36,859	38,674
Investment in and advances to affiliates and other investments	(813)	(2,989)
Purchase of property and equipment	(65,169)	(46,835)
Proceeds from sale of property and equipment	1,118	
Proceeds from sale of investments in affiliates		8,000
Proceeds from sale of K-12 disposal group	95,121	
Cash paid for acquired businesses, net of cash received	(37,886)	(37,666)
Payment of contingent consideration for prior period acquisitions	(4,963)	(775)
Expenditures for deferred contract costs	(3,353)	(2,508)
Increase in other assets	(2,272)	(2,067)

Net cash used in investing activities		(31,444)		(63,758)
Financing activities				
Proceeds from exercise of stock options		10,132		14,694
Proceeds from issuance of debt		5,326		19,486
Payments on debt		(12,033)		(16,648)
Cash received from minority members of Sylvan Ventures		2,263		11,552
Cash distributed to minority members of Sylvan Ventures				(12,000)
Decrease in other long-term liabilities and other financing activities		(929)		(1,359)
Net cash provided by financing activities		4,759		15,725
Effect of exchange rate changes on cash		(4,308)		(2,593)
Net (decrease) increase in cash and cash equivalents		(13,725)		2,791
Cash and cash equivalents at beginning of period		104,685		102,194
Cash and cash equivalents at end of period	$	90,960	$	104,985
Cash and cash equivalents classified as assets of:				
Continuing operations	$	87,027	$	94,068
Discontinued operations		3,933		10,917
Cash and cash equivalents at end of period	$	90,960	$	104,985

See accompanying notes to consolidated financial statements.

Sylvan Learning Systems, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

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

September 30, 2003

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine-month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The traditional semester programs in the education industry, with a summer break, result in large seasonality in the operating results of Sylvan Learning Systems, Inc. (the Company). The consolidated balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company s report on Form 8-K filed June 4, 2003.

Sylvan Learning Systems, Inc. (the Company or Sylvan) is focused exclusively on providing a superior university experience to over 110,000 students through the leading global network of accredited campus-based and online universities. On June 30, 2003, the Company sold the 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 4. In connection with this transaction, the Company realigned its business segments to include two separate business segments: a campus based university segment (Campus Based) and an online segment (Online Higher Education). The Campus Based segment owns or maintains controlling interests in seven private universities located in France, Chile, Mexico, Spain and Switzerland. The Online Higher Education segment provides career-oriented degree programs to over 15,000 students through Canter and Associates, Walden E-Learning, Inc. (Walden) and National Technological University (NTU). Walden and NTU were previously reported as part of Sylvan Ventures. Sylvan Ventures is in the process of being disbanded. Sylvan Ventures general and administrative expenses include the costs incurred to sell its investments and disband Sylvan Ventures.

The accompanying 2002 consolidated balance sheet, statements of operations and related notes for the three and nine mont-periods ended September 30, 2002 have been restated to reflect the K-12 disposal group and Wall Street Institute (WSI) businesses as discontinued operations for all periods presented. In addition, certain amounts previously reported for 2002 have been reclassified to conform to the 2003 presentation.

Note 2 Accounting Policies

Stock Options Granted to Employees and Non-Employees

The Company records compensation expense for all stock-based compensation plans using the intrinsic value method and provides pro forma disclosures of net income (loss) and earnings (loss) per common share as if the fair value method had been applied in measuring compensation expense. The Company records compensation expense for all stock options granted to non-employees in an amount equal to their estimated fair value measured at the earlier of the performance commitment date or the date at which performance is complete, determined using the Black-Scholes option valuation model. The compensation expense is recognized ratably over the vesting period.

Pro forma net income and earnings per share information has been determined as if the Company had accounted for its stock options using the fair value method. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company s stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting periods. The Company s pro forma information is as follows for the three months ended September 30:

		2003		2002
Net income (loss), as reported	$	5,425	$	(5,691)
Stock-based employee compensation expense included in net income as reported, net of tax		188		100
Stock-based employee compensation expense as if the fair value method had been applied, net of tax		3		(1,056)
Pro forma net income (loss)	$	5,616	$	(6,647)
Income (loss) per share, basic:				
As reported	$	0.13	$	(0.14)
Pro forma	$	0.13	$	(0.16)
Income (loss) per share, diluted:				
As reported	$	0.12	$	(0.14)
Pro forma	$	0.12	$	(0.16)

The Company s pro forma information is as follows for the nine months ended September 30:

		2003		2002
Net income (loss), as reported	$	20,310	$	(89,825)
Stock-based employee compensation expense included in net income as reported, net of tax		16,045		528
Stock-based employee compensation expense as if the fair value method had been applied, net of tax		(8,128)		(2,997)
Pro forma net income (loss)	$	28,227		(92,294)
Income (loss) per share, basic and diluted:				
As reported	$	0.49	$	(2.25)
Pro forma	$	0.68	$	(2.31)

Note 3 - New Accounting Standards

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*. The objective of Interpretation No. 46 is to improve financial reporting by companies involved with variable interest entities. The Interpretation requires variable interest entities to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or is entitled to receive a majority of the entity s residual returns or both. The Company is currently evaluating its investments in various entities, but does not expect the adoption of the new standard to have a material impact on its consolidated financial position or results of operations. The provisions of this Interpretation are applicable at the end of the first interim period ending after December 15, 2003 for variable interest entities acquired before February 1, 2003 and immediately to new investments in variable interest entities made after February 1, 2003. The Company does not believe that it has invested in any variable interest entities since February 1, 2003.

In May 2003, the FASB issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This Statement is effective for financial

instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the new standard on October 1, 2003, with no effect on the financial position or operating results.

Note 4 Discontinued Operations

Effective June 30, 2003, the Company classified the operations of the Company s K-12 segment, including eSylvan Inc. and Connections Academy, Inc., which were investments previously held by Sylvan Ventures (K-12 disposal group), Sylvan Learning Center operations in the United Kingdom and France, and WSI business as discontinued operations. As a result, the Company recorded a gain of $71,452, net of tax expense of $38,993, related to the disposal of the K-12 disposal group; a loss of $8,273, net of tax benefit of $4,425, related to the write-off of the United Kingdom and France net assets; and a loss of $23,756, net of tax benefit of $1,698, related to the write-down of WSI net assets in anticipation of the sale. These transactions are more fully described below.

K-12

On June 30, 2003, the Company and Educate, Inc., a company newly-formed by Apollo Management, L.P., (Apollo) completed the sale to Educate, Inc. of substantially all of the Company s K-12 disposal group. The consideration for the sale of the assets comprising the K-12 disposal group consisted of the following at closing:

$108,770 plus deferred payments of $3,000.

A subordinated note in the face amount of $55,000, bearing interest at 12% per annum and maturing in 2009, with an estimated fair value of $41,552 as of June 30, 2003;

The surrender of the Company s outstanding convertible debentures by Apollo Management, with a face value of approximately $50,569.

The assumption of trade accounts payable and other specified liabilities of the K-12 disposal group;

Apollo s preferred interest in Sylvan Ventures

The subordinated note was recorded at June 30, 2003, net of a $13,448 discount, the difference between the face value and the present value of the note discounted at an imputed interest rate of 18%. At September 30, 2003, the balance of the unamortized discount on the subordinated note was $13,228. The imputed interest rate is management s estimate of the interest rate Educate Inc. and an independent lender would have negotiated in a similar transaction.

Additionally, the Company is entitled to up to $10,000 of additional consideration if Connections Academy exceeds specified levels of earnings prior to December 31, 2007. The transaction resulted in the elimination of various consent and governance rights that had been held by Apollo. Apollo s representation on the Company s Board of Directors was reduced from two board seats to one.

As a result of the disposal transaction, the Company recorded a $71,452 gain, net of income tax expense of $38,993, from the disposition in the nine-month period ended September 30, 2003, representing the difference between the carrying value of the net assets sold and net proceeds upon sale.

The operations of the Company s disposal groups comprising its K-12 segment are classified as discontinued operations. The operations and cash flows of these components are eliminated from the ongoing operations of the Company as a result of the disposal transactions, and because the Company will not have any significant continuing involvement in the K-12 operations, the results of operations of this component are reported for all periods as a separate component of income, net of income taxes.

