

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT  
OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000 OR

/  TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT  
OF 1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

(Amended by Exch Act Rel No. 312905. eff 4/26/93.)  
Commission File Number: 001-13251

-----  
USA EDUCATION, INC.  
(FORMERLY SLM HOLDING CORPORATION)  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

52-2013874  
(I.R.S. Employer  
Identification No.)

11600 SALLIE MAE DRIVE, RESTON, VIRGINIA  
(Address of principal executive offices)

20193  
(Zip Code)

Registrant's telephone number, including area code: (703) 810-3000

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

Indicate the number of shares outstanding of each of the issuer's classes of  
common stock, as of the latest practicable date:

CLASS -----	OUTSTANDING AT SEPTEMBER 30, 2000 -----
Common Stock, \$.20 par value	164,059,978 shares

USA EDUCATION, INC.  
FORM 10-Q  
INDEX  
SEPTEMBER 30, 2000

PART I FINANCIAL INFORMATION	
Item 1. Financial Statements.....	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	14
PART II OTHER INFORMATION	
Item 1. Legal Proceedings.....	33
Item 2. Changes in Securities.....	33
Item 3. Defaults Upon Senior Securities.....	33
Item 4. Submission of Matters to a Vote of Security Holders.....	33
Item 5. Other Information.....	33
Item 6. Exhibits and Reports on Form 8-K.....	33
SIGNATURES.....	34

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## USA EDUCATION, INC.

## CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	SEPTEMBER 30, 2000	DECEMBER 31, 1999
	----- (UNAUDITED)	-----
<b>ASSETS</b>		
Student loans.....	\$35,949,209	\$33,808,867
Warehousing advances.....	860,565	1,042,695
Academic facilities financings		
Bonds available-for-sale.....	521,576	640,498
Loans.....	361,286	387,267
	-----	-----
Total academic facilities financings.....	882,862	1,027,765
Investments		
Available-for-sale.....	3,000,819	4,396,776
Held-to-maturity.....	912,638	788,180
	-----	-----
Total investments.....	3,913,457	5,184,956
Cash and cash equivalents.....	704,559	589,750
Other assets, principally accrued interest receivable.....	3,333,362	2,370,751
	-----	-----
Total assets.....	\$45,644,014	\$44,024,784
	=====	=====
<b>LIABILITIES</b>		
Short-term borrowings.....	\$30,900,143	\$37,491,251
Long-term notes.....	11,522,577	4,496,267
Other liabilities, principally accrued interest payable.....	1,672,131	982,469
	-----	-----
Total liabilities.....	44,094,851	42,969,987
	-----	-----
<b>COMMITMENTS AND CONTINGENCIES</b>		
MINORITY INTEREST IN SUBSIDIARY.....	213,883	213,883
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$.20 per share, 20,000,000 shares authorized: 3,300,000 and 3,300,000 shares, respectively, issued at stated value of \$50 per share.....	165,000	165,000
Common stock, par value \$.20 per share, 250,000,000 shares authorized: 187,593,000 and 186,069,619 shares issued, respectively.....	37,519	37,214
Additional paid-in capital.....	76,517	62,827
Unrealized gains on investments (net of tax of \$160,986 and \$160,319, respectively).....	298,974	297,735
Retained earnings.....	1,743,593	1,462,034
	-----	-----
Stockholders' equity before treasury stock.....	2,321,603	2,024,810
Common stock held in treasury at cost: 23,533,022 and 28,493,072 shares, respectively.....	986,323	1,183,896
	-----	-----
Total stockholders' equity.....	1,335,280	840,914
	-----	-----
Total liabilities and stockholders' equity.....	\$45,644,014	\$44,024,784
	=====	=====

See accompanying notes to consolidated financial statements.

USA EDUCATION, INC.

CONSOLIDATED STATEMENTS OF INCOME

(DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000 (UNAUDITED)	1999 (UNAUDITED)	2000 (UNAUDITED)	1999 (UNAUDITED)
Interest income:				
Student loans.....	\$769,965	\$640,198	\$2,072,087	\$1,732,346
Warehousing advances.....	13,194	13,567	41,049	53,826
Academic facilities financings:				
Taxable.....	8,441	9,614	28,471	29,703
Tax-exempt.....	7,403	8,693	23,602	26,819
Total academic facilities financings.....	15,844	18,307	52,073	56,522
Investments.....	99,983	53,285	360,541	156,255
Total interest income.....	898,986	725,357	2,525,750	1,998,949
Interest expense:				
Short-term debt.....	587,214	448,343	1,704,215	1,206,056
Long-term debt.....	151,439	92,656	337,692	278,177
Total interest expense.....	738,653	540,999	2,041,907	1,484,233
Net interest income.....	160,333	184,358	483,843	514,716
Less: provision for losses.....	5,428	6,545	22,766	27,210
Net interest income after provision for losses.....	154,905	177,813	461,077	487,506
Other income:				
Gains on student loan securitizations.....	22,656	3,627	91,010	11,540
Servicing and securitization revenue.....	80,027	61,866	210,694	228,499
Gains on sales of student loans.....	122	--	122	--
Gains on sales of securities.....	25	8,706	43,817	9,779
Guarantor servicing fees.....	50,636	--	50,636	--
Other.....	52,450	21,111	110,542	63,762
Total other income.....	205,916	95,310	506,821	313,580
Operating expenses:				
Salaries and benefits.....	86,727	49,461	187,945	138,571
Other.....	80,389	42,059	170,454	125,627
Integration charge.....	53,000	--	53,000	--
Total operating expenses.....	220,116	91,520	411,399	264,198
Income before income taxes and minority interest in net earnings of subsidiary.....	140,705	181,603	556,499	536,888
Income taxes:				
Current.....	67,042	85,878	208,945	248,947
Deferred.....	(21,229)	(28,354)	(26,827)	(78,957)
Total income taxes.....	45,813	57,524	182,118	169,990
Minority interest in net earnings of subsidiary.....	2,674	2,674	8,021	8,021
NET INCOME.....	92,218	121,405	366,360	358,877
Preferred stock dividends.....	2,865	--	8,657	--
Net income attributable to common stock.....	\$ 89,353	\$121,405	\$ 357,703	\$ 358,877
Basic earnings per share.....	\$ .56	\$ .76	\$ 2.26	\$ 2.22
Average common shares outstanding.....	160,652	159,661	157,989	161,377
Diluted earnings per share.....	\$ .55	\$ .75	\$ 2.20	\$ 2.19
Average common and common equivalent shares outstanding.....	163,279	162,303	162,504	163,916

See accompanying notes to consolidated financial statements

USA EDUCATION, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
(UNAUDITED)

	PREFERRED STOCK SHARES	COMMON STOCK SHARES			PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL
		ISSUED	TREASURY	OUTSTANDING			
BALANCE AT JUNE 30, 1999.....	--	184,976,111	(24,068,203)	160,907,908	\$ --	\$36,995	\$ 34,964
Comprehensive income:							
Net income.....							
Other comprehensive income, net of tax:							
Change in unrealized gains (losses) on investments, net of tax.....							
Comprehensive income.....							
Cash dividends:							
Common stock (\$.15 per share).....							
Issuance of common shares.....		520,355		520,355		104	9,788
Premiums on equity forward purchase contracts.....							(8,144)
Repurchase of common shares.....			(2,344,799)	(2,344,799)			
BALANCE AT SEPTEMBER 30, 1999....	--	185,496,466	(26,413,002)	159,083,464	\$ --	\$37,099	\$ 36,608
BALANCE AT JUNE 30, 2000.....	3,300,000	186,266,879	(31,063,031)	155,203,848	\$165,000	\$37,253	\$ 52,742
Comprehensive income:							
Net income.....							
Other comprehensive income, net of tax:							
Change in unrealized gains (losses) on investments, net of tax.....							
Comprehensive income.....							
Cash dividends:							
Common stock (\$.16 per share).....							
Preferred stock (\$.88 per share).....							
Issuance of common shares.....		1,326,121	9,034,505	10,360,626		266	61,194
Premiums on equity forward purchase contracts.....							(37,419)
Repurchase of common shares.....			(1,504,496)	(1,504,496)			
BALANCE AT SEPTEMBER 30, 2000....	3,300,000	187,593,000	(23,533,022)	164,059,978	\$165,000	\$37,519	\$ 76,517

	UNREALIZED GAINS (LOSSES) ON INVESTMENTS	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
Comprehensive income:				
Net income.....		121,405		121,405
Other comprehensive income, net of tax:				
Change in unrealized gains (losses) on investments, net of tax.....	(25,776)			(25,776)
Comprehensive income.....				95,629
Cash dividends:				
Common stock (\$.15 per share).....		(23,890)		(23,890)
Issuance of common shares.....				9,892
Premiums on equity forward purchase contracts.....				(8,144)
Repurchase of common shares.....			(99,130)	(99,130)
BALANCE AT SEPTEMBER 30, 1999....	\$305,197	\$1,346,793	\$(1,091,957)	\$ 633,740
BALANCE AT JUNE 30, 2000.....	\$295,378	\$1,680,283	\$(1,292,645)	\$ 938,011
Comprehensive income:				
Net income.....		92,218		92,218
Other comprehensive income, net of tax:				
Change in unrealized gains (losses) on investments, net of tax.....	3,596			3,596
Comprehensive income.....				95,814
Cash dividends:				
Common stock (\$.16 per share).....		(26,043)		(26,043)

Preferred stock (\$.88 per share).....		(2,865)		(2,865)
Issuance of common shares.....			370,000	431,460
Premiums on equity forward purchase contracts.....				(37,419)
Repurchase of common shares.....			(63,678)	(63,678)
	-----	-----	-----	-----
BALANCE AT SEPTEMBER 30, 2000.....	\$298,974	\$1,743,593	\$ (986,323)	\$1,335,280
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

USA EDUCATION, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
(UNAUDITED)

	PREFERRED STOCK SHARES	COMMON STOCK SHARES			PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL
		ISSUED	TREASURY	OUTSTANDING			
BALANCE AT DECEMBER 31, 1998.....	--	184,453,866	(20,327,213)	164,126,653	\$ --	\$36,891	\$ 26,871
Comprehensive income:							
Net income.....							
Other comprehensive income, net of tax:							
Unrealized gains (losses) on investments, net of tax.....							
Comprehensive income.....							
Cash dividends:							
Common stock (\$.45 per share).....							
Issuance of common shares.....		1,042,600		1,042,600		208	27,585
Tax benefit related to employee stock option and purchase plan.....							2,497
Premiums on equity forward purchase contracts.....							(20,345)
Repurchase of common shares.....			(6,085,789)	(6,085,789)			
BALANCE AT SEPTEMBER 30, 1999.....	--	185,496,466	(26,413,002)	159,083,464	\$ --	\$37,099	\$ 36,608
BALANCE AT DECEMBER 31, 1999.....	3,300,000	186,069,619	(28,493,072)	157,576,547	\$165,000	\$37,214	\$ 62,827
Comprehensive income:							
Net income.....							
Other comprehensive income, net of tax:							
Change in unrealized gains (losses) on investments, net of tax.....							
Comprehensive income.....							
Cash dividends:							
Common stock (\$.48 per share).....							
Preferred stock (\$2.64 per share).....							
Issuance of common shares.....		1,523,381	9,084,505	10,607,886		305	70,088
Premiums on equity forward purchase contracts.....							(56,398)
Repurchase of common shares.....			(4,124,455)	(4,124,455)			
BALANCE AT SEPTEMBER 30, 2000.....	3,300,000	187,593,000	(23,533,022)	164,059,978	\$165,000	\$37,519	\$ 76,517

  

	UNREALIZED GAINS (LOSSES) ON	RETAINED	TREASURY	TOTAL
	INVESTMENTS	EARNINGS	STOCK	STOCKHOLDERS' EQUITY
BALANCE AT DECEMBER 31, 1998.....	\$371,739	\$1,060,334	\$ (842,209)	\$ 653,626
Comprehensive income:				
Net income.....		358,877		358,877
Other comprehensive income, net of tax:				
Unrealized gains (losses) on investments, net of tax.....	(66,542)			(66,542)
Comprehensive income.....				292,335
Cash dividends:				
Common stock (\$.45 per share).....		(72,418)		(72,418)
Issuance of common shares.....				27,793
Tax benefit related to employee stock option and purchase plan.....				2,497
Premiums on equity forward purchase contracts.....				(20,345)
Repurchase of common shares.....			(249,748)	(249,748)
BALANCE AT SEPTEMBER 30, 1999.....	\$305,197	\$1,346,793	\$(1,091,957)	\$ 633,740
BALANCE AT DECEMBER 31, 1999.....	\$297,735	\$1,462,034	\$(1,183,896)	\$ 840,914
Comprehensive income:				
Net income.....		366,360		366,360
Other comprehensive income, net of tax:				
Change in unrealized gains (losses) on investments,				

net of tax.....	1,239			1,239
				-----
Comprehensive income.....				367,599
Cash dividends:				
Common stock (\$.48 per				
share).....	(76,144)			(76,144)
Preferred stock (\$2.64 per				
share).....	(8,657)			(8,657)
Issuance of common shares.....		372,366		442,759
Premiums on equity forward				
purchase contracts.....				(56,398)
Repurchase of common shares.....		(174,793)		(174,793)
	-----	-----	-----	-----
BALANCE AT SEPTEMBER 30, 2000.....	\$298,974	\$1,743,593	\$ (986,323)	\$1,335,280
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.



