

IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH COLUMBIA,
ALBERTA, MANITOBA, ONTARIO, NOVA SCOTIA AND NEWFOUNDLAND

AND

IN THE MATTER OF THE
MUTUAL RELIANCE REVIEW SYSTEM FOR
EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF
ESYLVAN, INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Manitoba, Ontario, Nova Scotia and Newfoundland (collectively, the "Jurisdictions") has received an application from eSylvan, Inc. (the "Applicant") for a decision under the securities legislation of the Jurisdictions (the "Legislation") exempting the Applicant from:

1. The registration and prospectus requirements of the Legislation in each of the Jurisdictions in connection with the proposed offering (the "Offering") by the Applicant of up to 172,045 shares of Class A convertible common stock (the "Class A Shares") to Canadian franchisees of its affiliated company, Sylvan Learning Systems, Inc. ("Sylvan") (the "Offering Requirements").
2. The registration and prospectus requirements of the Legislation in the provinces of British Columbia and Manitoba in connection with the automatic conversion of Class A Shares into common shares of the Applicant upon the occurrence of certain events (the "Conversion Requirements").
3. The prospectus requirements of the Legislation in the provinces of Nova Scotia and Newfoundland in connection with the resale of common shares of the Applicant received upon automatic conversion of Class A Shares (the "Resale Requirements").

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS the Applicant has represented to the Decision Makers that:

eSylvan, Inc.

1. The Applicant was incorporated under the laws of Maryland on February 3, 2000 and is a majority-owned subsidiary of Sylvan.

2. The Applicant was founded by Sylvan to deliver individualized supplemental education to families and children through a variety of internet applications. The Applicant plans to pursue this goal by establishing a website, developing or acquiring appropriate technology for the delivery of educational services over the Internet and then enrolling students.

3. The Applicant is not, and has no current intention of becoming, a reporting issuer (or the equivalent) in any of the Jurisdictions.

4. The authorized capital of the Applicant consists of 70 million common shares (the "Common Shares"), 10 million Class A Shares and 20 million Series A preferred shares (the "Preferred Shares"), of which 14 million Common Shares, no Class A Shares and no Preferred Shares were outstanding as of the close of business on July 28, 2000.

5. 97.96% of the outstanding Common Shares are held by Sylvan Ventures, LLC ("Ventures"), a majority-owned subsidiary of Sylvan.

6. On June 30, 2000, the Applicant entered into an agreement with Ventures pursuant to which the Applicant has agreed to issue to Ventures an aggregate of 10,526,316 Preferred Shares in six separate closings beginning on September 30, 2000 and ending on December 31, 2001 for an aggregate purchase price of US\$20 million.

7. None of the securities of the Applicant is listed on any stock exchange or quotation system. The Applicant has no current plans to list any of its securities on any stock exchange or quotation system.

Sylvan

8. Sylvan, a company incorporated under the laws of Maryland, provides a variety of educational services to families and schools.

9. The common shares of Sylvan are traded on the Nasdaq National Market. Sylvan Learning Centers, one of Sylvan's business segments, designs and delivers individualized tutorial programs to school age children through franchised and company-owned centres.

10. Sylvan currently has approximately 751 franchised centres and approximately 81 company-owned centres worldwide. As of July 28, 2000, 45 franchisees resident in Canada (the "Canadian Franchisees") operated franchised centres .

11. The initial cost to open a typical franchised Sylvan Learning Center ranges from approximately US\$150,000 to US\$200,000, including the franchise licence fee, furniture, equipment and an initial supply of certain items required under the franchise agreement. Franchisees pay an annual royalty to Sylvan of 8% or 9% of gross revenues, depending on the number of school age children in the geographic territory covered by the franchise agreement.

12. Sylvan provides a variety of services to its franchisees, including initial intensive training in Sylvan Learning Center operations and Sylvan's educational programs, annual training and

conferences, regional meetings and video training via satellite television. Sylvan also employs field operations managers that provide assistance to franchisees in technology implementation, business development, marketing, education and operations. These employees also facilitate regular communications between franchisees and Sylvan.