The Company, after the sale of substantially all of its K-12 disposal group, is holding for sale the remaining K-12 assets of the Company, consisting of the Company s Sylvan Learning Center operations in the United Kingdom and France. The Company expects to sell these two operations for principally contingent consideration by December 31, 2003. During the nine months ended September 30, 2003, the Company recorded a loss on disposal of discontinued operations of $8,273, net of income tax benefit of $4,425, related to the write-off of the net assets of the UK/France disposal group.

The transactions were negotiated and approved by a committee of Sylvan s Board of Directors composed solely of independent directors. Credit Suisse First Boston LLC and U.S. Bancorp Piper Jaffray, Inc. were financial advisors to the committee of independent directors.

WSI Business

During the second quarter of 2003, management committed to a plan to dispose of its WSI business. The WSI business owns and operates English-language learning centers in four countries and is a master franchisor of English language learning centers in 21 countries. The Company expects to sell WSI by June 30, 2004. During the nine months ended September 30, 2003, the Company recorded a loss of $23,756, net of income tax benefit of $1,698. The tax benefit of $1,698 on the expected loss on sale of WSI may vary from the final tax benefit realized. The final tax benefit will depend on the structure of the sale or disposal of the WSI entities in the various countries that they conduct operations. This loss of $23,756 included a $10,380 loss related to the reversal of the accumulated foreign currency translation adjustment, and represents the difference between the expected proceeds upon sale and the book value of the net assets.

The operations of the Company s disposal group comprising its WSI operations, including the Spanish operations of WSI which were sold in July 2002, are classified as discontinued operations. The operations and cash flows of these businesses will be eliminated from the ongoing operations of the Company as a result of the expected disposal of WSI, and the Company will not have any significant continuing involvement in the held for sale operations after the disposal. The results of operations of this component are reported for all periods within discontinued operations, net of income taxes.

Summarized operating results from the discontinued operations included in the Company s statement of operations were as follows for the three months ended September 30:

	Disposal Group				
	K-12	**UK/France**		**WSI**	
	2002	**2003**	**2002**	**2003**	**2002**
Revenues	$ 49,306	$ 292		$ 13,422	$ 10,136
Pretax income (loss) from discontinued operations	6,598	(595)	(791)	(35)	(997)

Summarized operating results from the discontinued operations included in the Company s statement of operations were as follows for the nine months ended September 30:

	Disposal Group					
	K-12		**UK/France**		**WSI**	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
Revenues	$ 129,032	$ 164,096	$ 773		$ 40,598	$ 37,338
Pretax income (loss) from discontinued operations	14,221	22,397	(2,058)	(791)	(5,967)	(3,792)

Assets and liabilities of the discontinued operations were as follows:

	Disposal Group			
	K-12	UK/France	WSI	
	December 31, 2002	December 31, 2002	September 30, 2003	December 31, 2002
Current assets	$ 41,527	$ 795	$ 37,438	$ 32,972
Property and equipment, net	26,326	896	7,334	8,994
Goodwill	71,705	9,035	12,231	17,111
Other long-term assets	9,468	113	18,563	9,987
Current liabilities	(30,134)			
Long-term liabilities	(514)			
Net assets of discontinued operations	$ 118,378	$ 10,839	$ 75,566	$ 69,064

The accompanying balance sheet at September 30, 2003 and December 31, 2002 classifies the assets and liabilities of the asset disposal groups based on the probable timing of sales proceeds. The liabilities of WSI are not included in the WSI disposal group above because it is not certain that the future buyer of WSI will assume those liabilities.

Note 5 Acquisitions

Effective May 30, 2003, the Company acquired an 80% interest in Universidad Nacional Andres Bello (UNAB), a comprehensive university located in Chile, and Academia de Idiomas y Estudios Profesionales (AIEP), a technical/vocational institute located in Chile, from local Chilean investors. The purchase price, which was determined by negotiation of the parties, includes net cash payments of approximately $28,600 estimated transaction costs between $3,000 and $4,000 and a seller s note of $21,300 and bank debt of $21,300. The purchase price was allocated to acquired assets totaling $106,863 and assumed liabilities of $32,264. The preliminary allocation of the purchase price included in the current period is subject to revision based on the final determination of fair values. The final purchase price may differ from this preliminary amount due to adjustment to acquisition-related costs. The acquisition allows the Company to provide additional product offerings and greater access to post secondary education to other market segments in Chile. In addition, this acquisition broadens the Company s student population, allowing for better utilization of existing management infrastructure in Chile. The Company believes that the combination of Chile s strong economy and growing focus on post secondary education creates an attractive investment opportunity. The results of operations of UNAB are included in the accompanying consolidated statements of operations from May 30, 2003 through September 30, 2003.

The following unaudited consolidated pro forma results of operations of the Company give effect to the acquisition of UNAB described more fully above, as though it had been acquired on January 1, 2002.

	Three months ended September 30, 2002
Revenues	$ 83,754
Loss from continuing operations	(2,777)

Net loss		(4,643)
Loss per common share, basic and diluted:		
Loss from continuing operations	$	(0.07)
Net loss	$	(0.12)

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	Nine months ended September 30,	
	2003	2002
Revenues	$ 332,535	$ 256,112
Income (loss) from continuing operations before cumulative effect of change in accounting principle	(23,373)	(3,185)
Net income (loss)	17,431	(90,887)
Earnings (loss) per common share, basic and diluted:		
Continuing operations before cumulative effect of change in accounting principle	$ (0.56)	$ (0.08)
Net income (loss)	$ 0.42	$ (2.25)

Note 6 - Other Intangible Assets

The following table summarizes the other intangible assets as of September 30, 2003:

	Other Intangible Assets
Gross carrying amount	$ 12,692
Accumulated amortization	(3,516)
Net carrying amount	9,176
Intangible assets not subject to amortization	58,092
Total other intangible assets	$ 67,268

Amortization expense for intangible assets for the nine months ended September 30, 2003 was $1,550. The estimated amortization expense for intangible assets for the remaining three-month period of 2003 is $891. The estimated amortization expense for intangible assets for each of the five years subsequent to December 31, 2003 is as follows: 2004 - $2,916; 2005 - $2,501; 2006 - $2,022; 2007 - $794; and 2008 and beyond - $52.

Note 7 Due to Shareholders of Acquired Companies

Due to shareholders of acquired companies consists of the following amounts payable in cash at September 30:

	September 30, 2003	December 31, 2002

				(Restated, see Note 4)
Amounts payable to former shareholders of Drake Prometric			$	3,050
Amounts payable to former shareholders of UDLA				2,332
Amounts payable to former shareholders of Les Roches				1,235
Amounts payable to former shareholders of Glion		5,164		4,223
Amounts payable to former shareholders of NTU		8,064		7,500
Amounts payable to former shareholders of UNAB		22,865		
		36,093		18,340
Less: current portion of due to shareholders of acquired companies		5,164		8,802
	$	30,929	$	9,538

In May 2003, the Company entered into an agreement with the prior owners of UNAB to finance a portion of the initial purchase price of UNAB in the amount of $21,300. Principal payments are due in three annual installments commencing in June 2005. The note bears interest at 6.5% Chilean Inflation-Indexed (UF) with interest payments due quarterly commencing in August 2003.

Note 8 Long-term debt

Long-term debt consists of the following:

	September 30, 2003	December 31, 2002

				(Restated, see Note 4)
Convertible debentures	$	15,000	$	95,000
Mortgage notes payable bearing interest at variable rates ranging from 2.95% to 8.5%		45,511		48,670
Notes payable secured by fixed assets, bearing interest at rates ranging from 2.95% to 3.65%		11,734		12,091
Long-term credit lines bearing interest at rates ranging from 4.75% to 14.40%		131		160
Capital lease agreements bearing interest rates ranging from 6.50% to 11.31%		2,272		1,378
Government loans bearing interest rates ranging from 3.00% to 4.69%		3,966		3,984
Various notes payable bearing interest at fixed rates ranging from 4.88% - 8.64%		27,711		3,454
Various notes payable bearing interest at variable rates ranging from 6.60% - 6.72%		822		
		107,147		164,737
Less: current portion of long-term debt		20,158		11,194
	$	86,989	$	153,543

In May 2003, the Company borrowed approximately $21,300 from a bank to finance a portion of the initial purchase price of UNAB. The bank note bears interest at 6.0% Chilean Inflation-Indexed (UF) and is due in June 2008 with monthly principal and interest payments commencing December 2003. Additionally, in connection with the acquisition of UNAB, the Company assumed debt of approximately $3,540, primarily notes payable with interest rates ranging from 4.88% to 8.64%.