USA EDUCATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
	(UNAUDITED)	(UNAUDITED)
<b>OPERATING ACTIVITIES</b>		
Net income.....	\$ 366,360	\$ 358,877
Adjustments to reconcile net income to net cash provided by operating activities:		
Gains on student loan securitizations.....	(91,010)	(11,540)
Gains on sales of student loans.....	(122)	--
Gains on sales of securities.....	(43,817)	(9,779)
Provision for losses.....	22,766	27,210
(Increase) in accrued interest receivable.....	(49,294)	(132,911)
Increase (decrease) in accrued interest payable.....	3,592	(68,880)
(Increase) decrease in other assets.....	(160)	27,001
Increase in other liabilities.....	455,532	146,654
	-----	-----
Total adjustments.....	297,487	(22,245)
	-----	-----
Net cash provided by operating activities.....	663,847	336,632
	-----	-----
<b>INVESTING ACTIVITIES</b>		
Insured student loans purchased.....	(8,428,740)	(9,427,361)
Reduction of insured student loans purchased:		
Installment payments.....	1,723,354	2,136,388
Claims and resales.....	375,137	366,261
Proceeds from securitization of student loans.....	8,734,901	2,031,320
Proceeds from sales of student loans.....	126,172	--
Warehousing advances made.....	(800,324)	(577,459)
Warehousing advance repayments.....	982,454	810,365
Academic facilities financings made.....	(11,609)	(35,919)
Academic facilities financings reductions.....	155,075	118,733
Investments purchased.....	(32,888,320)	(7,958,809)
Proceeds from sale or maturity of investments.....	34,302,642	8,351,871
Purchase of subsidiaries, net of cash acquired (Note 6)....	(448,754)	(317,722)
	-----	-----
Net cash provided by (used in) investing activities.....	3,823,988	(4,502,332)
	-----	-----
<b>FINANCING ACTIVITIES</b>		
Short-term borrowings issued.....	580,847,220	409,501,619
Short-term borrowings repaid.....	(584,160,609)	(406,398,210)
Long-term notes issued.....	13,523,596	10,283,891
Long-term notes repaid.....	(14,710,000)	(8,907,072)
Equity forward contracts and common stock issued.....	386,361	9,945
Common stock repurchased.....	(174,793)	(249,748)
Common dividends paid.....	(76,144)	(72,418)
Preferred dividends paid.....	(8,657)	--
	-----	-----
Net cash (used in) provided by financing activities.....	(4,373,026)	4,168,007
	-----	-----
Net increase in cash and cash equivalents.....	114,809	2,307
Cash and cash equivalents at beginning of period.....	589,750	115,912
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 704,559	\$ 118,219
	=====	=====
Cash disbursements made for:		
Interest.....	\$ 1,788,202	\$ 1,323,214
	=====	=====
Income taxes.....	\$ 95,000	\$ 248,500
	=====	=====

See accompanying notes to consolidated financial statements.

USA EDUCATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(INFORMATION AT SEPTEMBER 30, 2000 AND FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2000 AND 1999 IS UNAUDITED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNT OR AS OTHERWISE NOTED)

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of USA Education, Inc. (the "Company"), formerly SLM Holding Corporation, have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2000 are not necessarily indicative of the results for the year ending December 31, 2000.

2. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," which requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded on the balance sheet as either an asset or liability measured at its fair value. SFAS 133, as amended by Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of Effective Date of FASB Statement No. 133," and Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," is effective for the Company's financial statements beginning January 1, 2001. SFAS 133, as amended, requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for derivative financial instruments that qualify as fair value hedges allows a derivative instrument's gains and losses to offset related fair value changes on the hedged item in the income statement. Derivative financial instruments that qualify as cashflow hedges are reported as adjustments to stockholders' equity as a component of other comprehensive income and require that a company formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. SFAS 133 could result in increased period to period volatility in reported net income. Management is continuing to assess the potential impact of SFAS 133 on the Company's reported results of operations and financial position. The Company will implement the new standard on January 1, 2001.

On March 16, 2000, the Emerging Issues Task Force ("EITF") issued EITF Issue No. 00-7 ("EITF No. 00-7"), "Application of Issue No. 96-13, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,' to Equity Derivative Instruments That Contain Certain Provisions That Require Net Cash Settlement If Certain Events Occur." The EITF announced a consensus that any equity derivative contract that could require net cash settlement (as defined in EITF Issue No. 96-13) must be accounted for as an asset or liability and cannot be included in the permanent equity of the Company. In addition, any equity derivative contracts that could require physical settlement by a cash payment to the counterparty in exchange for the issuer's shares, must be accounted for as temporary equity as defined by the SEC under Accounting Series Release (ASR)

USA EDUCATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION AT SEPTEMBER 30, 2000 AND FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2000 AND 1999 IS UNAUDITED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNT OR AS OTHERWISE NOTED)

2. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

No. 268, "Presentation in Financial Statements of 'Redeemable Preferred Stocks.'" EITF No. 00-7 is effective immediately for all new contracts entered into after March 16, 2000. The EITF met on July 19, 2000 to discuss various issues and questions concerning EITF No. 00-7. Following that meeting, the EITF issued EITF Issue No. 00-19 ("EITF No. 00-19"), "Determination of Whether Share Settlement is within the Control of the Issuer for Purposes of Applying Issue No. 96-13." On September 20, 2000, the EITF reached a final consensus on EITF Issue No. 00-19. EITF Issue No. 00-19 provides that in order for the contract to be accounted for as permanent equity, the contract's provisions should put the company's counterparty in no better position than the company's common shareholders. The EITF also confirmed the effective date of EITF Issue No. 00-7 to be June 30, 2001 for contracts entered into before September 20, 2000. If the contract is entered into after September 20, 2000, EITF Issue No. 00-19 is applicable at contract inception.

The Company currently accounts for its equity forward contracts through equity in accordance with EITF Issue No. 96-13. The Company is reviewing potential amendments on its equity forward contracts in place at March 16, 2000 to satisfy the requirements of EITF No. 00-7 and EITF No. 00-19 to allow accounting through permanent equity. If the Company cannot amend the contracts and does not terminate such positions, EITF No. 00-7 and EITF No. 00-19 could, depending upon the Company's share price at and after the effective date, materially affect the Company's capital position as well as its future earnings. Management is continuing to assess the potential impact of EITF No. 00-7 and EITF No. 00-19 on the Company's reported results of operations and financial position.

In October 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 140 ("SFAS 140"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities--a Replacement of FASB Statement No. 125." SFAS 140 requires new disclosures about securitizations and retained interests in securitized financial assets and revises the criteria involving qualifying special purpose entities. Under SFAS 140, entities will be required to disclose information about securitizations regarding accounting policies, securitization characteristics, key assumptions used and cash flows between the securitization special purpose entities and the transferor. Additionally, entities will be required to disclose information related to retained interests in securitized financial assets, regarding accounting policies for subsequent measuring of retained interests, key assumptions used in subsequent fair value measurements, sensitivity analysis showing hypothetical effects on fair values based on unfavorable variations from key assumptions and general characteristics of the securitized assets such as principal balances, delinquencies and credit losses. These new disclosure requirements are to be provided for fiscal years ending after December 15, 2000. Additionally, SFAS 140 revises the criteria involving qualifying special purpose entities. These revisions related to special purpose entities are to be applied prospectively to transfers of financial assets and extinguishments of liabilities occurring after March 31, 2001.

USA EDUCATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION AT SEPTEMBER 30, 2000 AND FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2000 AND 1999 IS UNAUDITED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNT OR AS OTHERWISE NOTED)

3. ALLOWANCE FOR LOSSES

The following table summarizes changes in the allowance for losses for the three and nine months ended September 30, 2000 and 1999, respectively.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
BALANCE AT BEGINNING OF PERIOD.....	\$299,392	\$298,704	\$303,743	\$293,185
Additions				
Provisions for losses.....	5,428	6,545	22,766	27,210
Recoveries.....	16,373	17,641	21,159	20,672
Deductions				
Reductions for sales of student loans.....	(3,679)	(1,668)	(16,648)	(2,735)
Write-offs.....	(5,990)	(13,582)	(19,496)	(30,692)
BALANCE AT END OF PERIOD.....	\$311,524	\$307,640	\$311,524	\$307,640

4. STUDENT LOAN SECURITIZATION

For the three months ended September 30, 2000 and 1999, the Company securitized \$2.0 billion and \$1.0 billion, respectively, of student loans and recorded pre-tax gains of \$23 million and \$4 million, respectively. For the nine months ended September 30, 2000 and 1999, the Company securitized \$8.5 billion and \$2.0 billion, respectively, of student loans and recorded pre-tax gains of \$91 million and \$12 million, respectively. At September 30, 2000 and December 31, 1999, outstanding securitized student loans that the Company continues to manage totaled \$30.7 billion and \$19.5 billion, respectively.

5. COMMON STOCK

Basic earnings per share are calculated using the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share reflect the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options and warrants,

USA EDUCATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION AT SEPTEMBER 30, 2000 AND FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2000 AND 1999 IS UNAUDITED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNT OR AS OTHERWISE NOTED)

5. COMMON STOCK (CONTINUED)

determined by the treasury stock method, and equity forwards, determined by the reverse treasury stock method, as follows:

	NET INCOME	AVERAGE SHARES	EARNINGS PER SHARE
	-----	-----	-----
		(THOUSANDS)	
THREE MONTHS ENDED SEPTEMBER 30, 2000			
Basic earnings per share.....	\$ 89,353	160,652	\$ .56
Dilutive effect of stock options, warrants and equity forwards.....	--	2,627	(.01)
	-----	-----	-----
Diluted earnings per share.....	\$ 89,353	163,279	\$ .55
	=====	=====	=====
THREE MONTHS ENDED SEPTEMBER 30, 1999			
Basic earnings per share.....	\$121,405	159,661	\$ .76
Dilutive effect of stock options, warrants and equity forwards.....	--	2,642	(.01)
	-----	-----	-----
Diluted earnings per share.....	\$121,405	162,303	\$ .75
	=====	=====	=====

	NET INCOME	AVERAGE SHARES	EARNINGS PER SHARE
	-----	-----	-----
		(THOUSANDS)	
NINE MONTHS ENDED SEPTEMBER 30, 2000			
Basic earnings per share.....	\$357,703	157,989	\$2.26
Dilutive effect of stock options, warrants and equity forwards.....	--	4,515	(.06)
	-----	-----	-----
Diluted earnings per share.....	\$357,703	162,504	\$2.20
	=====	=====	=====
NINE MONTHS ENDED SEPTEMBER 30, 1999			
Basic earnings per share.....	\$358,877	161,377	\$2.22
Dilutive effect of stock options, warrants, and equity forwards.....	--	2,539	(.03)
	-----	-----	-----
Diluted earnings per share.....	\$358,877	163,916	\$2.19
	=====	=====	=====

6. ACQUISITIONS

In July 1999, the Company completed the purchase of Nellie Mae Corporation for \$332 million in cash and stock in an acquisition accounted for as a purchase. As a result of the purchase, the Company recognized \$90 million in goodwill. At the time of the acquisition, Nellie Mae had an outstanding student loan portfolio of \$2.6 billion and in 1998, Nellie Mae originated more than \$375 million in student loans. Nellie Mae's pro-forma results of operations for the years ended December 31, 1999 and

USA EDUCATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION AT SEPTEMBER 30, 2000 AND FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2000 AND 1999 IS UNAUDITED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNT OR AS OTHERWISE NOTED)

6. ACQUISITIONS (CONTINUED)

1998 were immaterial to the Company's financial position and its results of operations. The fair value of Nellie Mae's asset and liabilities at the date of acquisition are presented below (dollars in millions):

Student loans.....	\$ 2,585
Cash and investments.....	15
Goodwill.....	90
Other assets.....	97
Short-term borrowings.....	(1,373)
Long-term notes.....	(1,029)
Other liabilities.....	(53)
	-----
Net assets acquired.....	\$ 332
	=====

Effective as of July 7, 2000, the Company completed the acquisition of Student Loan Funding Resources, Inc. ("SLFR") from the Thomas J. Conlan Education Foundation for \$117 million in cash. SLFR was the eighth largest holder of federal student loans in the nation with a \$3.1 billion portfolio. Based on a preliminary allocation of the purchase price, the Company recognized \$49 million in goodwill. SLFR's pro-forma results of operations for the year ended 1999 and for the nine months ended September 30, 2000 were immaterial to the Company's financial position and its results of operations. The fair value of SLFR's asset and liabilities at the date of acquisition are presented below (dollars in millions):

Student loans.....	\$ 3,103
Cash and investments.....	368
Goodwill.....	49
Other assets.....	112
Short-term borrowings.....	(753)
Long-term notes.....	(2,692)
Other liabilities.....	(70)
	-----
Net assets acquired.....	\$ 117
	=====

Effective as of July 31, 2000, the Company completed the acquisition of the guarantee servicing, student loan servicing and secondary market operations of USA Group, Inc. ("USA Group"). The Company did not acquire the operations of the sellers' affiliates, USA Group Funds, Inc. and Secondary Market Services--Hawaii. The acquisition price was \$795 million in cash and stock. Based on a preliminary allocation of the purchase price, the Company recognized \$458 million in goodwill. The purchase consideration included approximately one million shares of restricted stock with the exercise contingent upon the combined company's achievement of certain income and cost reduction goals. USA Group's pro-forma results of operations for the year ended 1999 and for the nine months ended September 30, 2000 were immaterial to the Company's financial position and its results of

USA EDUCATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION AT SEPTEMBER 30, 2000 AND FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2000 AND 1999 IS UNAUDITED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNT OR AS OTHERWISE NOTED)

6. ACQUISITIONS (CONTINUED)

operations. The fair value of USA Group's asset and liabilities at the date of acquisition are presented below (dollars in millions):

Student loans.....	\$ 1,421
Cash and investments.....	217
Goodwill.....	458
Other assets.....	345
Long-term notes.....	(1,489)
Other liabilities.....	(157)
	-----
Net assets acquired.....	\$ 795
	=====

7. SUBSEQUENT EVENTS

On October 3, 2000, the Company issued \$500,000,000 of its Senior Notes due September 16, 2002. The proceeds to the Company from the sale of these notes, before expenses, were \$498,750,000 and were used for general corporate purposes.