The Offering

13. The Offering is being made only to franchisees and potential franchisees of Sylvan (collectively, the "Franchisees"). Up to 2,850,000 Class A Shares and up to 150,000 Class A Shares are being offered with respect to franchise licence agreements or area development agreement territories located in the United States and Canada, respectively. A maximum of 172,045 Class A Shares are being offered to Canadian Franchisees. In the United States, the Class A Shares are being registered with the Securities and Exchange Commission (the "SEC") on Form S-1. The initial registration statement relating to the Offering was filed with the SEC on July 28, 2000 and an amended registration statement (the "Amended Registration Statement") was filed with the SEC on September 27, 2000.

14. Each Franchisee is being offered a specific number of Class A Shares, based on a formula which takes into consideration the student age population in the territory covered by the Franchisee's licence agreement(s) (or area development agreement(s) in the case of a potential franchisee). This formula and the other terms by which the Franchisees may participate in the Offering, including the terms of the subscription agreement to be used in connection with the Offering and the Participation Agreement (defined below), were determined through more than nine months of negotiations between representatives of the Applicant and the board of directors of Sylvan Franchise Owners Association, Inc. ("FOA"). FOA was chartered by Franchisees to share information, represent the views of Franchisees to Sylvan's management and to participate with Sylvan in the management of critical resources. Membership in FOA is open to all Franchisees and a majority of Franchisees are currently members. The board of directors of FOA is composed of up to ten FOA members representing its member Franchisees in four regions in the United States and one region in Canada.

15. Neither the Applicant nor its affiliates will receive any proceeds in connection with the Offering. Each Franchisee who chooses to participate (1) will be required to enter into a subscription agreement with the Applicant irrevocably agreeing to participate in the Offering; (2) will be required to enter into a participation agreement with Sylvan (the "Participation Agreement"), a copy of the form of which is included as Annex B to the Amended Registration Statement; and (3) will be issued the number of Class A Shares offered to such franchisee and paid an amount in cash equal to US\$0.35 multiplied by such number of Class A Shares.

16. By executing the Participation Agreement, a Franchisee will be making an irrevocable offer to participate in the business of the Applicant on the terms and conditions set forth therein. Under the terms of the Participation Agreement, each participating Franchisee will represent, warrant, acknowledge and agree, among other things, as follows:

(a) to adhere to Sylvan's reasonable directives concerning promotion of the Applicant's business, including displaying posters or other promotional materials at the Franchisee's centre that promote the Applicant's business;

(b) the Applicant's business is separate and distinct from Sylvan and the rights granted to the Franchisee as licensee under its franchise licence agreement or potential licensee under its area development agreement with Sylvan;

(c) nothing in the Franchisee's franchise licence agreement or area development agreement with Sylvan or the relationship created thereby prevents or restricts Sylvan from establishing the Applicant's business, seeking independent investors in such business, licensing to the Applicant the right to use Sylvan proprietary rights, including all Sylvan trademarks, service marks, copyrighted materials, know how, programs, systems, teaching techniques, diagnostic tests and academic and prescriptive educational courses or programs for the Applicant to use in developing its business; and

(d) the Franchisee shall not assert any claim it may now or in the future have against Sylvan or the Applicant with respect to the establishment or development of the Applicant's business or the offering of the Applicant's products and services to the public in accordance with the Participation Agreement and the Applicant's agreements with Sylvan.

17. A copy of the prospectus filed with the SEC in connection with the Offering will be provided to the Canadian Franchisees and continuous disclosure documents filed with the SEC in compliance with United States securities laws will be provided to Canadian Franchisees who choose to participate in the Offering concurrently with the provision of such documents to shareholders in the United States. Canadian Franchisees will also be provided with a notice advising that the Canadian Franchisees will not have rights against the Applicant under the Legislation and, as a result, must rely on other remedies which may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of U.S. federal securities laws.

18. The Applicant's U.S. counsel has advised it that, assuming delivery of the prospectus filed with the SEC in connection with the Offering, in an action properly brought in a United States federal or state court of competent jurisdiction against the Applicant by a Canadian Franchisee who purchases Class A Shares in the Offering, such a purchaser of Class A Shares should be entitled to the benefits provided by Sections 11 and 12 of the United States *Securities Act of 1933*.