In July 2003, Apollo Management L.P. converted their remaining portion of the Company s convertible debentures with a face value of $29,431, into 1,870 shares of the Company s stock at the $15.735 per share conversion price provided for in the debenture agreement. Subsequent to the conversion date, the face value of all remaining convertible debentures outstanding is $15,000.

Aggregate maturities of the Company s borrowings are as follows: Due in less than 1 year - $20,158; due in 1 year - $11,667; due in 2 years - $8,995; due in 3 years - $8,025; due in 4 years - $7,138; thereafter - $51,164.

Note 9 Income Taxes

The tax provisions for the three and nine-month periods ended September 30, 2003 and 2002 were based on the estimated effective tax rates applicable for the full years, after giving effect to significant items related specifically to the interim periods, including the reported results of Sylvan Ventures investments accounted for using the equity method. The Company s income tax provisions for all periods consist of federal, state, and foreign income taxes. The Company s effective tax rate from continuing operations was 26.9% for the nine months ended September 30, 2003. Due to changes in the mix of international and domestic earnings, the Company s consolidated effective tax rate may fluctuate in the remainder of 2003. Currently, on a full year basis, the effective tax rate for the Company excluding Sylvan Ventures, and for Sylvan Ventures, for the year ending December 31, 2003 will be 0.7% and 40%, respectively. In the three months period ended September 30, 2003, management revised the estimated annual effective tax rate for the Company excluding Sylvan Ventures from 20% to 0.7% due to changes in the expected income taxes of certain foreign operations. The effect of the change in the estimated annual effective tax rate was to increase income tax expense for the three month period ended September 30, 2003 by $3,631, of which approximately $2,609 and $1,022 related to the three months periods ended June 30, 2003 and March 31, 2003, respectively. Fluctuations in the magnitude and timing of the tax impact of Sylvan Ventures financial results may cause the Company s consolidated effective income tax rate to vary substantially from the statutory rate.

At September 30, 2003, undistributed earnings from continuing operations of non-U.S. subsidiaries totaled approximately $163,700. 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. If all undistributed earnings were remitted to the United States, the amount of incremental U.S. federal income taxes, net of foreign tax credits, would be approximately $40,400.

At September 30, 2003, undistributed gains on the sale of non-U.S. discontinued operations totaled approximately $238,400. Deferred tax liabilities have not been recognized for these undistributed gains because it is management s intention to reinvest such undistributed gains outside of the U.S. If all undistributed gains were remitted to the U.S., the amount of incremental U.S. Federal income taxes, net of foreign tax credits, would be approximately $83,400.

Note 10 Stockholders Equity

The components of stockholders equity are as follows:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2002	$ 403	$ 257,924	$ 246,842	$ (19,245)	$ 485,924
Options exercised for purchase of 690 shares of common stock, including income tax benefit of $3,281	7	13,406			13,413
Issuance of 40 shares of common stock in connection with the employee stock purchase plan		422			422
Issuance of 581 shares of restricted 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)			
Restricted stock compensation expense		737			737
Accelerated vesting of K-12 employee stock options		4,599			4,599
Compensation expense associated with converted subsidiary options		21,777			21,777
Issuance of 1,870 shares upon conversion of convertible debentures	19	28,826			28,845
Other equity activity		330			330
Comprehensive loss:					
Net income for the nine months ended September 30, 2003			20,310		20,310
Foreign currency translation adjustment				14,086	14,086
Reclassification adjustment for foreign currency translation adjustments realized in net income				10,316	10,316
Unrealized loss on available-for-sale securities				91	91
Total comprehensive income					44,803
Balance at September 30, 2003	438	333,166	267,152	5,248	$ 606,004

Stock Option Modification in the Second Quarter of 2003

In periods prior to 2003, certain members of executive management and employees of the Company s Campus Based segment were previously granted options to acquire common stock of the subsidiary serving as the holding company for

the Campus Based segment. Due to the restructuring of the Company s operations resulting from the sale of the K-12 disposal group and non-strategic Sylvan Ventures assets, on April 1, 2003 the Company negotiated an agreement with employees holding stock options to acquire common stock of the subsidiary providing for the exchange of these stock options for stock options to acquire common stock of Sylvan. The result of the exchange of options did not increase the aggregate intrinsic value of the options or reduce the ratio of the exercise price per share of the options to the per share fair value of common stock on the date of exchange, as determined by independent members of the Board of Directors advised by independent valuation experts. The exchange was accounted for as a modification of granted stock options that established a new measurement date for the purpose of determining stock compensation expense. The Company recorded non-cash compensation expense of $123 and $21,777 in the quarter and nine-months ended September 30, 2003, respectively, and expects to record estimated additional compensation expense of $124 over the remainder of 2003, $1,828 in 2004, and $197 total for 2005 and 2006.

In connection with the completed sale of the K-12 disposal group business discussed more fully in Note 4, each unexpired and unexercised outstanding option to purchase shares of the Company s common stock held by employees who will be employed by Educate, Inc. vested one additional vesting period upon close and will be exercisable for twenty-four months following the closing. This was accounted for as a modification of granted stock options, resulting in a new measurement date for the purpose of determining stock compensation expense. The modification resulted in an estimated non-cash compensation expense of $4,599, which is equal to the intrinsic value of such options at June 30, 2003, the closing date of the sale of the K-12 disposal group. This expense was included in the Company s results from discontinued operations in the statement of operations.

Restricted Stock Awards

During the nine months ended September 30, 2003, certain executives were granted 251 shares of stock valued at $17.54 per share and 5 shares of stock valued at $28.49 per share. Non-cash compensation expense will be recognized pro-rata over the vesting periods of the shares, which does not exceed five years. During the quarter and nine-months ended September 30, 2003, the Company recorded non-cash compensation of $232 and $737 related to the granted shares, respectively. The Company estimates that it will incur additional compensation expense of $232 over the remainder of 2003, $926 in 2004, and $2,495 from 2005 through 2008.

Note 11 - Comprehensive Income (Loss)

The components of comprehensive income (loss), net of related income taxes, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2003	**2002 (Restated, Note 4)**	**2003**	**2002 (Restated, Note 4)**
Net income (loss)	$ 5,425	$ (5,691)	$ 20,310	$ (89,825)
Foreign currency translation adjustment	2,786	(6,087)	14,086	180
Reclassification adjustment for foreign currency translation adjustments realized in net income			10,316	
Unrealized (loss) gain on available-for-sale securities		(212)	91	(205)
Minimum pension liability adjustment	26	(42)		(25)
Comprehensive income (loss)	$ 8,237	$ (12,032)	$ 44,803	$ (89,875)

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Note 12 - Earning (Loss) Per Share

The following table summarizes the computations of basic and diluted loss per common share:

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002 (Restated, See Note 4)	2003	2002 (Restated, See Note 4)
Numerator used in basic and diluted loss per common share:				
Income (loss) from continuing operations before cumulative effect of change in accounting principle	$ 5,770	$ (3,825)	$ (20,494)	$ (2,123)
Plus: Income impact of assumed conversion of convertible debentures, net of tax	141	831	1,914	2,494
Income (loss) available to common stockholders plus assumed conversions	5,911	(2,994)	(18,580)	371
Income from discontinued operations, net of income taxes	(345)	1,134	1,381	5,141
Gain (loss) on disposal of discontinued operations, net of income taxes		(3,000)	39,423	(14,209)
Cumulative effect of change in accounting principle, net of income tax benefit				(78,634)
Net income (loss) available to common stockholders plus assumed conversions	$ 5,566	$ (4,860)	$ 22,224	$ (87,331)
Denominator:				
Denominator for basic earnings per common share - weighted average shares	42,637	40,331	41,386	39,960
Effect of dilutive securities:				
Stock options	2,455			
Convertible debentures	1,543			
	3,998			
Denominator for diluted earnings per common share weighted average shares and effects of dilutive securities	46,635	40,331	41,386	39,960
Earnings (loss) per common share, basic:				
Income (loss) available to common stockholders	$ 0.14	$ (0.09)	$ (0.50)	$ (0.05)
Income (loss) from discontinued operations, net of income taxes	(0.01)	0.02	0.04	0.13
Gain (loss) on disposal of discontinued operations, net of income taxes		(0.07)	0.95	(0.36)
Cumulative effect of change in accounting principle, net of income tax benefit				(1.97)
Net income (loss) available to common stockholders	$ 0.13	$ (0.14)	$ 0.49	$ (2.25)
Earnings (loss) per common share, diluted:				
Income (loss) available to common stockholders plus assumed conversions	$ 0.13	$ (0.09)	$ (0.50)	$ (0.05)
Income from discontinued operations, net of income taxes	(0.01)	0.02	0.04	0.13
Gain (loss) on disposal of discontinued operations, net of income taxes		(0.07)	0.95	(0.36)
Cumulative effect of change in accounting principle, net of tax benefits				(1.97)
Net income (loss) available to common stockholders plus assumed conversions	$ 0.12	$ (0.14)	$ 0.49	$ (2.25)

Stock options and convertible debentures were not dilutive for the nine-month period ended September 30, 2003 and three and nine-month periods ended September 30, 2002 as the Company reported a net loss from continuing operations before a cumulative effect of a change in accounting principle.