Effective October 27, 2000, the Company renewed its \$600 million 364-day revolving credit facility for an additional 364-day period. Liquidity support for the Company's commercial paper program is provided by this \$600 million 364-day revolving credit facility which matures on October 26, 2001 and a \$400 million 5-year revolving credit facility which matures on October 29, 2004.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2000 AND 1999  
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

OVERVIEW

SLM HOLDING CORPORATION ("SLM HOLDING") WAS FORMED ON FEBRUARY 3, 1997 AS A WHOLLY OWNED SUBSIDIARY OF THE STUDENT LOAN MARKETING ASSOCIATION (THE "GSE"). ON AUGUST 7, 1997, PURSUANT TO THE STUDENT LOAN MARKETING ASSOCIATION REORGANIZATION ACT OF 1996 (THE "PRIVATIZATION ACT") AND APPROVAL BY SHAREHOLDERS OF AN AGREEMENT AND PLAN OF REORGANIZATION, THE GSE WAS REORGANIZED INTO A SUBSIDIARY OF SLM HOLDING (THE "REORGANIZATION"). EFFECTIVE AS OF JULY 31, 2000, SLM HOLDING WAS RENAMED USA EDUCATION, INC. UPON THE COMPLETION OF THE ACQUISITION OF THE GUARANTEE SERVICING, STUDENT LOAN SERVICING AND SECONDARY MARKET OPERATIONS OF USA GROUP. THE COMPANY DID NOT ACQUIRE THE OPERATIONS OF THE SELLERS' AFFILIATES, USA GROUP FUNDS, INC. AND SECONDARY MARKET SERVICES--HAWAII. USA EDUCATION, INC. IS A HOLDING COMPANY THAT OPERATES THROUGH A NUMBER OF SUBSIDIARIES INCLUDING THE GSE. REFERENCES HEREIN TO THE "COMPANY" REFER TO THE GSE AND ITS SUBSIDIARIES FOR PERIODS PRIOR TO THE REORGANIZATION AND TO USA EDUCATION, INC. AND ITS SUBSIDIARIES FOR PERIODS AFTER THE REORGANIZATION.

The Company is the nation's largest private source of financing and servicing for education loans in the United States, primarily through its participation in the Federal Family Education Loan Program ("FFELP"), formerly the Guaranteed Student Loan Program. The Company's products and services include student loan purchases and commitments to purchase student loans, as well as operational support to originators of student loans and to post-secondary education institutions, guarantors and other education-related financial services. The Company also originates, purchases, and holds unguaranteed private loans.

The following Management's Discussion and Analysis contains forward-looking statements and information that are based on management's current expectations as of the date of this document. Discussions that utilize the words "intends," "anticipate," "believe," "estimate" and "expect" and similar expressions, as they relate to the Company's management, are intended to identify forward-looking statements. Such forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause the actual results of the Company to be materially different from those reflected in such forward-looking statements. Such factors include, among others, changes in the terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in such laws and regulations, which may reduce the volume, average term and costs of yields on student loans under the FFELP or result in loans being originated or refinanced under non-FFELP programs or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could also be affected by changes in the demand for educational financing and consumer lending or in financing preferences of lenders, educational institutions, students and their families; and changes in the general interest rate environment and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans.

Set forth below is Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company for the three and nine months ended September 30, 2000 and 1999. This section should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations for the years ended December 31, 1997-99 presented in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission. All dollar amounts are in millions, except per share amounts or as otherwise noted.



SELECTED FINANCIAL DATA

CONDENSED STATEMENTS OF INCOME

	THREE MONTHS ENDED SEPTEMBER 30,				NINE MONTHS ENDED SEPTEMBER 30,			
			INCREASE (DECREASE)				INCREASE (DECREASE)	
	2000	1999	\$	%	2000	1999	\$	%
Net interest income.....	\$160	\$184	\$ (24)	(13)%	\$ 484	\$ 515	\$(31)	(6)%
Less: provision for losses.....	5	6	(1)	(17)	23	27	(4)	(16)
Net interest income after provision for losses.....	155	178	(23)	(13)	461	488	(27)	(5)
Gains on student loan securitizations.....	23	4	19	525	91	12	79	689
Servicing and securitization revenue.....	80	62	18	29	211	229	(18)	(8)
Guarantor servicing fees.....	51	--	51	100	51	--	51	100
Other income.....	52	30	22	76	154	73	81	110
Operating expenses and integration charge.....	220	92	128	141	412	264	148	56
Income taxes.....	46	58	(12)	(20)	182	170	12	7
Minority interest in net earnings of subsidiary.....	3	3	--	--	8	9	(1)	--
Net income.....	92	121	(29)	(24)	366	359	7	2
Preferred dividends.....	3	--	3	100	8	--	8	100
Net income attributable to common stock.....	\$ 89	\$121	\$ (32)	(26)%	\$ 358	\$ 359	\$ (1)	--%
Basic earnings per share.....	\$ .56	\$ .76	\$ (.20)	(27)%	\$2.26	\$2.22	\$ .04	2%
Diluted earnings per share.....	\$ .55	\$ .75	\$ (.20)	(27)%	\$2.20	\$2.19	\$ .01	--%
Dividends per share.....	\$ .16	\$ .15	\$ .01	7%	\$ .48	\$ .45	\$ .03	7%

CONDENSED BALANCE SHEETS

	SEPTEMBER 30, 2000	DECEMBER 31, 1999	INCREASE (DECREASE)	
			\$	%
			-----	
<b>ASSETS</b>				
Student loans.....	\$35,949	\$33,809	\$ 2,140	6%
Warehousing advances.....	861	1,043	(182)	(17)
Academic facilities financings.....	883	1,028	(145)	(14)
Cash and investments.....	4,618	5,775	(1,157)	(20)
Other assets.....	3,333	2,370	963	41
Total assets.....	\$45,644	\$44,025	\$ 1,619	4%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Short-term borrowings.....	\$30,900	\$37,491	\$(6,591)	(18)%
Long-term notes.....	11,523	4,496	7,027	156
Other liabilities.....	1,672	983	689	70
Total liabilities.....	44,095	42,970	1,125	3
Minority interest in subsidiary.....	214	214	--	--
Stockholders' equity before treasury stock.....	2,321	2,025	296	15
Common stock held in treasury at cost.....	986	1,184	(198)	(17)
Total stockholders' equity.....	1,335	841	494	59
Total liabilities and stockholders' equity.....	\$45,644	\$44,025	\$ 1,619	4%

## RESULTS OF OPERATIONS

### EARNINGS SUMMARY

For the three months ended September 30, 2000, the Company's "core cash basis" net income was \$128 million (\$.77 diluted earnings per share), versus "core cash basis" net income of \$110 million (\$.68 diluted earnings per share) in the third quarter of 1999. For the nine months ended September 30, 2000, the Company's "core cash basis" net income was \$355 million (\$2.13 diluted earnings per share) versus \$298 million (\$1.82 diluted earnings per share) for the nine months ended September 30, 1999. "Core cash basis" results measure only the recurring earnings of the Company. Accordingly, securitization transactions are treated as financings, not sales, and thereby gains on such sales are eliminated. In addition, the effect of floor revenue, certain one-time gains on sales of investment securities and student loans, certain integration charges and the amortization of goodwill are also excluded from net income calculated in accordance with generally accepted accounting principles ("GAAP"). See "Pro-forma Statements of Income" for a detailed discussion of "core cash basis" net income.

The increase in "core cash basis" net income in the third quarter of 2000 versus the third quarter of 1999 is due to the \$11.7 billion increase in the average balance of the Company's managed portfolio of student loans partially offset by higher funding costs. The additional operating expenses from the acquisitions of both USA Group and SLFR are offset by the significant increase in fee income and net interest income due to these acquisitions. For the nine months ended September 30, 2000, the increase in "core cash basis" net income versus the year-ago period is mainly due to the \$8.4 billion increase in the average balance of the Company's managed portfolio of student loans, partially offset by higher funding costs.

For the three months ended September 30, 2000, the Company's GAAP net income was \$92 million (\$.55 diluted earnings per share), versus GAAP net income of \$121 million (\$.75 diluted earnings per share) in the third quarter of 1999. The decrease in GAAP net income in the third quarter of 2000 versus the year-ago quarter is mainly due to a \$32 million after-tax integration charge related to the USA Group acquisition and a decrease in after-tax floor revenue of \$8 million, partially offset by an increase in after-tax securitization gains of \$12 million and an increase in after-tax servicing and securitization revenue of \$12 million. For the nine months ended September 30, 2000, the Company's GAAP net income was \$366 million (\$2.20 diluted earnings per share), versus GAAP net income of \$359 million (\$2.19 diluted earnings per share) for the nine months ended September 30, 1999. The increase in year-to-date 2000 GAAP net income versus year-to-date 1999 GAAP net income is due to a \$1.9 billion increase in the average balance of the Company's on-balance sheet portfolio of student loans, an increase of \$52 million in after-tax securitization gains, and an increase of \$22 million in after-tax gains on sales of investment securities. The increase in GAAP net income for the first nine months of 2000 versus the year-ago period is partially offset by a decrease in after-tax floor revenue of \$36 million, lower after-tax servicing and securitization revenue of \$12 million, and a \$32 million after-tax integration charge related to the USA Group acquisition.

As a result of the USA group acquisition, the Company issued approximately 10 million shares during the third quarter of 2000. The Company repurchased 1.5 million shares during the quarter through open market purchases. The net result was an increase in outstanding shares to 164 million at September 30, 2000.

### NET INTEREST INCOME

Net interest income is derived largely from the Company's portfolio of student loans that remain on-balance sheet. Additional information regarding the return on the Company's student loan portfolio is set forth under "Student Loans--Student Loan Spread Analysis."

Taxable equivalent net interest income for the three months ended September 30, 2000 versus the three months ended September 30, 1999 decreased by \$27 million while the net interest margin decreased by .41 percentage points. The \$39 million decrease in taxable equivalent net interest income attributable to the change in rates for the three months ended September 30, 2000 versus the three months ended September 30, 1999 was partially due to the decreases in floor revenue and the student loan spread. In addition, the Higher Education Amendments of 1998 which decreased the spread for special allowance payments ("SAP") on student loans also contributed to the decrease in taxable equivalent net interest income as the percentage of student loans affected by this change continued to increase. The decrease in taxable equivalent net interest income attributable to the change in rates was partially offset by a \$12 million increase to the change in volume due to the \$2.5 billion increase in the average balance of investments over the year-ago quarter.

Taxable equivalent net interest income for the nine months ended September 30, 2000 versus the nine months ended September 30, 1999 decreased by \$32 million while the net interest margin decreased by .32 percentage points. The \$79 million decrease in taxable equivalent net interest income attributable to the change in rates for the nine months ended September 30, 2000 versus the nine months ended September 30, 1999 was partially due to the decreases in floor revenue, the SAP spread, and the student loan spread (discussed in more detail below). The decrease to taxable equivalent net interest income attributable to the change in rates was partially offset by a \$47 million increase to the change in volume due to the \$3.7 billion increase in the average balance of investments over the year-ago period.