19. The Canadian Franchisees are under no obligation to participate in the Offering and have not been and will not be induced to participate by expectation of existing or future status as a franchisee of Sylvan.

Class A Shares

20. The Applicant's charter contains the following provisions with respect to the Class A Shares:

(a) The Class A Shares convert into Common Shares in certain circumstances, including certain public offerings of the capital stock of the Applicant, certain change of control transactions involving the Applicant and upon the listing of shares of the Applicant on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market.

(b) A holder's Class A Shares are redeemable at the option of the Applicant upon the occurrence of certain events, including the death or dissolution of the holder, any transfer of such Class A Shares to any party other than the Applicant and the termination or transfer by the Franchisee of the applicable franchise agreement or area development agreement.

(c) Any transfer of Class A Shares to any party other than the Applicant will be null and void except that transfer is permitted upon (1) the death of a holder of Class A Shares, in which case such deceased holder's Class A Shares may be transferred to a member of the deceased holder's immediate family who becomes a party to such holder's franchise licence agreement or area development agreement, as applicable and (2) the transfer of a franchise licence agreement or area development agreement to a third party (each of (1) and (2) a "Third Party Transfer"), in which case the transferor's Class A Shares may be transferred to the transferee of the franchise licence agreement or area development agreement, as applicable. The restrictions on the transferability of Class A Shares will terminate on September 30, 2010 or earlier upon the occurrence of certain events, including the cessation of the Applicant's business and the bankruptcy of the Applicant.

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each Decision Maker is satisfied that the tests contained in the Legislation that provide such Decision Maker with the jurisdiction to make the Decision have been met;

THE DECISION of the Decision Makers under the Legislation is that the Offering Requirements, the Conversion Requirements, and the Resale Requirements shall not apply to the Applicant provided that:

1. a copy of the prospectus filed with the SEC in connection with the Offering will be provided to the Canadian Franchisees;

2. the first trade in Class A Shares acquired pursuant to this Decision, other than a Third Party Transfer, shall be deemed a distribution or primary distribution to the public under the Legislation of such Jurisdiction (the "Applicable Legislation") unless:

(a) at the time of the first trade, the Applicant is and has been a reporting issuer or the equivalent under the Applicable Legislation for the 12 months immediately preceding the trade;

(b) no unusual effort is made to prepare the market or to create a demand for the Class A Shares;

(c) no extraordinary commission or consideration is paid to a person or company in respect of the trade;

(d) if the seller of the securities is an insider or officer of the Applicant, the seller has no reasonable grounds to believe that the Applicant is in default of any requirement of the Applicable Legislation; and

(e) the first trade is not from the holdings of a person or company or a combination of persons or companies holding a sufficient number of any securities of the Applicant so as to affect materially the control of the Applicant or more than 20% of the outstanding voting securities of the Applicant, except where there is evidence showing that the holding of those securities does not affect materially the control of the Applicant; and

3. the first trade in Common Shares received upon conversion of Class A Shares acquired pursuant to this Decision in a Jurisdiction shall be deemed a distribution or a primary distribution to the public under the Legislation of such Jurisdiction (the "Applicable Legislation") unless such first trade is executed on an exchange or market outside Canada.

DATED at Toronto this 22nd day of December, 2000.

"Howard I. Wetston" "G. A. Geller"

Headnote

MRRS - relief granted from registration and prospectus requirements for distribution by issuer to franchisees of parent company of issuer - franchisees provided with SEC registration statement and paid \$0.35 per share by issuer - franchisees required to enter into participation agreement with parent company of issuer - agreement negotiated by franchisee's owner's association - also de minimus distribution in Canada.

Applicable Ontario Statutory Provisions

Securities Act, R.S.O. 1990, c.S.5, as am., ss. 25, 35 (1) 19, 53, 72(1)(n), 73(1)(a), 74(1).

Rules Cited

45-503 - Trades to Employees, Executives and Consultants.