Note 13 - Contingencies

The Company is subject to legal actions arising in the ordinary course of its business. In management s opinion, the

Company has adequate legal defenses and/or insurance coverage with respect to the eventuality of such actions and does not believe any settlement would materially affect the Company s financial position.

Contingent Payments and Business Combinations

In connection with certain acquisitions, variable amounts of contingent consideration are payable to the seller based upon specified terms. All existing contingent consideration agreements are predicated upon improved operating profitability of the acquired entities and utilize multiples consistent with those used to calculate the initial purchase price. The Company will record the contingent consideration when the contingencies are resolved and the additional consideration is payable.

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. 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. 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 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

Subsequent to the divestiture of the K-12 disposal group, all leases related to Sylvan Learning Centers were renegotiated or assigned in the name of Educate, Inc. during the third quarter of 2003. During this process, several of the lessors requested that Sylvan Learning Systems, Inc. remained on the lease as the guarantor. The leases requiring guarantees expire before December, 2008. In the event that Educate, Inc. defaults on its lease obligations, the Company will be obligated to pay the contractual lease payments to the lessee as follows: 2003 - $6,707; 2004 - $5,894; 2005 - $3,940; 2006 - $1,735; 2007 - $729; and 2008 - $136. The Company has assessed the risk of payment under this guarantee as remote. In addition, under the terms of the Asset Purchase Agreement with Educate, Inc., the Company is indemnified against any losses suffered as a result of any lease guarantees. During the third quarter of 2003, the Company recorded a liability of $243 which represents the fair value of the lease guarantees for Educate, Inc.

In connection with the sale of substantially all of the Company s K-12 segments to Educate, Inc., the Company entered into a three-year management service agreement with Educate, Inc. 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 is a fixed-fee, and may be adjusted as appropriate based on increases or decreases to predetermined service volumes. At inception, the net fee due to Educate, Inc. on an annual basis is approximately $2,700.

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 records estimates of its self-insured benefits liability at each balance sheet date. The Company is contingently liable to insurance carriers under certain of these policies and has provided a letter of credit in favor of the insurance carriers for approximately $1,300.

As of June 30, 2003, the Company terminated its $100,000 line of credit as a result of the sale of the K-12 disposal group. There was no balance on the line of credit at the time of the termination. Effective July 1, 2003, the Company entered into a new unsecured line of credit agreement in the amount of $30,000, with a $5,000 sub-limit for standby letters of credit, which is intended for working capital purposes. The line of credit expires August 15, 2004.

Contingent Payments of Discontinued Operations

The Company is party to option agreements with franchisees of the WSI business that allow, under specified circumstances, the repurchase of operating franchises at predetermined multiples of operating results. These options may be at the Company s or the franchisee s discretion based upon the individual agreement and specific operating criteria. None of these option agreements would be individually material and operating results of the Company would not be materially impacted for the current period if the options were exercised.

Note 14 Business Segment Information

Sylvan Learning Systems, Inc. (the Company or Sylvan) is focused exclusively on providing a superior university experience to over 110,000 students through the leading global network of accredited campus-based and online universities. On June 30, 2003, the Company sold the operations comprising its K-12 segments and sold certain investments in Sylvan Ventures. Also during the quarter ended June 30, 2003, the Company committed to a plan to dispose of its WSI business. Prior to March 2003, the Company was organized on the basis of educational services provided, including K-12 business services, online higher education, international universities (including WSI operations exclusive of Spain), English language instruction Spain, and Sylvan Ventures. As a result of the realigned business operations, the Company is now managing its operations through two separate business segments: a Campus Based university segment and an Online Higher Education segment. These segments are business units that offer distinct services and are managed separately as they have different customer bases and delivery channels. All historical segment information has been reclassified to conform to this presentation. The reportable segments are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002 (Restated, see Note 4)	2003	2002 (Restated, see Note 4)
Operating revenues:				
Campus Based	$ 82,156	$ 50,571	$ 247,530	$ 175,885
Online Higher Education	24,171	21,378	69,460	51,838
	$ 106,327	$ 71,949	$ 316,990	$ 227,723
Segment operating profit:				
Campus Based	$ 9,712	$ 2,317	$ 30,946	$ 19,131
Online Higher Education	$ 4,141	3,933	6,900	6,240
	$ 13,853	$ 6,250	$ 37,846	$ 25,371

	Segment Assets		Goodwill	
	September 30, 2003	December 31, 2002 (Restated, see Note 4)	September 30, 2003	December 31, 2002 (Restated, see Note 4)
Campus Based	$ 615,546	$ 437,383	$ 155,461	$ 89,597
Online Higher Education	199,002	184,052	68,169	86,309
	$ 814,548	$ 621,435	$ 223,630	$ 175,906

Segment profit is calculated as net operating profit for operating segments. There are no significant inter-company sales or transfers. The following table reconciles the reported information on segment profit to income (loss) before income taxes reported in the consolidated statements of operations:

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002 (Restated, see Note 4)	2003	2002 (Restated, see Note 4)
Total profit (loss) for reportable segments	$ 13,853	$ 6,250	$ 37,846	$ 25,371
Sylvan Ventures operating loss		(2,174)	(2,975)	(4,912)
Core operating general and administrative expense	(2,592)	(5,207)	(14,286)	(16,028)
Non-cash compensation expense	(355)	(166)	(22,688)	(879)
Net non-operating expenses	(1,438)	(8,036)	(25,928)	(15,136)
Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle	$ 9,468	$ (9,333)	$ (28,031)	$ (11,584)

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements contained herein include forward-looking statements. 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 relatin 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; and the effect of new technology applications in the educational services industry; failure to maintain or renew required regulatory approval, accreditation or state authorizations; the Company s ability to effectively manage business growth; possible 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 complicated legal structures, legal, tax and economic risks and the risk of changes in the business climate 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

Sylvan Learning Systems, Inc. (the Company or Sylvan) is focused exclusively on providing a superior university experience to over 110,000 students through the leading global network of accredited campus-based and online universities. On June 30, 2003, the Company sold the 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 4 of the consolidated financial statements. In connection with this transaction, the Company realigned its business segments. The Company s realigned segments include two separate business segments: a Campus Based university segment (Campus Based) and an online universities segment (Online Higher Education). The Campus Based segment owns or maintains controlling interests in 7 private universities located in France, Chile, Mexico, Spain and Switzerland. The Online Higher Education segment provides career-oriented degree programs to over 15,000 students through Canter and Associates, Walden E-Learning, Inc. (Walden) and National Technological University (NTU). Walden and NTU were previously reported as part of Sylvan Ventures. Sylvan Ventures is in the process of being disbanded. Sylvan Ventures general and administrative expenses include the costs incurred to sell its investments and disband Sylvan Ventures.

Sale of Business Units

K-12

On June 30, 2003, the Company and Educate, Inc., a company newly-formed by Apollo Management, L.P., (Apollo) completed the sale to Educate, Inc. of substantially all of the Company s K-12 segments, including eSylvan Inc. and Connections Academy, Inc., which were investments held by Sylvan Ventures (K-12 Disposal Group).