#### TAXABLE EQUIVALENT NET INTEREST INCOME

The amounts in the following table are adjusted for the impact of certain tax-exempt and tax-advantaged investments based on the marginal corporate tax rate of 35 percent.

	THREE MONTHS ENDED SEPTEMBER 30,		INCREASE (DECREASE)		NINE MONTHS ENDED SEPTEMBER 30,		INCREASE (DECREASE)	
	2000	1999	\$	%	2000	1999	\$	%
Interest income								
Student loans.....	\$770	\$640	\$130	20%	\$2,072	\$1,732	\$340	20%
Warehousing advances.....	13	14	(1)	(3)	41	54	(13)	(24)
Academic facilities financings.....	16	18	(2)	(13)	52	56	(4)	(8)
Investments.....	100	53	47	88	361	156	205	131
Taxable equivalent adjustment.....	5	8	(3)	(40)	22	24	(2)	(7)
	----	----	----	----	----	----	----	----
Total taxable equivalent interest income.....	904	733	171	23	2,548	2,022	526	26
Interest expense.....	739	541	198	37	2,042	1,484	558	38
	----	----	----	----	----	----	----	----
Taxable equivalent net interest income.....	\$165	\$192	\$(27)	(14)%	\$ 506	\$ 538	\$(32)	(6)%
	=====	=====	=====	=====	=====	=====	=====	=====

AVERAGE BALANCE SHEETS

The following table reflects the rates earned on earning assets and paid on liabilities for the three and nine months ended September 30, 2000 and 1999.

	THREE MONTHS ENDED SEPTEMBER 30,				NINE MONTHS ENDED SEPTEMBER 30,			
	2000		1999		2000		1999	
	BALANCE	RATE	BALANCE	RATE	BALANCE	RATE	BALANCE	RATE
<b>AVERAGE ASSETS</b>								
Student loans.....	\$36,440	8.41%	\$34,595	7.34%	\$33,836	8.18%	\$31,988	7.24%
Warehousing advances.....	737	7.12	913	5.90	798	6.87	1,267	5.68
Academic facilities financings...	963	8.19	1,122	8.12	1,007	8.59	1,164	8.15
Investments.....	5,792	6.92	3,280	6.85	7,191	6.87	3,455	6.40
Total interest earning assets.....	43,932	8.18% =====	39,910	7.29% =====	42,832	7.95% =====	37,874	7.14% =====
Non-interest earning assets.....	2,926		2,229		2,476		2,079	
Total assets.....	\$46,858 =====		\$42,139 =====		\$45,308 =====		\$39,953 =====	
<b>AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY</b>								
Six month floating rate notes....	\$ 4,310	6.58%	\$ 4,625	5.29%	\$ 4,538	6.41%	\$ 4,520	5.23%
Other short-term borrowings.....	30,731	6.68	29,087	5.27	31,362	6.33	26,807	5.13
Long-term notes.....	9,038	6.67	6,514	5.64	6,927	6.51	6,748	5.51
Total interest bearing liabilities.....	44,079	6.67% =====	40,226	5.34% =====	42,827	6.37% =====	38,075	5.21% =====
Non-interest bearing liabilities...	1,604		1,272		1,484		1,238	
Stockholders' equity.....	1,175		641		997		640	
Total liabilities and stockholders' equity.....	\$46,858 =====		\$42,139 =====		\$45,308 =====		\$39,953 =====	
Net interest margin.....		1.50% =====		1.91% =====		1.58% =====		1.90% =====

RATE/VOLUME ANALYSIS

The Rate/Volume Analysis below shows the relative contribution of changes in interest rates and asset volumes.

	TAXABLE EQUIVALENT INCREASE (DECREASE)	INCREASE (DECREASE) ATTRIBUTABLE TO CHANGE IN	
		RATE	VOLUME
THREE MONTHS ENDED SEPTEMBER 30, 2000 VS. THREE MONTHS ENDED SEPTEMBER 30, 1999			
Taxable equivalent interest income.....	\$171	\$ 95	\$76
Interest expense.....	198	134	64
	----	----	----
Taxable equivalent net interest income.....	\$(27)	\$(39)	\$12
	====	====	===

	TAXABLE EQUIVALENT INCREASE (DECREASE)	INCREASE (DECREASE) ATTRIBUTABLE TO CHANGE IN	
		RATE	VOLUME
NINE MONTHS ENDED SEPTEMBER 30, 2000 VS. NINE MONTHS ENDED SEPTEMBER 30, 1999			
Taxable equivalent interest income.....	\$526	\$252	\$274
Interest expense.....	558	331	227
	----	----	----
Taxable equivalent net interest income.....	\$(32)	\$(79)	\$ 47
	====	====	====

STUDENT LOANS

STUDENT LOAN SPREAD ANALYSIS

The following table analyzes the reported earnings from student loans both on-balance sheet and those off-balance sheet in securitization trusts. The line captioned "Adjusted student loan yields" reflects contractual student loan yields. For student loans off-balance sheet, the Company will continue to earn servicing fee revenues over the life of the securitized student loan portfolios. The off-balance sheet information presented in "Securitization Program--Servicing and Securitization Revenue" analyzes the on-going servicing revenue and residual interest earned on the securitized portfolios of student loans. For an analysis of the Company's student loan spread for the entire portfolio of

managed student loans on a similar basis to the on-balance sheet analysis, see " `Core Cash Basis' Student Loan Spread and Net Interest Income."

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
<b>ON-BALANCE SHEET</b>				
Adjusted student loan yields.....	9.10%	7.94%	8.84%	7.88%
Consolidated loan rebate fees.....	(.26)	(.22)	(.26)	(.22)
Offset fees.....	(.14)	(.15)	(.13)	(.14)
Borrower benefits.....	(.07)	(.07)	(.07)	(.06)
Premium amortization.....	(.22)	(.16)	(.20)	(.22)
Student loan income.....	8.41	7.34	8.18	7.24
Cost of funds.....	(6.62)	(5.29)	(6.34)	(5.18)
Student loan spread.....	1.79%	2.05%	1.84%	2.06%
<b>OFF-BALANCE SHEET</b>				
Servicing and securitization revenue.....	1.15%	1.37%	1.17%	1.74%
<b>AVERAGE BALANCES</b>				
Student loans.....	\$36,440	\$34,595	\$33,836	\$31,988
Securitized loans.....	27,756	17,888	24,124	17,585
Managed student loans.....	\$64,196	\$52,483	\$57,960	\$49,573

The Company's portfolio of student loans originated under the FFELP has a variety of unique interest rate characteristics. The Company generally earns interest at the greater of the borrower's rate or a floating rate determined by reference to the average of the weekly auctions of 91-day Treasury bills by the government, plus a fixed spread which is dependent upon when the loan was originated. If the floating rate exceeds the borrower rate, the Department of Education makes a payment directly to the Company based upon the SAP formula established under the Higher Education Act. If the floating rate is less than the rate the borrower is obligated to pay, the Company simply earns interest at the borrower rate. In all cases, the rate a borrower is obligated to pay sets a minimum rate for determining the yield the Company earns on a loan. The borrowers' interest rates are either fixed to term or are reset annually on July 1 of each year depending on when the loan was originated.

The Company generally finances its student loan portfolio with floating rate debt tied to the average of the 91-day Treasury bill auctions, either directly or through the use of derivative financial instruments, intended to mimic the interest rate characteristics of the student loans. Such borrowings float over all interest rate ranges. As a result, in periods of declining interest rates, the portfolio of managed student loans may be earning at the borrower rate while the Company's funding costs (exclusive of fluctuations in funding spreads) generally continue to decline along with Treasury bill rates. When this happens, the difference between the interest earned from the rate paid by the borrower and the interest that would have been earned under the SAP formula is referred to as "floor revenue." For loans where the borrower's interest rate is fixed to term, declining interest rates may benefit the spread earned on student loans for extended periods of time. For loans where the borrower's interest rate is reset annually, any benefit of a declining interest rate environment will only enhance student loan spreads through the next annual reset of the borrower's interest rates, which occurs on July 1 of each year.

Due to the continued rise in Treasury bill rates since the third quarter of 1999, the Company earned floor revenue of \$0.01 million in the third quarter of 2000 versus \$13 million of such revenue in the year-ago quarter. The floor revenue earned in the third quarter of 2000 was attributable to student

loans whose minimum borrower rates adjust annually on July 1, while in the third quarter of 1999, \$12 million of the floor revenue earned was from student loans whose borrower rates are fixed to term, and \$0.4 million was from student loans whose borrower rates reset annually. The reduction in floor revenue decreased the third quarter 2000 on-balance sheet student loan spread by 15 basis points versus the year-ago quarter. For the nine months ended September 30, 2000, the Company earned floor revenue of \$3 million of which \$2 million was attributable to student loans whose minimum borrower rates are fixed to term and \$1 million was attributable to student loans whose minimum borrower rates adjust annually on July 1. For the nine months ended September 30, 1999, the Company earned floor revenue of \$58 million, of which \$40 million was attributable to student loans whose minimum borrower rates are fixed to term and \$18 million was attributable to student loans whose minimum borrower rates adjust annually on July 1. The reduction in floor revenue decreased the year-to-date 2000 on-balance sheet student loan spread by 23 basis points versus the year-ago period.

The Company's match funding of its student loan portfolio on a managed basis affects servicing and securitization revenue in the opposite direction from its effect on the on-balance sheet student loan spread. Specifically, the Company's on-balance sheet use of funding indexed to the July 1999 reset of the 52-week Treasury bill to fund off-balance sheet PLUS student loans decreased servicing and securitization revenue by \$18 million for the nine months ended September 30, 2000 versus the prior year due to the rise in Treasury bill rates which increased off-balance sheet funding costs for debt indexed to the 91-day Treasury bill and funding PLUS loans. The opposite effect occurs on-balance sheet as the Company uses the excess of off-balance sheet 91-day Treasury bill funding to fund on-balance sheet student loans indexed to the 91-day Treasury bill.

The following table analyzes the ability of the FFELP student loans in the Company's managed student loan portfolio to earn at the minimum borrower interest rate at September 30, 2000 and 1999, based on the last Treasury bill auctions of September 2000 and September 1999 for fixed rate loans (6.18 percent and 4.86 percent, respectively), and based on the last Treasury bill auctions of May 2000 and May 1999 for variable rate loans (5.89 percent and 4.62 percent, respectively).

(DOLLARS IN BILLIONS)	SEPTEMBER 30, 2000			SEPTEMBER 30, 1999		
	FIXED	VARIABLE	TOTAL	FIXED	VARIABLE	TOTAL
Student loans eligible to earn at the minimum borrower rate.....	\$16.0	\$36.9	\$52.9	\$13.0	\$28.8	\$41.8
Less notional amount of floor interest contracts.....	(4.7)	(2.0)	(6.7)	(3.5)	(3.1)	(6.6)
Net student loans eligible to earn at the minimum borrower rate.....	\$11.3	\$34.9	\$46.2	\$ 9.5	\$25.7	\$35.2
Net student loans earning at the minimum borrower rate.....	\$ --	\$ --	\$ --	\$ 7.7	\$ --	\$ 7.7

#### STUDENT LOAN FLOOR REVENUE CONTRACTS

For the three months ended September 30, 2000 and 1999, the amortization of the upfront payments received from the sale of Floor Revenue Contracts on the Company's on-balance sheet student loans with fixed borrower rates was \$7 million and \$5 million, respectively, and for Floor Revenue Contracts with annually reset borrower rates was \$0.01 million and \$0.4 million, respectively. For the nine months ended September 30, 2000 and 1999, the amortization of the upfront payments received from the sale of Floor Revenue Contracts on the Company's on-balance sheet student loans with fixed borrower rates was \$17 million and \$16 million, respectively, and for Floor Revenue Contracts with annually reset borrower rates was \$1 million and \$20 million, respectively.

At September 30, 2000, unamortized payments received from the sale of Floor Revenue Contracts totaled \$72 million, substantially all of which related to contracts on fixed rate loans. At September 30, 2000, the Company had \$4.7 billion of outstanding fixed borrower rate Floor Revenue Contracts with

expiration dates through the year 2007, and \$2.0 billion of annually reset borrower rate contracts that expire on December 31, 2000.

ON-BALANCE SHEET FUNDING COSTS

The Company's borrowings are generally variable rate indexed principally to the 91-day Treasury bill rate. The following table summarizes the average balance of on-balance sheet debt (by index, after giving effect to the impact of interest rate swaps) for the three and nine months ended September 30, 2000 and 1999.

	THREE MONTHS ENDED SEPTEMBER 30,				NINE MONTHS ENDED SEPTEMBER 30,			
	2000		1999		2000		1999	
	AVERAGE BALANCE	AVERAGE RATE	AVERAGE BALANCE	AVERAGE RATE	AVERAGE BALANCE	AVERAGE RATE	AVERAGE BALANCE	AVERAGE RATE
Treasury bill, principally								
91-day.....	\$32,043	6.70%	\$30,388	5.32%	\$32,757	6.39%	\$29,134	5.20%
LIBOR.....	2,468	6.71	2,597	5.12	1,886	6.38	2,551	4.99
Discount notes.....	4,365	6.48	4,286	5.04	4,270	6.11	4,137	4.87
Fixed.....	1,501	5.98	1,449	5.86	1,444	5.98	1,066	5.97
Zero coupon.....	174	11.17	155	11.14	169	11.17	151	11.14
Commercial paper.....	1,271	6.78	463	5.39	1,061	6.59	156	5.39
Auction rate securities....	1,495	5.80	--	--	502	5.80	--	--
Other.....	762	6.82	888	5.20	738	6.20	880	4.90
Total.....	\$44,079	6.67%	\$40,226	5.34%	\$42,827	6.37%	\$38,075	5.21%

The following table details the spreads for the Company's Treasury bill indexed borrowings and London Interbank Offered Rate ("LIBOR") indexed borrowings:

INDEXED BORROWINGS	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
TREASURY BILL				
Weighted average Treasury bill.....	6.19%	4.83%	5.87%	4.74%
Borrowing spread.....	.51	.49	.52	.46
Weighted average borrowing rate.....	6.70%	5.32%	6.39%	5.20%
LIBOR				
Weighted average LIBOR.....	6.85%	5.29%	6.57%	5.20%
Borrowing spread.....	(.14)	(.17)	(.19)	(.21)
Weighted average borrowing rate.....	6.71%	5.12%	6.38%	4.99%

SECURITIZATION PROGRAM

During the third quarter of 2000, the Company completed a securitization transaction in which a total of \$2.0 billion of student loans were sold to a special purpose finance subsidiary and by that subsidiary to a trust that issued asset-backed securities to fund the student loans to term. For the nine months ended September 30, 2000, the Company securitized a total of \$8.5 billion of student loans in four separate transactions.

During the third quarter of 1999, the Company securitized \$1.0 billion of student loans for a total of \$2.0 billion for the nine months ended September 30, 1999.



GAINS ON STUDENT LOAN SECURITIZATIONS

For the three months ended September 30, 2000 the Company recorded a pre-tax securitization gain of \$23 million, which was 1.10 percent of the portfolio securitized, versus a pre-tax securitization gain of \$4 million, which was 0.36 percent of the portfolio securitized in the third quarter of 1999. The increase in the 2000 third quarter securitization gain as a percentage of the portfolio securitized versus the year-ago quarter is mainly due to lower financing spreads. For the nine months ended September 30, 2000, the Company recorded pre-tax securitization gains of \$91 million, which was 1.07 percent of the portfolios securitized, versus a pre-tax securitization gain of \$12 million, which was .58 percent of the portfolio securitized in the nine months ended September 30, 1999. Gains on future securitizations will continue to vary depending on the size and the loan characteristics of the loan portfolios securitized and the funding costs prevailing in the securitization debt markets at the time of each transaction.

SERVICING AND SECURITIZATION REVENUE

The following table summarizes the components of servicing and securitization revenue:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
Servicing revenue less amortization of servicing asset.....	\$58	\$40	\$157	\$118
Securitization revenue.....	22	22	54	111
	---	---	---	---
Total servicing and securitization revenue.....	\$80	\$62	\$211	\$229
	===	===	===	===

In the three and nine months ended September 30, 2000, servicing and securitization revenue was 1.15 percent and 1.17 percent, respectively, of average securitized loans versus 1.37 percent and 1.74 percent, respectively, in the corresponding year-ago periods. The decrease in servicing and securitization revenue as a percentage of the average balance of securitized student loans in the three and nine months ended 2000 versus the corresponding year-ago periods is mainly due to the impact of the rise in Treasury bill rates since the second half of 1999, which decreased floor revenues from student loans in the trusts by \$2 million and \$40 million, respectively.

OTHER INCOME

Other income, exclusive of gains on student loan securitizations and servicing and securitization revenue, totaled \$103 million and \$30 million for the three months ended September 30, 2000 and 1999, respectively, and \$205 million and \$73 million for the nine months ended September 30, 2000 and 1999, respectively. Other income mainly includes late fees earned on student loans, gains and losses on sales of investment securities, guarantor servicing fees, revenue received from servicing third party portfolios of student loans, and commitment fees for letters of credit. The increase in other income for the third quarter of 2000 versus the third quarter of 1999 is mainly due to the inclusion of guarantor servicing, loan servicing and other fee revenue of \$71 million from USA Group. The increase in other income for the nine months ended September 30, 2000 versus the nine months ended September 30, 1999 is mainly due to \$34 million of additional gains on sales of investment securities, \$7 million additional late fee revenue, \$9 million additional fee revenue from SLM Financial, and \$71 million fee revenue associated with the acquisition of USA Group's operations.

OPERATING EXPENSES

The following table summarizes the components of operating expenses:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
Servicing and acquisition expenses.....	\$100	\$59	\$218	\$181
General and administrative expenses.....	67	33	140	83
Integration charge.....	53	--	53	--
Total operating expenses.....	\$220	\$92	\$411	\$264

Operating expenses include costs to service the Company's managed student loan portfolio, operational costs associated with its guarantor services operations, operational costs incurred in the process of acquiring student loan portfolios, and general and administrative expenses. The Company recorded an integration charge of \$53 million in the third quarter of 2000 to cover severance costs, costs to close facilities and move functional responsibilities as well as costs to align system capabilities and move the data center. Exclusive of this one-time integration charge, operating expenses for the three months ended September 30, 2000 and 1999 were \$167 million and \$92 million, respectively. For the nine months ended September 30, 2000 and 1999, total operating expenses exclusive of this one-time integration charge were \$358 million and \$264 million, respectively. The increase in operating expenses for the three and nine months ended September 30, 2000 over the corresponding year-ago periods was mainly due to expenses related to SLFR and USA Group operations which the Company acquired in the third quarter of 2000, and to expenses of new business initiatives, specifically, SLM Financial, Sallie Mae Solutions, and e-commerce initiatives.

STUDENT LOAN PURCHASES

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30, 2000	SEPTEMBER 30, 1999	SEPTEMBER 30, 2000	SEPTEMBER 30, 1999
ExportSS-Registered Trademark-, origination and servicing clients.....	\$ 1,693	\$1,438	\$ 5,301	\$ 6,174
Other commitment clients...	415	1,059	1,226	1,664
Spot purchases.....	279	4	489	65
Consolidations.....	219	207	586	749
Acquisitions.....	4,524	2,585	4,524	2,585
Other.....	262	268	824	775
Total.....	7,392	5,561	12,950	12,012
Managed loans acquired.....	5,165	--	5,165	--
Total managed loans acquired.....	\$12,557	\$5,561	\$18,115	\$12,012

For the three months ended September 30, 2000, the Company purchased \$7.4 billion and acquired \$5.2 billion of managed loans for a record total of \$12.6 billion of student loans compared with \$5.6 billion in the year-ago period. Included in the third quarter of 2000 purchases are \$1.4 billion of student loans acquired from USA Group and \$3.1 billion of student loans acquired from SLFR. Included in the third quarter of 1999 purchases are \$2.6 billion of student loans acquired from Nellie Mae. For the nine months ended September 30, 2000, the Company acquired a total of \$18 billion of managed student loans compared with \$12 billion in the year-ago period. In the fourth quarter of 1998, the Company restructured its joint venture with Chase Manhattan Bank ("Chase") and now purchases

all loans originated by Chase. The purchases in the nine months ended September 30, 1999 include \$1.6 billion of loans from the joint venture that were previously owned by Chase.

In the third quarter of 2000, the Company's controlled channels of loan originations totaled \$2.4 billion versus \$1.6 billion in the year-ago quarter. The pipeline of loans currently serviced and committed for purchase by the Company was \$3.2 billion at September 30, 2000 and 1999.

The Department of Education offers existing FFELP borrowers the opportunity to refinance FFELP loans into Federal Direct Student Loan Program ("FDSLPL") consolidation loans. During the three months ended September 30, 2000 and 1999, approximately \$165 million and \$92 million, respectively, of the Company's managed student loans were accepted for refinancing into the FDSLPL. During the nine months ended September 30, 2000 and 1999, approximately \$382 million and \$690 million, respectively, of the Company's managed student loans were accepted for refinancing into the FDSLPL. The relatively high balance in the nine months ended September 30, 1999 was the result of legislation passed in 1998 that allowed borrowers to submit applications by January 31, 1999 for consolidated student loans under the FDSLPL at advantageous interest rates.

The following table summarizes the activity in the Company's managed portfolio of student loans for the three and nine months ended September 30, 2000 and 1999.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
BEGINNING BALANCE.....	\$55,947	\$49,516	\$53,276	\$46,342
Purchases.....	12,557	5,561	18,115	12,012
Capitalized interest on securitized loans.....	208	112	479	279
Repayments, claims, other.....	(1,614)	(1,224)	(4,187)	(3,840)
Loan sales.....	--	--	(126)	--
Loans consolidated from USA Education.....	(410)	(185)	(869)	(1,013)
Ending balance.....	<u>\$66,688</u>	<u>\$53,780</u>	<u>\$66,688</u>	<u>\$53,780</u>

#### PRO-FORMA STATEMENTS OF INCOME

Under GAAP, the Company's securitization transactions have been treated as sales. At the time of sale, in accordance with Statement of Financial Accounting Standards No. 125 ("SFAS 125"), the Company records a gain equal to the present value of the estimated future net cash flows from the portfolio of loans sold. Interest earned on the interest residual and fees earned for servicing the loan portfolios are recognized over the life of the securitization transaction as servicing and securitization revenue. Under SFAS 125, income recognition is effectively accelerated through the recognition of a gain at the time of sale while the ultimate realization of such income remains dependent on the actual performance, over time, of the loans that were securitized.

Management believes that in addition to results of operations as reported in accordance with GAAP, another important performance measure is pro-forma results of operations under the assumption that the securitization transactions are financings and that the securitized student loans were not sold. The pro-forma results of operations also exclude the effect of floor revenue, certain one-time gains on sales of investment securities and student loans, certain integration charges and the amortization of goodwill. The following pro-forma statements of income present the Company's results of operations under the assumption that the securitization transactions are financings and that the securitized student loans were not sold. As such, no gain on sale or subsequent servicing and securitization revenue is recognized. Instead, the earnings of the student loans in the trusts and related financing costs are reflected over the life of the underlying pool of loans. The effect of floor revenue and certain one-time gains on sales of investment securities and student loans are also excluded from

net income. Management refers to these pro-forma results as "core cash basis" statements of income. Management monitors and reports the periodic "core cash basis" earnings of the Company's managed student loan portfolio and believes that they assist in a better understanding of the Company's student loan business.

The following table presents the "core cash basis" statements of income and reconciliations to GAAP net income as reflected in the Company's consolidated statements of income.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
<b>"CORE CASH BASIS" STATEMENTS OF INCOME:</b>				
Insured student loans.....	\$1,366	\$ 953	\$ 3,574	\$ 2,612
Advances/Facilities/Investments.....	139	86	466	269
Total interest income.....	1,505	1,039	4,040	2,881
Interest expense.....	(1,238)	(795)	(3,274)	(2,200)
Net interest income.....	267	244	766	681
Less: provision for losses.....	11	11	39	40
Net interest income after provision for losses.....	256	233	727	641
<b>OTHER INCOME:</b>				
Gains on student loan securitizations.....	--	--	--	--
Servicing and securitization revenue.....	--	--	--	--
Gains on sales of student loans.....	--	--	--	--
Gains on sales of securities.....	--	--	1	1
Guarantor servicing fees.....	51	--	51	--
Other.....	52	21	110	63
Total other income.....	103	21	162	64
Total operating expenses.....	161	90	349	263
Income before taxes and minority interest in earnings of subsidiary.....	198	164	540	442
Income taxes.....	67	51	177	136
Minority interest in earnings of subsidiary.....	3	3	8	8
"Core cash basis" net income.....	\$ 128	\$ 110	\$ 355	\$ 298
Preferred dividends.....	3	--	9	--
"Core cash basis" net income attributable to common stock.....	\$ 125	\$ 110	\$ 346	\$ 298
"Core cash basis" diluted earnings per share.....	\$ .77	\$ .68	\$ 2.13	\$ 1.82

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
<b>RECONCILIATION OF GAAP NET INCOME TO "CORE CASH BASIS"</b>				
<b>NET INCOME:</b>				
GAAP net income.....	\$ 92	\$ 121	\$ 366	\$ 359
"Cash basis" adjustments:				
Gains on student loan securitizations.....	(22)	(4)	(91)	(12)
Gains on sales of student loans.....	--	--	--	--
Servicing and securitization revenue.....	(80)	(62)	(211)	(228)
Net interest income.....	107	75	285	265
Goodwill amortization.....	6	1	9	1
Provision for losses.....	(6)	(4)	(16)	(13)
Total "cash basis" adjustments.....	5	6	(24)	13
Net tax effect (A).....	(1)	(1)	10	(4)
"Cash basis" net income.....	96	126	352	368
"Core cash basis" adjustments:				
Floor income.....	--	(15)	(3)	(99)
Integration charge.....	53	--	53	--
Gains/losses on sales of securities.....	--	(9)	(43)	(9)
Total "core cash basis" adjustments.....	53	(24)	7	(108)
Net tax effect (A).....	(21)	8	(4)	38
"Core cash basis" net income.....	\$ 128	\$ 110	\$ 355	\$ 298

(A) Such tax effect is based upon the Company's marginal tax rate for the respective period.