As a result of the disposal transaction, the Company recorded a $71.5 million gain, net of income tax expense of $39.0 million, in the nine months ended Sepember 30, 2003, representing the difference between the carrying value of the net assets sold and net proceeds upon sale.

The operations of the Company s disposal groups comprising its K-12 segment are classified as discontinued operations. The operations and cash flows of these components have been eliminated from the ongoing operations of the Company as a result of the disposal transactions, and the Company will not have any significant continuing involvement in the K-12 operations. The results of operations of this component are reported for all periods as a separate component of income, net of income taxes.

The Company, after the sale of substantially all of its K-12 disposal group, is holding for sale the remaining K-12 assets of the Company, consisting of the Company s Sylvan Learning Center operations in the United Kingdom and France. The Company expects to sell these two operations for principally contingent consideration by December 31, 2003. During the nine months ended September 30, 2003, the Company recorded a loss on disposal of discontinued operations of $8.3 million, net of income tax benefit of $4.4 million, related to the write-off of the net assets of the UK/France disposal group.

During the first quarter of 2003, Sylvan acquired the remaining membership interests in Sylvan Ventures not owned by Sylvan or Apollo for consideration of 0.5 million shares of Sylvan common stock, which is restricted from sale for three years. These membership interests were held by investment companies that are partially owned by certain executive management of the Company. Additionally, all membership profit interests in Sylvan Ventures have been eliminated. Upon completion of these acquisitions and the sale of the K-12 disposal group outlined above, the Company owned all of the membership interests of Sylvan Ventures LLC. On June 30, 2003, the Company sold several portfolio investments held by Sylvan Ventures, which were considered non-strategic assets, for contingent consideration. For the nine months ended September 30, 2003, the Company recorded a loss on Sylvan Ventures assets held for sale of $8.4 million, primarily representing the book value of Sylvan Ventures cost basis investments in iLearning ($0.3 million) and ClubMom ($7.6 million). Sylvan Ventures also wrote-off the balance of its equity method investment in Chancery Software Limited (Chancery) through a charge to equity in net loss of affiliates.

Walden and National Technological University (NTU), previously included in the Sylvan Ventures segment, are currently managed and reported within the Online Higher Education segment.

These transactions present a number of risks and uncertainties. As a result of the transactions, the Company s overall business will be significantly smaller and consist exclusively of the Campus Based and Online Higher Education businesses. Most of the Company s business operations are in foreign countries, which increases the potentially negative effects on the Company of the many risks of doing business in foreign countries.

Sylvan Learning Systems will change its corporate name and NASDAQ ticker symbol within one year following he completion of the transaction, as Educate, Inc. retains all rights to the Sylvan brand and name.

WSI

During the second quarter of 2003, management committed to a plan to dispose of its Wall Street Institute (WSI) line of business. The WSI business owns and operates English-language learning centers in four countries and is a master franchisor of English language learning centers in 21 countries. The Company expects to sell WSI by June 30, 2004. During the nine months ended September 30, 2003, the Company recorded a loss of $23.8 million, net of income tax benefit of $1.7 million. The tax benefit of $1.7 million on the expected loss on sale of WSI may vary from the final tax benefit realized. The final tax benefit will depend on the structure of the sale or disposal of the WSI entities in the various countries that they conduct operations. This loss of $23.8 million included a $10.4 million loss related to the reversal of the accumulated foreign currency translation adjustment, and represents the difference between the expected proceeds upon sale and the book value of the net assets held for sale.

The operations of the Company s disposal group comprising its WSI operations are classified as discontinued operations. The operations and cash flows of these businesses have been eliminated from the ongoing operations of the Company as a result of the expected disposal of WSI, and the Company will not have any significant continuing involvement in the operations after the disposal. The results of operations of this component are reported for all periods within discontinued operations, net of income taxes.

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States and 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 such 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. Revenue from the sale of educational products is generally recognized when shipped. Revenue from educational services are recognized in the period services are provided. As the Company continues to integrate educational product and service businesses, the resulting business structure may impact the revenue recognition of product sales to affiliated educational service providers.

Goodwill and Other Intangible Assets. During each of the years presented, the Company acquired certain 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 by comparison of the carrying amounts of the respective reporting units to their implied fair value determined by discounting estimated future cash flows expected from the reporting units.

Other intangible assets include acquired student rosters, accreditation, non-competition agreements and curriculum. The assumptions used to calculate the fair value of these identified intangible assets included estimates of future operating results and cash flows, as well as discount rates based on specifically identified risks for each acquisition and assumptions about the weighted average cost of capital for each acquisition. The assigned useful lives of the amortizing intangible assets, which range from 4 to 30 years, are based upon estimated matriculation rates and other factors.

If the Company used different assumptions and estimates in the calculation of the 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 to the extent not previously recorded. In 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* which required the Company to analyze its goodwill for impairment upon adoption. As a result, the Company recorded a non-cash charge of $78.6 million, net of income tax benefit of $7.7 million, which is included as a cumulative effect of a change in accounting principle in the consolidated statements of operations.

Income Taxes. The Company earns a significant portion of its income from subsidiaries located in countries outside of the United States. At September 30, 2003, undistributed earnings of foreign subsidiaries totaled approximately $163.7 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 in the foreseeable future, the Company will be required to recognize deferred tax liabilities on those amounts. As of September 30, 2003 and December 31, 2002, 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 $40.4 million and $26.6 million, respectively.

Accounts and Notes Receivable. The Company s accounts receivable consist primarily of installment payments due from parents and students for tuition at the universities and related fees that are payable over the course of payment plans of up to nine months. Notes receivable consist primarily of amounts due to the universities for tuition from students and other third-parties that are evidenced by a formal note. 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, collection experience, and a lack of concentration of accounts receivable. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Results of Operations

Revenues are generated by Sylvan s two business segments. Campus Based (formerly named International Universities) earns tuition and related fees paid by the students of the Universidad Europea de Madrid (UEM), Universidad de Valle del Mexico (UVM), Universidad de Las Americas (UDLA), Universidad Nacional Andres Bello (UNAB), École Supérieure du Commerce Extérieur (ESCE). In addition, Campus Based includes Swiss Hotel Association of Hotel Management School Les Roches (Les Roches), Escuela Superior De Alta Gestion De Hotel, S.A. (Marbella , a campus of Les Roches), and Glion Hotel School, S.A. (Glion) (collectively, The Hospitality Group). Online Higher Education earns revenues from instructional services that are provided through an online format at Canter and Associates, Walden E-Learning, Inc. (Walden) and National Technological University (NTU), as well as other forms of distance learning.

The following table sets forth the percentage relationships of operating revenues and direct costs for each segment, as well as certain income statement line items expressed as a percentage of total revenues for the periods indicated:

	Three months ended September 30,		Nine Months ended September 30,	
	2003	2002 (Restated, see Note 4)	2003	2002 (Restated, see Note 4)
Revenues:				
Campus Based	77%	70%	78%	77%
Online Higher Education	23	30	22	23
Total revenues	100	100	100	100
Direct costs:				
Campus Based	68	67	68	69
Online Higher Education	19	24	20	20
Total direct costs	87	91	88	89
General and administrative expenses:				
Core operating segments	2	7	5	7
Sylvan Ventures		3	1	2
Non-cash compensation expense			7	
Operating income (loss)	10	(2)	(1)	2
Non-operating expense	(1)	(11)	(6)	(7)
Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle	9	(13)	(9)	(5)
Income tax benefit	(3)	8	2	4
Income (loss) from continuing operations	5	(5)	(6)	(1)
Income (loss) from discontinued operations, net of tax		2		2
Gain (loss) on disposal of discontinued operations, net of tax		(4)	12	(6)
Income (loss) before cumulative effect of change in accounting principle	5	(8)	6	(5)
Cumulative effect of change in accounting principle				(34)
Net income (loss)	5%	(8)%	6%	(39)%

Comparison of results for the three months ended September 30, 2003 to results for the three months ended September 30, 2002.

Revenues. Total revenues increased by $34.3 million, or 48%, to $106.3 million for the three months ended September 30, 2003 (the 2003 fiscal quarter) from $72.0 million for the three months ended September 30, 2002 (the 2002 fiscal quarter). This revenue increase was primarily driven by increases related to increased enrollments in both the Campus Based segment and the Online Higher Education segment, and the acquisitions of Glion Hotel School, S.A. (Glion), effective August 1, 2002, and Universidad Nacional Andres Bello and its technical and vocational affiliate, Academia de Idiomas y Estudios Profesionales, (collectively UNAB) effective May 30, 2003.

Campus Based revenue for the 2003 fiscal quarter increased by $31.6 million, or 62%, to $82.2 million compared to the 2002 fiscal quarter. This increase was primarily due to increased tuition and enrollments at the universities, particularly UVM and UDLA, which increased their enrollments by 16% and 43%, respectively, compared to the 2002 fiscal quarter. Additionally, revenue increased by $18.3 million due to the acquisitions of controlling interests in UNAB, which occurred in the second quarter of 2003, and Glion, which occurred in the third quarter of 2002. Campus Based revenue represented 77% and 70% of total revenues of the Company for the 2003 and 2002 fiscal quarters, respectively.

Online Higher Education revenue increased by $2.8 million, or 13%, to $24.2 million for the 2003 fiscal quarter compared to the 2002 fiscal quarter. Canter revenue decreased by $1.7 million, or 11%, to $13.8 million in the 2003 fiscal quarter compared to the 2002 fiscal quarter. The Canter revenue decrease was primarily due to the strategic decision to unaffiliated universities to programs with Walden University. Walden University revenue increased by $2.9 million, or 49%, to $8.7 million in the 2003 fiscal quarter compared to the 2002 fiscal quarter. The Walden increase was due to increased student enrollment. The remaining increase was primarily due to the acquisition of NTU effective November 1, 2002. Revenue for Online Higher Education represented 23% and 30% of the Company s total revenues for the 2003 and 2002 fiscal quarters, respectively.

Direct Costs. Total direct costs of revenues from continuing operations increased $25.9 million, or 39%, to $92.5 million for the 2003 fiscal quarter from $66.6 million for the 2002 fiscal quarter. Direct costs as a percentage of total revenues were 87% in the 2003 fiscal quarter compared to 91% in the 2002 fiscal quarter.

Campus Based expenses increased by $24.2 million to $72.4 million, or 88% of Campus Based revenue for the 2003 fiscal quarter, compared to $48.3 million, or 95% of Campus Based revenue for the 2002 fiscal quarter. The increase in expenses reflects the increased enrollments and operating activities at the universities compared to the 2002 fiscal quarter and the effect of the acquisitions of controlling interests in Glion, which occurred in the third quarter of 2002 and UNAB which occurred in the second quarter of 2003. The decrease in operating expenses as a percentage of revenue was primarily due to the fact that the third quarter of 2003 included the results of UNAB, which is in session during the entire third quarter. Most of our Northern Hemisphere schools are not in session during portions of the third quarter due to summer semester breaks. The timing of summer semester breaks results in significant seasonal

fluctuations in operating results, based primarily on the geographic location of the individual university. Revenues and direct instructional expenses are recorded during the period that classes are in session. However, certain basic operating and marketing expenses continue during the semester break, which distorts comparison of expenses as a percentage of revenues.

Online Higher Education expenses increased by $2.6 million to $20.0 million, or 83% of Online Higher Education revenue for the 2003 fiscal quarter, compared to $17.4 million, or 82% of Online Higher Education revenue for the 2002 fiscal quarter. Increased operating efficiencies, particularly at Walden, were more than offset by the inclusion of the NTU operating losses in the 2003 fiscal quarter, as a result of its acquisition effective November 2002.

Other Expenses. Other expenses decreased by $10.4 million to $4.4 million for the 2003 fiscal quarter from $14.8 million for the 2002 fiscal quarter. The decrease in other expenses related primarily to the decrease in core operating general and administrative expenses due to the sale of the K-12 business units and a decrease in Sylvan Ventures general and administrative expenses. In addition, there was a decrease in non-operating expenses of $6.6 million primarily due to a $7.4 million loss on investment recorded in the 2002 fiscal quarter.

Core operating segment general and administrative expenses decreased by $2.6 million in the 2003 fiscal quarter to $2.6 million compared to $5.2 million in the 2002 fiscal quarter. As a result of the sale of the K-12 business, certain employees that were principally dedicated to servicing the K-12 segment that were employed by Educate, Inc. effective July 1, 2003. Contemporaneously, a service agreement was executed with Educate, Inc. for the contracting by the

Company of certain administrative services from Educate, Inc. Also, a sub-lease agreement was executed with Educate, Inc. for certain space in the Company s headquarters facility. (See contractual obligations discussion for further description of these agreements). The reduction of the core operating segment general and administrative expenses is a direct result of this reduction in labor costs and facilities costs, partially offset by expenses incurred under the services agreements.

Non-operating items decreased by $6.6 million for the 2003 fiscal quarter from the 2002 fiscal quarter. This decrease was primarily due to an increase in minority interest expense of $2.4 million offset by a $1.3 million increase in interest income due to interest on the $55.0 million subordinated note received as aprt of the consideration of the sales of the K-12 business seller note. The 2002 fiscal quarter included a loss on investment of $7.4 million.

Sylvan Ventures had no general and administrative expenses or non-operating expenses in the 2003 fiscal quarter due to the sale of Sylvan Ventures investment portfolio and the related discontinuance of Sylvan Ventures administrative costs for the second quarter of 2003. Sylvan Ventures incurred $1.3 million of general and administrative expenses in the 2002 fiscal quarter related to the management of the investment portfolio. Sylvan Ventures non-operating expenses totaled $0.3 million in the 2002 fiscal quarter which was comprised mainly of $0.9 million equity in net loss of affiliates offset by $0.6 million minority interest expense.

Income Taxes. The Company s effective tax rate from continuing operations was 39.1% for the 2003 fiscal quarter. This reported effective income tax rate differs from the U.S. federal statutory tax rate due to the impact of state income taxes, minority interests, foreign income taxed at lower rates and the inability to utilize tax benefits from certain investment losses of Sylvan Ventures. Due to changes in the mix of international and domestic earnings, the Company s consolidated effective tax rate may fluctuate in the remainder of 2003. Currently, on a full year basis, the effective income tax rate for the Company excluding Sylvan Ventures, and for Sylvan Ventures, for the year ending December 31, 2003 will be 0.7% and 40%, respectively. In the three month period ended September 30, 2003, management revised the estimated annual effective tax rate for the Company excluding Sylvan Ventures from 20% to 0.7% due to changes in the expected income taxes of certain foreign operations.

Comparison of results for the nine months ended September 30, 2003 to results for the nine months ended September 30, 2002.

Revenues. Total revenues increased by $90.1 million, or 40%, to $317.9 million for the nine months ended September 30, 2003 (the 2003 fiscal nine-month period) from $227.8 million for the nine months ended September 30, 2002 (the 2002 fiscal nine-month period). This revenue increase was primarily driven by increases related to increased enrollments in both the Campus Based segment and the Online Higher Education segment universities and the acquisitions of Glion, effective August 1, 2002, and UNAB, effective May 30, 2003.

Campus Based revenue for the 2003 fiscal nine-month period increased by $71.6 million, or 41%, to $247.5 million compared to the 2002 fiscal nine-month period. This increase was primarily due to increased tuition and enrollments

at the universities, particularly UVM and UDLA, which increased their enrollments by 16% and 43%, respectively, compared to the 2002 fiscal nine-month period. Additionally, revenue increased by $34.1 million due to the acquisitions of controlling interests in UNAB, which occurred in the second quarter of 2003 and Glion, which occurred in the third quarter of 2002. Campus Based revenue represented 78% and 77% of total revenues for the 2003 and 2002 fiscal nine-month periods, respectively.

Online Higher Education revenue increased by $17.6 million, or 34%, to $69.5 million for the 2003 fiscal nine-month period compared to the 2002 fiscal nine-month period. Canter revenue increased by $2.9 million, or 8%, to $40.7 million in the 2003 fiscal nine-month period compared to the 2002 fiscal nine-month period. The Canter revenue increase was primarily due to higher tuition and enrollments in the 2003 fiscal nine-month period. Walden University revenue increased by $9.3 million, or 66%, to $23.3 million in the 2003 fiscal nine-month period compared to the 2002 fiscal nine-month period. The Walden increase was primarily due to enrollment increases. The remaining increase was primarily due to the acquisition of NTU effective November 1, 2002. Revenue for Online Higher Education represented 22% and 23% of the Company s total revenues for the 2003 and 2002 fiscal nine- month periods, respectively.