#### "CORE CASH BASIS" STUDENT LOAN SPREAD AND NET INTEREST INCOME

The following table analyzes the reported earnings from the Company's portfolio of managed student loans, which includes those on-balance sheet and those off-balance sheet in securitization trusts. The line captioned "Cash basis adjusted student loan yields" reflects contractual student loan yields.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
"Cash basis" adjusted student loan yields.....	9.10%	7.91%	8.85%	7.91%
Consolidated loan rebate fees.....	(.18)	(.16)	(.17)	(.15)
Offset fees.....	(.08)	(.10)	(.08)	(.09)
Borrower benefits.....	(.10)	(.10)	(.10)	(.08)
Premium amortization.....	(.27)	(.23)	(.26)	(.28)
Student loan income.....	8.47	7.32	8.24	7.31
Cost of funds.....	(6.80)	(5.39)	(6.51)	(5.26)
"Cash basis" student loan spread.....	1.67%	1.93%	1.73%	2.05%
"Core cash basis" student loan spread.....	1.67%	1.81%	1.73%	1.78%
<b>AVERAGE BALANCES</b>				
Managed student loans.....	\$64,196	\$52,483	\$57,960	\$49,573

The Company earns interest at the greater of the borrower's rate or a floating rate determined by reference to the average of the weekly auctions of the 91-day Treasury bills by the government, plus a fixed spread, which is dependent upon when the loan was originated. In all cases, the rate the borrower pays sets a minimum rate for determining the yield the Company earns on the loan. The Company generally finances its student loan portfolio with floating rate debt tied to the average of the 91-day Treasury bill auctions, either directly or through the use of derivative financial instruments, to mimic the interest rate characteristics of the student loans. Such borrowings, however, generally do not have minimum rates. As a result, in periods of declining interest rates, the portfolio of managed student loans may be earning at the minimum borrower rate while the Company's funding costs (exclusive of funding spreads) will generally decline along with Treasury bill rates. For loans in which the borrower's interest rate is fixed to term, declining interest rates may benefit the spread earned on student loans for extended periods of time. For loans in which the borrower's interest rate is reset annually, any benefit of a low interest rate environment will only enhance student loan spreads through the next annual reset of the borrowers interest rates, which occurs on July 1 of each year. Due to the continued rise in Treasury bill rates since the second quarter of 1999, the Company earned only \$0.01 million from student loans earning at the minimum borrower rate in the third quarter of 2000 versus \$15 million of such earnings in the year-ago quarter. The negative impact of the rise in Treasury bill rates on student loans earning at the minimum borrower rate decreased the "cash basis" student loan spread by 11 basis points versus the year-ago quarter. These earnings have been excluded from student loan income to calculate the "core cash basis" student loan spread.

For the three and nine months ended September 30, 2000, the amortization of the upfront payments received from the sale of Floor Revenue Contracts with annually reset borrower rates was \$0.01 million and \$1 million, respectively, versus \$0.4 million and \$24 million, respectively, for the three and nine months ended September 30, 1999. At September 30, 2000, the unamortized balance of upfront payments received from the sale of fixed borrower rate Floor Revenue Contracts totaled \$72 million. There was substantially no unamortized balance of upfront payments received on annually reset borrower rate contracts.

In the three months ended September 30, 2000, "core cash basis" net interest income was \$267 million compared with \$244 million in the year-ago period. In the nine months ended September 30, 2000, "core cash basis" net interest income was \$766 million compared with \$681 million in the year-ago period. The increase in "core cash basis" net interest income earned in the three and nine months ended September 30, 2000 versus the year-ago periods was due to the increase in the average balance of managed student loans, and the increase in student loans as a percentage of average earning assets.

#### FEDERAL AND STATE TAXES

The Company maintains a portfolio of tax-advantaged assets principally to support education-related financing activities. That portfolio was primarily responsible for the decrease in the effective federal income tax rate from the statutory rate of 35 percent to 33 percent for the three and nine months ended September 30, 2000. The effective federal income tax rate was 32 percent for the three and nine months ended September 30, 1999. The GSE is exempt from all state, local and District of Columbia income, franchise, sales and use, personal property and other taxes, except for real property taxes. However, this tax exemption applies only to the GSE and does not apply to USA Education, Inc. or its other operating subsidiaries that are subject to taxation at the state and local level. State taxes were immaterial in the three and nine months ended September 30, 2000 and 1999 as the majority of the Company's business activities were conducted in the GSE.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's primary requirements for capital are to fund the Company's operations, the purchases of student loans and the repayment of its debt obligations while continuing to meet the GSE's statutory capital adequacy ratio test. The Company's primary sources of liquidity are through debt issuances by its GSE subsidiary, off-balance sheet financings through securitizations, borrowings under its commercial paper program, and cash generated by its subsidiaries' operations and distributed as dividends to the Company.

The Company's unsecured financing requirements are driven by three principal factors: refinancing of existing liabilities as they mature; financing of student loan portfolio growth; and the Company's level of securitization activity. Market conditions for Treasury bill indexed debt improved in the first nine months of 2000 and the Company has begun to lengthen the term of its GSE debt.

In the first nine months of 2000, the Company completed four securitization transactions totaling \$8.5 billion in student loans and issued \$8.2 billion in LIBOR-based asset-backed securities. The Company manages the resulting off-balance sheet basis risk with on-balance sheet financing and derivative instruments, principally basis swaps and Eurodollar futures.

During the first nine months of 2000, the Company used the net proceeds from student loan securitizations of \$8.7 billion, net proceeds from the sale or maturity of investments of \$1.4 billion, and repayments and claim payments on student loans of \$2.1 billion to purchase student loans of \$8.4 billion, to reduce total debt by \$4.5 billion, and to repurchase \$175 million of the Company's common stock.

Operating activities provided net cash inflows of \$664 million in the first nine months of 2000, an increase of \$327 million from the net cash inflows of \$337 million in the corresponding year-ago period.

During the first nine months of 2000, the Company issued \$13.5 billion of long-term notes to refund maturing and repurchased obligations. At September 30, 2000, the Company had \$11.5 billion of outstanding long-term debt issues of which \$281 million had stated maturities that could be accelerated through call provisions. The Company uses interest rate and foreign currency swaps (collateralized where appropriate), purchases of U.S. Treasury securities and other hedging techniques to reduce its exposure to interest rate and currency fluctuations that arise from its financing activities and to match the variable interest rate characteristics of its earning assets. See "Interest Rate Risk Management."

On January 1, 2000 the GSE's minimum required statutory capital adequacy ratio was increased from 2.00 percent to 2.25 percent. At September 30, 2000, the GSE was in compliance with the new ratio with a statutory capital adequacy ratio, after the effect of the dividends to be paid in the fourth quarter of 2000, of 2.25 percent.

## INTEREST RATE RISK MANAGEMENT

### INTEREST RATE GAP ANALYSIS

The Company's principal objective in financing its operations is to minimize its sensitivity to changing interest rates by matching the interest rate characteristics of its borrowings to specific assets in order to lock in spreads. The Company funds its floating rate managed loan assets (most of which have weekly rate resets) with variable rate debt and fixed rate debt converted to variable rates with interest rate swaps. The Company also uses interest rate cap agreements, foreign currency swaps, options on securities, and financial futures contracts to further reduce interest rate risk and foreign currency exposure on certain of its borrowings. Investments are funded on a "pooled" approach, i.e., the pool of liabilities that funds the investment portfolio has an average rate and maturity or reset date that corresponds to the average rate and maturity or reset date of the investments which they fund.

In addition to term match funding, the Company's asset-backed securities generally match the interest rate characteristics of the majority of the student loans in the trusts by being indexed to the 91-day Treasury bill. However, at September 30, 2000, there were approximately \$3.6 billion of PLUS student loans outstanding in the trusts, which have interest rates that reset annually based on the final auction of 52-week Treasury bills before each July 1. In addition, at September 30, 2000 approximately \$16.4 billion of LIBOR-based asset-backed securities had been issued by the trusts, which have interest rates that generally reset quarterly. The Company manages this basis risk through its on-balance sheet financing and hedging activities.

In the table below the Company's variable rate assets and liabilities are categorized by reset date of the underlying index. Fixed rate assets and liabilities are categorized based on their maturity dates. An interest rate gap is the difference between volumes of assets and volumes of liabilities maturing or repricing during specific future time intervals. The following gap analysis reflects rate-sensitive positions at September 30, 2000 and is not necessarily reflective of positions that existed throughout the period.

	INTEREST RATE SENSITIVITY PERIOD					
	3 MONTHS OR LESS	3 MONTHS TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 2 YEARS	2 TO 5 YEARS	OVER 5 YEARS
<b>ASSETS</b>						
Student loans.....	\$33,871	\$ --	\$2,078	\$ --	\$ --	\$ --
Warehousing advances.....	833	14	--	--	2	12
Academic facilities financings.....	7	6	73	79	308	410
Cash and investments.....	2,666	19	14	59	123	1,737
Other assets.....	27	32	64	118	349	2,743
Total assets.....	37,404	71	2,229	256	782	4,902
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Short-term borrowings.....	29,104	961	835	--	--	--
Long-term notes.....	10,175	12	--	476	295	565
Other liabilities.....	--	--	--	--	--	1,672
Minority interest in subsidiary.....	--	--	--	--	--	214
Stockholders' equity.....	--	--	--	--	--	1,335
Total liabilities and stockholders' equity.....	39,279	973	835	476	295	3,786
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>						
Interest rate swaps.....	3,014	972	(3,039)	100	(61)	(986)
Impact of securitized student loans.....	(3,576)	--	3,576	--	--	--
Total off-balance sheet financial instruments.....	(562)	972	537	100	(61)	(986)
Period gap.....	\$(2,437)	\$ 70	\$1,931	\$(120)	\$ 426	\$ 130
Cumulative gap.....	\$(2,437)	\$(2,367)	\$ (436)	\$(556)	\$ (130)	\$ --
Ratio of interest-sensitive assets to interest-sensitive liabilities.....	95.2%	4.0%	259.3%	29.0%	146.8%	382.1%
Ratio of cumulative gap to total assets.....	5.3%	5.2%	1.0%	1.2%	.3%	--%



INTEREST RATE SENSITIVITY ANALYSIS

The effect of short-term movements in interest rates on the Company's results of operations and financial position has been limited through the Company's risk management activities. The Company performed a sensitivity analysis to determine the effect of a hypothetical increase in market interest rates of 10 percent on the Company's variable rate assets and liabilities and a hypothetical 10 percent increase in spreads to their underlying index. Based on this analysis, there has not been a material change in market risk from December 31, 1999 as reported in the Company's Form 10-K.

AVERAGE TERMS TO MATURITY

The following table reflects the average terms to maturity for the Company's earning assets and liabilities at September 30, 2000 (in years):

	ON- BALANCE SHEET -----	OFF- BALANCE SHEET -----	MANAGED -----
<b>EARNING ASSETS</b>			
Student loans.....	7.1	4.3	5.8
Warehousing advances.....	5.9	--	5.9
Academic facilities financings.....	6.8	--	6.8
Cash and investments.....	5.8	--	5.8
	---	---	---
Total earning assets.....	7.0	4.3	5.8
	---	---	---
<b>BORROWINGS</b>			
Short-term borrowings.....	.4	--	.4
Long-term borrowings.....	3.8	4.3	4.2
	---	---	---
Total borrowings.....	1.3	4.3	2.6
	---	---	---

In the above table, Treasury receipts and variable rate asset-backed securities, although generally liquid in nature, extend the weighted average remaining term to maturity of cash and investments to 5.8 years. As student loans are securitized, the need for long-term on-balance sheet financing will decrease.

COMMON STOCK

As a result of the USA Group acquisition, the Company issued approximately 10 million shares during the third quarter of 2000. The Company repurchased 1.5 million shares during the quarter through open market purchases. The net result was an increase in outstanding shares to 164 million at September 30, 2000. At September 30, 2000, the total common shares that could potentially be acquired over the next five years under outstanding equity forward contracts was 21 million, and the Company has remaining authority to enter into additional share repurchases and equity forward contracts for 5 million shares.

The following table summarizes the Company's common share repurchase and equity forward activity for the three and nine months ended September 30, 2000 and 1999. (All amounts in the tables are common shares in millions.)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
Common shares repurchased:				
Open market.....	1.5	.9	1.5	1.8
Equity forwards.....	--	1.4	2.5	4.3
Total shares repurchased.....	1.5	2.3	4.0	6.1
Average purchase price per share.....	\$42.32	\$42.25	\$42.53	\$40.97
Equity forward contracts:				
Outstanding at beginning of period.....	20.6	20.6	21.4	20.5
New contracts.....	--	1.5	1.7	4.5
Exercises/Terminations.....	3.4	(1.4)	(2.5)	(4.3)
Outstanding at end of period.....	(3.4)	20.7	20.6	20.7
Board of director authority remaining at end of period.....	5.4	6.4	5.4	6.4

As of September 30, 2000, the expiration dates and range of purchase prices for outstanding equity forward contracts are as follows:

YEAR OF MATURITY	SEPTEMBER 30, 2000	
	OUTSTANDING CONTRACTS	RANGE OF MARKET PRICES
2001.....	8.7	32.11 - 45.96
2002.....	5.0	41.01 - 45.55
2003.....	4.0	41.20 - 47.50
2004.....	1.7	39.82 - 45.62
2005.....	1.2	30.00 - 36.04
Total.....	20.6	

#### OTHER RELATED EVENTS AND INFORMATION

##### OTHER DEVELOPMENTS

Nothing to report.

##### SUBSEQUENT EVENTS

On October 3, 2000, the Company issued \$500,000,000 of its Senior Notes due September 16, 2002. The proceeds to the Company from the sale of these notes, before expenses, were \$498,750,000 and were used for general corporate purposes.

Effective October 27, 2000, the Company renewed its \$600 million 364-day revolving credit facility for an additional 364-day period. Liquidity support for the Company's commercial paper program is provided by this \$600 million 364-day revolving credit facility which matures on October 26, 2001 and a \$400 million 5-year revolving credit facility which matures on October 29, 2004.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On November 3, 2000, the Company together with Bank of America, N.A., Wells Fargo Bank South Dakota, The Student Loan Corporation (a subsidiary of Citibank), Key Bank USA, N.A., Bank One, N.A., Nel.net, Inc., National Council of Higher Education Loan Programs, Inc. and several state secondary markets, filed a complaint against Richard W. Riley, the Secretary of the United States Department of Education. The complaint, which was filed in the U.S. District Court for the District of Columbia, challenges certain actions taken by the Department of Education under the Higher Education Act governing origination fees, repayment incentives and maximum loan amounts under the Federal Direct Loan Program. It seeks a declaratory judgment that the actions of the Department of Education violated the Higher Education Act and the Administrative Procedure Act.

ITEM 2. CHANGES IN SECURITIES.

Nothing to report.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Nothing to report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Nothing to report.

ITEM 5. OTHER INFORMATION.

Nothing to Report.

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

(a) Exhibits

4.1 Registration Rights Agreement

10.1 Employment Agreement

10.2 Form of Performance Stock Agreement

27 Financial Data Schedule

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the quarter ended September 30, 2000.

SIGNATURES

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

USA EDUCATION, INC.  
(Registrant)

By: /s/ JOHN F. REMONDI

-----  
John F. Remondi  
SENIOR VICE PRESIDENT, FINANCE  
(Principal Financial and Accounting  
Officer and Duly Authorized Officer)

Date: November 14, 2000

REGISTRATION RIGHTS AGREEMENT

Dated as of July 31, 2000

TABLE OF CONTENTS

	Page
1. Background.....	1
2. Definitions.....	1
3. Registration.....	4
3.1 Demand Registration.....	4
(a) Requests.....	4
(b) Obligation to Effect Registration.....	4
(c) Shelf Registration.....	4
(d) Effective Registration Statement.....	5
(e) Pro Rata Allocation.....	5
(f) Inclusion of Other Securities in Demand Registration.....	5
3.2 Registration Procedures.....	6
3.3 Underwritten Offerings.....	10
(a) Underwritten Offerings Exclusive.....	10
(b) Underwriting Agreement.....	11
(c) Selection of Underwriters.....	11
(d) Hold Back Agreements.....	11
3.4 Preparation; Reasonable Investigation.....	12
3.5 Indemnification.....	12
(a) Indemnification by the Company.....	12
(b) Indemnification by the Sellers.....	13
(c) Notices of Claims, etc.....	13
(d) Other Indemnification.....	14
(e) Other Remedies.....	14
3.6 Expenses.....	15
4. Miscellaneous.....	15
4.1 Rule 144; Legended Securities; etc.....	15
4.2 Amendments and Waivers.....	15
4.3 Nominees for Beneficial Owners.....	16
4.4 Successors, Assigns and Transferees.....	16

4.5	Notices.....	16
4.6	No Inconsistent Agreements.....	17
4.7	Remedies; Attorneys' Fees.....	17
4.8	Severability.....	17
4.9	Headings.....	17
4.10	Counterparts.....	17
4.11	Governing Law.....	17
4.12	No Third Party Beneficiaries.....	17
4.13	Consent to Jurisdiction.....	17

## REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT (the "Agreement"), dated as of July 31, 2000, between SLM Holding Corporation, a Delaware corporation (the "Company"), and USA Group, Inc., a Delaware corporation (the "Group").

### 1. BACKGROUND.

(a) The Company is a party to a Purchase Agreement with the Group, HIJ Corporation, a Delaware corporation, USA Group Loan Services, Inc., a Delaware corporation, and USA Group Guarantee Services, Inc., a Delaware corporation dated June 14, 2000 (the "Purchase Agreement"), pursuant to which the Company agreed to deliver at Closing to the Group 9,034,505 shares of common stock, par value \$.01 per share, of the Company, subject to adjustment as set forth in the Purchase Agreement (as adjusted from time to time, the "Shares"). In order to induce the Group to enter into the Purchase Agreement, the Company has agreed to provide the registration rights set forth in this Agreement for the benefit of the Group and its direct and indirect transferees. The execution and delivery of this Agreement by the Company is a condition to the Group's obligations pursuant to the Purchase Agreement.

(b) This Agreement shall become effective with respect to any Registrable Securities upon the issuance or sale of Registrable Securities pursuant to the Purchase Agreement. This Agreement shall remain in effect upon the assignment or transfer of Registrable Securities by the Group or a Holder to an Affiliate, or other successors, assigns and transferees of Group of such Holder pursuant to Section 4.4.

2. DEFINITIONS.. For purposes of this Agreement, the following terms have the following respective meanings:

"AFFILIATE" means, with respect to any Person, any other Person directly or indirectly Controlling, Controlled by or under common Control with such first Person. "Control" means the power to direct or cause the direction of management or policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise. Any director, member of management or other employee of the Company or any of its Subsidiaries who would not otherwise be an Affiliate of the Group shall not be deemed to be an Affiliate of the Group.

"AGREEMENT" is defined in the first paragraph of this Agreement.

"BUSINESS DAY" means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required to close.

"COMMON STOCK" means the Common Stock, par value of \$.01 per share, of the Company.

"COMPANY" is defined in the first paragraph of this Agreement.

"DTC" means the Depository Trust Company.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended, or any successor federal statute, and the rules and regulations thereunder which shall be in effect at the time. Any reference to a particular section thereof shall include a reference to the corresponding section, if any, of any such successor federal statute, and the rules and regulations thereunder.

"GROUP" is defined in the introduction to this Agreement.

"HOLDER" means any holder of Registrable Securities, including an Affiliate or other successors, assigns and transferees of Group or a Holder that has received Registrable Securities pursuant to Section 4.4.

"PURCHASE AGREEMENT" is defined in Section 1(a).

"NASD" means the National Association of Securities Dealers, Inc. ----

"PERSON" means any natural person, firm, partnership, association, corporation, company, trust, business trust, governmental entity or other entity.

"POSTPONEMENT PERIOD" is defined in Section 3.2(o).

"PROSPECTUS" means the prospectus included in any Registration Statement (including, without limitation, a prospectus that discloses information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement and all other amendments and supplements to the prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such prospectus.

"REGISTRABLE SECURITIES" means the Shares and any securities issued or issuable with respect to any Shares (i) upon any conversion or exchange thereof, (ii) by way of stock dividend or other distribution, stock split or reverse stock split or (iii) in connection with a combination of shares, recapitalization, merger, consolidation, exchange offer or other reorganization. As to any particular Registrable Securities, once issued such securities shall cease to be Registrable Securities when (A) a Registration Statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities shall have been disposed of in accordance with such Registration Statement, (B) such securities shall have been distributed to the public in reliance upon Rule 144, (C) subject to the provisions of Section 4.1(b)(ii), such securities shall have been otherwise transferred, new certificates for such securities not bearing a legend restricting further transfer shall have been delivered by the Company and subsequent disposition of such securities shall not require registration or qualification of such securities under the Securities Act or any similar state law then in force or (D) such securities shall have been acquired by the Company.

"REGISTRATION EXPENSES" means all fees and expenses incident to the performance of or compliance with the provisions of this Agreement, whether or not any registration statement is filed or becomes effective, including, without limitation, all (i) registration and filing fees (including, without limitation, (A) fees with respect to filings required to be made with the NASD in connection with an underwritten offering, (B) fees and expenses of compliance with



state securities or blue sky laws (including, without limitation, fees and disbursements of counsel for the underwriter or underwriters in connection with blue sky qualifications of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as provided in Section 3.2(e)), and (C) fees and other expenses associated with the listing of the Shares and any securities issued or issuable with respect to any Shares on the New York Stock Exchange and any other applicable exchange, (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities in a form eligible for deposit with DTC and of printing prospectuses), (iii) fees and disbursements of all independent certified public accountants referred to in Section 3.3 (including, without limitation, the reasonable expenses of any special audit and "cold comfort" letters required by or incident to such performance), (iv) the fees and expenses of any "qualified independent underwriter" or other independent appraiser participating in an offering pursuant to Rule 2720 of the NASD Rules of Conduct, (v) liability insurance under the Securities Act or any other securities laws, if the Company desires such insurance, (vi) fees and expenses of all attorneys, advisers, appraisers and other persons retained by the Company or any Subsidiary of the Company, (vii) internal expenses of the Company and its Subsidiaries (including, without limitation, all salaries and expenses of officers and employees of the Company and its Subsidiaries performing legal or accounting duties), (viii) the expense of any annual audit, (ix) the expenses relating to printing, word processing and distributing all registration statements, underwriting agreements, securities sales agreements, indentures and any other documents necessary in order to comply with this Agreement and (x) the reasonable out-of-pocket expenses of the Holders of the Registrable Securities being registered in such registration incurred in connection therewith including, without limitation, the reasonable fees and disbursements of not more than one counsel chosen by the Holders of a majority of the Registrable Securities to be included in such Registration Statement. "Registration Expenses" shall not include any underwriting discounts or commissions or any transfer taxes payable in respect of the sale of Registrable Securities by the Holders thereof.

"REGISTRATION STATEMENT" means any registration statement of the Company that covers any of the Registrable Securities pursuant to the provisions of this Agreement, and all amendments and supplements to any such registration statement, including post-effective amendments, in each case including the Prospectus, all exhibits and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

"RULE 144" means Rule 144 (or any successor provision) under the Securities Act.

"RULE 145" means Rule 145 (or any successor provision) under the Securities Act.

"SECURITIES ACT" means the Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations thereunder which shall be in effect at the time. Any reference to a particular section thereof shall include a reference to the corresponding section, if any, of any such successor federal statute, and the rules and regulations thereunder.

"SEC" means the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act or the Exchange Act.

"SHARES" is defined in Section 1(a).

"SPECIAL REGISTRATION" means the registration of shares of equity securities and/or options or other rights in respect thereof to be offered solely to directors, members of management, employees, consultants or sales agents, distributors or similar representatives of the Company or its direct or indirect Subsidiaries, solely on Form S-8 or any successor form.

"SUBSIDIARY" means, with respect to any Person, any corporation or Person, a majority of the outstanding voting stock or other equity interests of which is owned, directly or indirectly, by that Person.

"UNDERWRITTEN REGISTRATION" or "UNDERWRITTEN OFFERING" means a registration in which securities of the Company (including Registrable Securities) are sold to an underwriter for reoffering to the public.

### 3. REGISTRATION.

#### 3.1 DEMAND REGISTRATION.

(a) REQUESTS. Subject to the provisions of Section 3.5, beginning on the date that is six months after the Closing (as defined in the Purchase Agreement) under the Purchase Agreement, Holders of not less than 25% of the then outstanding Registrable Securities shall have the right to request that the Company register under the Securities Act all or part of the Registrable Securities of the Holders making such request, which requests shall specify the intended method of disposition thereof by such Holders, including whether the registration requested is for an underwritten offering. For a registration to be underwritten, a majority of the Holders requesting registration (as measured by ownership of Registrable Securities) must so request. The Company shall not be required to file more than one registration statement in any 6-month period and shall not be required to file a registration statement in any 6-month period for more than 25% (subject to adjustment for a stock split, stock dividend, recapitalization, or similar event) of the total Shares issued to Group pursuant to the Purchase Agreement.