Direct Costs. Total direct costs of revenues increased $77.5 million, or 38%, to $281.3 million for the 2003 fiscal nine-month period from $203.7 million for the 2002 fiscal nine-month period. Direct costs as a percentage of total revenues were 88% in the 2003 fiscal nine-month period compared to 89% in the 2002 fiscal nine-month period.

Campus Based expenses increased by $59.8 million to $216.6 million, or 87% of Campus Based revenue for the 2003 fiscal nine-month period, compared to $156.8 million, or 89% of Campus Based revenue for the 2002 fiscal nine-month period. The increase in expenses reflected the increased enrollments and operating activities at the universities compared to the 2002 fiscal nine-month period and the effect of the acquisitions of controlling interests in Glion, which occurred in the third quarter 2002 and UNAB, which occurred in the second quarter of 2003. The decrease in operating expenses as a percentage of revenue was primarily due to the fact that the nine-month period of 2003 includes the results of UNAB from the acquisition date in the second quarter of 2003. UNAB is in session during the entire third quarter. Most of our Northern Hemisphere schools are not in session during portions of the second and third quarters due to summer semester breaks. The timing of summer semester breaks results in significant seasonal fluctuations in operating results based primarily on the geographic location of the individual university. Revenues and direct instructional expenses are recorded during the period that classes are in session. However, certain basic operating and marketing expenses continue during the semester break, which distorts comparison of expenses as a percentage of revenues.

Online Higher Education expenses increased by $17.0 million to $62.6 million, or 90% of Online Higher Education revenue for the 2003 fiscal nine-month period, compared to $45.6 million, or 88% of Online Higher Education revenue for the 2002 fiscal nine-month period. Increased operating efficiencies, particularly at Walden, were more than offset by the inclusion of the NTU operating losses in the 2003 fiscal nine-month period, as a result of its acquisition effective November 2002.

Other Expenses. Other expenses increased to $64.7 million for the 2003 fiscal nine-month period compared to $35.7 million for the 2002 fiscal nine-month period. An increase in non-cash compensation expense of $21.8 million was offset by a $3.6 million decrease in general and administrative expenses. In addition, non-operating expenses increased $10.8 million primarily due to an increase in minority interest expense of $4.5 million and an increase in equity in net income of affiliates of $3.1 million.

Non-cash compensation expense increased to $22.7 million for the 2003 fiscal nine-month period compared to the 2002 fiscal nine-month period. The non-cash compensation expense relates primarily to $21.8 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 $0.7 million related to current grants of restricted stock.

Core operating segment general and administrative expenses decreased by $1.7 million in the 2003 fiscal nine-month period compared to the 2002 fiscal nine-month period. 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, Inc. effective on July 1, 2003. Contemporaneously, a service agreement was executed with Educate, Inc. for the contracting by the Company of certain administrative services from Educate, Inc. Also, a sub-lease agreement was executed with Educate, Inc. for certain space in the Company s headquarters facility. (See related contractual obligations discussion for further description of these agreements). The reduction of the core operating segment general and administrative expenses is a direct result of this reduction in labor costs and facilities costs, partially offset by expenses incurred under the services agreements.

Sylvan Ventures management costs decreased by $1.9 million to $1.8 million for the 2003 fiscal nine-month period compared to $3.6 million for the 2002 fiscal nine-month period. The decrease was due to the sale of the Sylvan Ventures investment portfolio and the related discontuance of Sylvan Ventures administrative costs in the second quarter of 2003.

Sylvan Ventures equity in net losses of affiliates increased to $7.8 million for the 2003 fiscal nine-month period compared to $4.6 million for the 2002 fiscal nine-month period. This increase was primarily attributable to the write-off of Sylvan Ventures equity investment in Chancery Software Limited in 2003 pursuant to the anticipated sale to a third party. Sylvan Ventures also recorded a 2003 loss of $8.4 million primarily attributable to the write-off of the cost of its investment in ClubMom, Inc. under the caption Loss on Ventures investments held for sale pursuant to the anticipated third party sale. Minority interests share of Sylvan Ventures losses totaled $0.5 million and $1.6 million for the 2003 and 2002 fiscal nine-month periods, respectively.

Other non-operating items decreased by $1.9 million for the 2003 fiscal nine-month period compared to the 2002 fiscal nine-month period, due to an increase in interest expense of $1.1 million on debt assumed in the August 2002 Glion acquisition and May 2003 UNAB acquisition and a $3.4 million increase in minority interests share of income in consolidated subsidiaries. This is offset by a decrease in loss on investment of $7.4 million which was recorded in the 2002 nine-month period.

Income Taxes. The Company s effective tax rate from continuing operations was 26.9% for the 2003 fiscal nine-month period. This reported effective income tax rate differs from the U.S. federal statutory tax rate due to the impact of state income taxes, minority interests, foreign income taxed at lower rates and the inability to utilize tax benefits from certain investment losses of Sylvan Ventures. Due to changes in the mix of international and domestic earnings, the Company s consolidated effective tax rate may fluctuate in the remainder of 2003. Currently, on a full year basis, the effective income tax rate for the Company excluding Sylvan Ventures, and for Sylvan Ventures, for the year ending December 31, 2003 will be 0.7% and 40%, respectively. In the three month period ended September 30, 2003, management revised the estimated annual effective tax rate for the Company excluding Sylvan Ventures from 20% to 0.7% due to changes in the expected income taxes of certain foreign operations.

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 is included in cumulative effect of a change in accounting principle in the 2002 consolidated statements of operations. The impairment charge related solely to the English Language Instruction business and consisted of the write-down of goodwill related to the distressed operations in Spain and amounts paid for WSI operations in other countries.

Liquidity and Capital Resources

Condensed Statement of Cash Flows

Nine Months Ended September 30, 2003

	Core Operating Segments (1)	Sylvan Ventures (1)	Consolidated
Operating activities			
Net income (loss)	44,987	$ (24,677)	$ 20,310
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	23,307	228	23,535
Loss on Ventures investments held for sale		8,394	8,394
Gain on disposal of discontinued operations	(39,423)		(39,423)
Non-cash compensation	27,287		27,287
Other non-cash items	5,057	4,433	9,490
Changes in working capital	(32,840)	515	(32,325)
Net cash used in operating activities	28,375	(11,107)	17,268
Investing activities			
Purchase of property and equipment	(64,634)	(535)	(65,169)
Proceeds from sale of K-12 disposal group and fixed assets	96,244	(5)	96,239
Cash paid for acquired businesses, net of cash received	(42,849)		(42,849)
Other investing activities	(19,364)	(301)	(19,665)
Net cash used in investing activities	(30,603)	(841)	(31,444)
Financing activities			
Net cash received from minority members of Sylvan Ventures		2,263	2,263
Intercompany funding	(22,223)	22,223	
Other financing activities	2,496		2,496
Net cash provided by (used in) financing activities	(19,727)	24,486	4,759
Effect of exchange rate changes on cash	(4,308)		(4,308)
Net increase (decrease) in cash and cash equivalents	(26,263)	12,538	(13,725)
Cash and cash equivalents at beginning of period	101,734	2,951	104,685
Cash and cash equivalents at end of period	$ 75,471	$ 15,489	$ 90,960

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(1) The entire gain on the sale of the K-12 disposal group is shown in the core operating segment column, including the portion related to the sale of the Sylvan Ventures, eSylvan, and Connections Academy businesses.

(1) The entire gain on the sale of the K-12 disposal group is shown in the core operating segment column, including

Cash provided by operations was $17.3 million for the 2003 fiscal nine-month period, net of $11.1 million of cash used in operations related to Sylvan Ventures. This compares to cash provided by operations of $53.4 million for the 2002 fiscal nine-month period, net of $20.7 million used in the operations related to Sylvan Ventures. The reported net income of $20.3 million included significant non-cash expenses and charges such as depreciation and amortization of $23.5 million, loss on Ventures investments held for sale of $8.4 million, non-cash compensation expense of $27.3 million, and equity in net loss of affiliates of $7.6 million. Net income also included a net gain on disposal of discontinued operations of $39.4 million in 2003. Cash used by working capital activity totaled $32.3 million in the 2003 fiscal nine-month period, net of $0.5 million provided by Sylvan Ventures. In the 2002 fiscal nine-month period, cash used in working capital activity totaled $0.7 million, of which $0.8 million related to Sylvan Ventures.

Cash used by investing activities was $31.4 million for the 2003 fiscal nine-month period, including $0.8 million of cash used in investing activities by Sylvan Ventures. This compares to cash used in investing activities of $63.8 million for the 2002 fiscal nine-month period, net of $7.0 million of cash provided by investing activities of Sylvan Ventures.

The 2003 investment activity was primarily the result of net cash proceeds from the K-12 disposal group of $96.2 million and net proceeds from the sale of available-for-sale securities of $13.2 million, offset by purchases of property and equipment of $65.2 million, net cash paid for acquired businesses of $42.8 million and expenditures for deferred costs and other assets of $3.6 million. The 2002 fiscal nine-month period investment activity was primarily the result of purchases of property and equipment of $46.8 million and net cash paid for acquired businesses of $37.7 million, partially offset by net proceeds from the sale of available-for-sale securities of $21.1 million.

Cash provided by financing activities was $4.8 million in the 2003 fiscal nine-month period, including $2.2 million provided by financing activities by Sylvan Ventures, excluding intercompany funding. This compares to cash provided by financing activities of $15.7 million in the 2002 fiscal nine-month period, net of $0.5 million cash used in Sylvan Ventures financing activities, excluding intercompany funding. The 2003 financing activity related primarily to cash received from the exercise of options of $10.1 million, cash received from the issuance of debt of $5.3 million, and cash received from the minority interest partners in Sylvan Ventures of $2.3 million, partially offset by payments of long-term debt of $12.0 million. The 2002 fiscal nine-month period financing activity related primarily to cash received from the exercise of options of $14.7 million, and net proceeds from the issuance of debt of $2.8 million, partially offset by costs incurred in connection with potential International Universities public offering of $2.5 million, and net payments to the minority interest partners in Sylvan Ventures of $0.5 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 acquisitions and payment of contingent consideration. The Company continues to examine opportunities in the educational services industry for potential synergistic acquisitions.

Contractual Obligations and Contingent Matters

The following tables reflect the Company s contractual obligations and other commercial commitments as of September 30, 2003 (amounts in thousands), after giving effect to the K-12 disposal group and Sylvan Ventures transactions described above:

			Payments Due by Period (in thousands)		
Contractual Obligations	**Total**	**Due in less than 1 year**	**Due in 1-3 years**	**Due in 4-5 years**	**Due after 5 years**
Long-term debt	$ 107,147	$ 20,158	$ 28,689	$ 12,856	$ 45,444
Operating Leases	197,711	19,796	59,207	34,662	84,046
Due to shareholders of acquired companies	36,093	5,164	22,866	8,063	
Other long term obligations(1)	8,250	3,000	5,250		
Total contractual cash obligations	$ 349,201	$ 48,118	$ 116,012	$ 55,581	$ 129,490
Operating leases of discontinued operations	4,035	4,035			

			Amount of Commitment Expiration Per Period (in thousands)		
Contractual Obligations	**Total Amounts Committed**	**Due in less than 1year**	**Due in 1-3 years**	**Due in 4-5 years**	**Due after 5 years**
Lines of Credit (2)	$	$	$	$	$

Guarantees (3)		20,254		12,240		7,696		318		
Standby letters of credit (4)		1,708		1,708						
Total commercial commitments of continuing operations	$	21,962	$	13,948	$	7,696	$	318	$	

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(1) In connection with the sale of substantially all of the Company s K-12 segments to Educate, Inc., the Company entered into a three-year management service agreement with Educate, Inc. 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, Inc. The agreement is based on a fixed-fee, adjusted as appropriate based on increases to predetermined service volumes. At inception, the net fee due to Educate, Inc. on an annual basis is approximately $2.7 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 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 September 30, 2003.

(3) Subsequent to the divestiture of the K-12 disposal group, all leases related to Sylvan Learning Centers were renegotiated or assigned in the name of Educate, Inc. during the third quarter of 2003. During this process, several of the lessors agreed to this with the stipulation that Sylvan Learning Systems, Inc. remained on the lease as the guarantor. The leases related to this guarantee expire before December, 2008. In the event that Educate, Inc. defaults on its lease obligations, the Company will be obligated to pay the contractual lease payments to the lessee. Under the terms of Asset Purchase Agreement with Educate, Inc., the Company is indemnified against any losses suffered as a result of any lease guarantees.

(4) The Company has approximately $1.7 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 certain of these policies and has provided a letter of credit in favor of the insurance carriers for approximately $1.3 million.

In connection with certain acquisitions, variable amounts of contingent consideration are payable to the seller based upon specified terms. All existing contingent consideration agreements are predicated upon improved operating profitability of the acquired entities and utilize multiples consistent with those used to calculate the initial purchase price. The Company will record the contingent consideration when the contingencies are resolved and the additional consideration payable.

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. 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. 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 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 similiar methodology for certain specified periods

Seasonality in Results of Operations

The Company experiences seasonality in results of operations primarily as a result of changes in the level of student enrollments and the timing of semester cycles. Timing of semester breaks at the Campus Based universities results in the strongest operating performance being achieved in the second and fourth quarters of the year. At the Online Higher Education segment, the strongest operating results are achieved in the fourth quarter of the year because frequent intakes during the year results in steady growth in enrollment during the year, with the highest enrollment levels at the end of the year. Revenues and profits in any period will not necessarily be indicative of results in subsequent periods.

Severe Acute Respiratory Syndrome

During the three and nine months ended September 30, 2003, Company operations experienced no material impact as a result of SARS. However the Company will continue to actively monitor and attempt to respond to the situation as appropriate.

ITEM 3. <u>**QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK**</u>

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 78% of its revenues from sources 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 cash flows for the 2003 fiscal nine-month period by $4.1 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 $27.6 million at September 30, 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 long-term 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. The Company s convertible debentures bear interest at 5%, which currently approximates the market rate. A 100 basis point decrease in interest rates would have reduced net interest income for the 2003 fiscal nine-month period by approximately $0.7 million.

Equity Price Risk

The fair value of the Company s convertible debentures is sensitive to fluctuations in the price of the Company s common stock into which the debentures are convertible. Changes in equity prices would result in changes in the fair value of the Company s convertible debentures due to the difference between the current market price of the debentures and the market price at the date of issuance of the debentures. A 10% increase in the 2003 fiscal nine-month period end market price of the convertible debentures would result in an increase of approximately $2.6 million in the net fair value of the debentures.

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 contains 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.

All the potential impacts noted above are based on sensitivity analyses performed on the Company s financial position at September 30, 2003. Actual results may differ materially.

ITEM 4. **CONTROLS AND PROCEDURES**

The Company s management, including our principal executive and principal financial officers, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2003. Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in this Form 10-Q quarterly report has been appropriately recorded, processed, summarized and reported. Based on that evaluation, the Company s executive and principal financial officers have concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

The Company s management, including the principal executive and principal financial officers, has evaluated any changes in the internal controls over financial reporting that occurred during the quarterly period ended September 30, 2003, and has concluded that there was no change that occurred during the quarterly period ended September 30, 2003 that has materially affected, or is reasonable likely to materially affect, the internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 6. **EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits

Index Number	Description
31.01	Certification of Douglas L. Becker pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Sean R. Creamer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01	Certification of Douglas L. Becker pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.02	Certification of Sean R. Creamer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

On July 24, 2003, the Company filed a Current Report on Form 8-A furnishing under Items 9 and 12 Regulation FD Disclosure and Disclosure of Results of Operations and Financial Condition, its second quarter earnings release in compliance with Regulation G.

On August 13, 2003, the Company filed an amended Current Report on Form 8-K/A amending, under Item 7 Financial Statements, Pro Forma Financial Information and Exhibits, the Current Report on Form 8-K filed on June 4, 2003 to include the pro forma financial statements required by Item 7(b) of Form 8-K related to the acquisition of Universidad Nacional Andres Bello (UNAB).

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sylvan Learning Systems, Inc.

Date: November 7, 2003

/s/ Sean R. Creamer
Sean R. Creamer, Senior Vice President and
Chief Financial Officer