(b) OBLIGATION TO EFFECT REGISTRATION. Within 10 days after receipt by the Company of any request for registration pursuant to Section 3.1(a), the Company shall promptly give written notice of such requested registration to all Holders, and thereupon will use its best efforts to effect the registration under the Securities Act of

(i) the Registrable Securities that the Company has been so requested to register pursuant to Section 3.1(a), and

(ii) subject to the limitation on number of shares set forth in Section 3.1(a), all other Registrable Securities which the Company has been requested to register by the Holders thereof by written request given to the Company within 10 days after the Company has given such written notice (which request shall specify the intended method of disposition of such Registrable Securities), all to the extent required to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities so to be registered.

(c) SHELF REGISTRATION. If the Company is eligible to file such Registration Statement on Form S-3, the Registration Statement covering such Registrable Securities may (and, subject to the limitations contained elsewhere herein shall, if requested by the Holders of a

majority of the Registrable Securities) provide for the sale by the Holders thereof of the Registrable Securities from time to time on a delayed or a continuous basis under Rule 415 under the Securities Act. If more than one underwritten offering is requested under any particular shelf registration, each such additional underwritten offering shall constitute a separate "demand" registration for purposes of Section 3.1(a).

(d) EFFECTIVE REGISTRATION STATEMENT. A registration requested pursuant to Section 3.1(a) shall not be deemed to have been effected unless it is declared effective by the SEC and remains effective for the period specified in Section 3.2(b). Notwithstanding the preceding sentence, a registration requested pursuant to Section 3.1(a) that does not become effective after the Company has filed a Registration Statement with respect thereto by reason of the refusal to proceed of the Holders of Registrable Securities requesting the registration, or by reason of a request by a majority of the Selling Holders participating in such registration that such registration be withdrawn, shall be deemed to have been effected by the Company at the request of such Holders.

(e) PRO RATA ALLOCATION. If the Holders of a majority of the Registrable Securities for which registration is being requested pursuant to Section 3.1(a) determine, based on consultation with the managing underwriters or, in an offering that is not underwritten, with an investment banker, that the number of securities to be sold in any such offering should be limited due to market conditions or otherwise, Holders of Registrable Securities proposing to sell their securities in such registration shall share pro rata in the number of securities being offered (as determined by the Holders holding a majority of the Registrable Securities for which registration is being requested in consultation with the managing underwriters or investment banker, as the case may be) and registered for their account, such sharing to be based on the number of Registrable Securities as to which registration was requested by such Holders.

(f) INCLUSION OF OTHER SECURITIES IN DEMAND REGISTRATION.

(i) The Company may, subject to the remainder of this Section 3.1(f), elect to include in any Registration Statement made pursuant to Section 3.1(a), authorized but unissued shares of Common Stock, shares of Common Stock held as treasury stock or, if approved by the Holders of a majority of Registrable Securities, shares held by the Company's officers or directors.

(ii) Notwithstanding any other provision of this Section 3(f), the Company shall not register securities (other than Registrable Securities) for sale for the account of any Person (other than the Company, its officers or directors) in any registration requested pursuant to Section 3.1(a) unless permitted to do so by the written consent of the Holders holding at least a majority of the Registrable Securities proposed to be sold in such registration.

(iii) If any Registration Statement made pursuant to Section 3.1(a) involves an underwritten offering and the managing underwriter of such offering (or, in connection with an offering that is not underwritten, an investment banker) shall advise the Company that, in its view, the number of securities requested to be included in such Registration exceeds the largest number that can be sold in an orderly manner in such offering within a price range acceptable to the selling Holders, the Company shall include in such Registration:

(A) first, all shares of Common Stock requested to be included in such Registration by the selling Holders as provided in Section 3.1(e); and

(B) second, to the extent that the number of securities to be registered pursuant to clause (A) is less than the largest number that can be sold in an orderly manner in such offering within a price range acceptable to the selling Holders, securities that the Company proposes to register; and

(C) third, to the extent that the number of shares registered pursuant to clauses (A) and (B) is less than the largest number that can be sold in an orderly manner in such offering within a price range acceptable to the selling Holders, the securities requested to be included by any other holders. The securities to be included in any such registration pursuant to clause (C) shall be allocated on a pro rata basis among all holders requesting that securities be included in such registration pursuant to such clause on the basis of the number of securities requested to be included by such holders.

3.2 REGISTRATION PROCEDURES. If and whenever the Company is required to use its best efforts to effect the registration of any Registrable Securities under the Securities Act as provided in Section 3.1, the Company shall:

(a) prepare and file with the SEC, as soon as practicable, a Registration Statement with respect to such securities, make all required filings with the NASD and use best efforts to cause such Registration Statement to become effective at the earliest possible date;

(b) prepare and file with the SEC such amendments and supplements to such Registration Statement and the Prospectus used in connection therewith and such other documents as may be necessary to keep such Registration Statement effective until the earlier of (i) 30 days after the effective date of such Registration Statement (180 days in the case of a Shelf Registration pursuant to Section 3.1(c)) or (ii) the consummation of the disposition by the Holders of all the Registrable Securities covered by such Registration Statement and otherwise comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement;

(c) furnish to counsel (if any) selected by the Holders of a majority of the Registrable Securities covered by such Registration Statement and to counsel for the underwriters in any underwritten offering copies of all documents proposed to be filed with the SEC in connection with such registration a reasonable time prior to the proposed filing thereof and give reasonable consideration in good faith to any comments of such Holders, counsel and underwriters. The Company shall not file any Registration Statement or Prospectus or any amendments or supplements thereto pursuant to a registration under Section 3.1(a) if the Holders of a majority of the Registrable Securities covered by such Registration Statement, their counsel, or the underwriters, if any, shall reasonably object in writing;

(d) furnish to each seller of Registrable Securities, without charge, such reasonable number of conformed copies of such Registration Statement and of each such amendment and supplement thereto (in each case, including all exhibits (including exhibits incorporated by reference), financial statements, schedules and all documents incorporated

therein, deemed to be incorporated therein by reference or filed therewith, except that the Company shall not be obligated to furnish any seller of securities with more than two copies of such exhibits and documents), such number of copies of the Prospectus included in such Registration Statement (including each preliminary prospectus and any summary prospectus) in conformity with the requirements of the Securities Act, and such other documents, as such seller may reasonably request in order to facilitate the disposition of the securities owned by such seller;

(e) use its best efforts to register or qualify and cooperate with the Holders of Registrable Securities, the underwriters and their respective counsels in connection with the registration or qualification (or exemption from such registration or qualification) of the securities covered by such Registration Statement under such other securities or blue sky laws of such jurisdictions as each seller shall request; provided, however, that where Registrable Securities are offered other than through an underwritten offering, the Company agrees to cause its counsel to perform blue sky investigations and file registrations and qualifications required to be filed pursuant to this Section 3.2(e); keep each such registration or qualification (or exemption therefrom) effective during the period such Registration Statement is required to be effective hereunder and do any and all other acts and things which may be necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of the securities owned by such seller, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it is not so qualified, subject itself to taxation in any jurisdiction wherein it is not so subject, or take any action which would subject it to general service of process in any jurisdiction wherein it is not so subject;

(f) in connection with an underwritten public offering only, furnish to each seller of Registrable Securities a signed counterpart, addressed to the sellers, of

(i) an opinion of counsel for the Company experienced in securities law matters, dated the effective date of the Registration Statement, and

(ii) a "cold comfort" letter signed by the independent public accountants who have issued an audit report on the Company's financial statements included in the Registration Statement, subject to such seller having executed and delivered to the independent public accountants such certificates and documents as such accountants shall reasonably request, covering substantially the same matters with respect to the Registration Statement (and the Prospectus included therein) and, in the case of such accountants' letter, with respect to events subsequent to the date of such financial statements, as are customarily covered in opinions of issuer's counsel and in accountants' letters delivered to the underwriters in underwritten public offerings of securities;

(g) notify each Holder of Registrable Securities subject to such Registration Statement

(i) if such Registration Statement, at the time it or any amendment thereto became effective, (x) contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading upon discovery by the Company of such material misstatement or omission or (y)

upon discovery by the Company of the happening of any event as a result of which the Company believes there would be such a material misstatement or omission, and, as promptly as practicable, prepare and file with the SEC a post-effective amendment to such registration statement and use best efforts to cause such post-effective amendment to become effective such that such registration statement, as so amended, shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and

(ii) at any time when a Prospectus relating thereto is required to be delivered under the Securities Act, if the Prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading upon discovery by the Company of such material misstatement or omission or upon discovery by the Company of the happening of any event as a result of which the Company believes there would be a material misstatement or omission, and, as promptly as is practicable, prepare and furnish to such Holder a reasonable number of copies of a supplement to or an amendment of such Prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such Prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(h) otherwise use its best efforts to comply with all applicable rules and regulations of the SEC, and make available to its security holders, as soon as reasonably practicable, an earnings statement of the Company complying with the provisions of Section 11(a) of the Securities Act and Rule 158 under the Securities Act (or any similar rule promulgated under the Securities Act) no later than 45 days after the end of any 12-month period (or 90 days after the end of any 12-month period if such period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Registrable Securities are sold to an underwriter or to underwriters in a firm commitment or best efforts underwritten offering and (ii) if not sold to an underwriter or to underwriters in such an offering, commencing on the first day of the first fiscal quarter of the Company after the effective date of the relevant Registration Statement, which statements shall cover said 12-month periods;

(i) promptly notify each Holder of any Registrable Securities covered by such Registration Statement, their counsel and the underwriters (i) when such Registration Statement, or any post-effective amendment to such Registration Statement, shall have become effective, or any amendment of or supplement to the Prospectus used in connection therewith shall have been filed, (ii) of any request by the SEC to amend such Registration Statement or to amend or supplement such Prospectus or for additional information, (iii) of the issuance by the SEC of any stop order suspending the effectiveness of such Registration Statement or of any order preventing or suspending the use of any preliminary prospectus or the initiation or threatening of any proceedings for any of such purposes, (iv) of the suspension of the qualification of such securities for offering or sale in any jurisdiction, or of the institution of any proceedings for any of such purposes and (v) if at any time when a Prospectus is to be required by the Securities Act to be delivered in connection with the sale of the Registrable Securities, the representations and warranties of the Company contained in any agreement (including the underwriting agreement

contemplated in Section 3.3(b) below), to the knowledge of the Company, cease to be true and correct in any material respect;

(j) use its best efforts to prevent the issuance of any order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of a Prospectus or suspending the qualification (or exemption from qualification) of any of the Registrable Securities covered thereby for sale in any jurisdiction, and, if any such order is issued, to obtain the withdrawal of any such order at the earliest possible moment;

(k) if requested by the managing underwriter, if any, or the Holders of a majority of the Registrable Securities being sold in connection with an underwriting offering, (i) promptly incorporate in a prospectus supplement or post-effective amendment such information as the managing underwriter, if any, or such Holders reasonably request to be included therein to comply with applicable law and (ii) make all required filings of such prospectus supplement or such post-effective amendment as soon as practicable after the Company has received notification of the matters to be incorporated in such prospectus supplement or post-effective amendment;

(l) cooperate with the Holders and the managing underwriter, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold, which certificates shall not bear any restrictive legends whatsoever and shall be in a form eligible for deposit with DTC, and enable such Registrable Securities to be in such denominations and registered in such names as the underwriters, if any, or Holders may reasonably request at least two business days prior to any sale of Registrable Securities in a firm commitment underwritten public offering;

(m) use its best efforts to cause the Registrable Securities covered by a Registration Statement to be registered with, and to obtain the consent or approval of, each governmental agency or authority, whether federal, state, local or foreign, which may be required to effect such registration or the offering or sale in connection therewith or to enable the selling Holders to offer, or to consummate the disposition of, the Registrable Securities subject to such Registration Statement, except as may be required solely as a consequence of the nature of such selling Holder's business, in which case the Company will cooperate in all reasonable respects with the filing of the Registration Statement and the granting of such approvals;

(n) prior to the effective date of the Registration Statement, (i) provide the registrar for the Common Stock or such other Registrable Securities with printed certificates for such securities in a form eligible for deposit with DTC and (ii) provide a CUSIP number for such securities; and

(o) have the right -- if the Board of Directors of the Company, in its good faith judgment based on advice from its investment banker or legal counsel, determines that any Registration of shares of Common Stock should not be made or continued because it would materially interfere with any material financing, acquisition, corporation reorganization, merger, or other transaction involving the Company (a "Valid Business Reason") -- (i) to postpone filing a Registration Statement until such Valid Business Reason no longer exists, but in no event for more than 45 days, and (ii) to cause any Registration Statement that has already been filed to be

withdrawn and its effectiveness terminated or to postpone amending or supplementing such Registration Statement until such Valid Business Reason no longer exists, but in no event for more than 45 days (the "Postponement Period"); provided, however, that in no event shall the Company be permitted to postpone or withdraw a Registration Statement within 190 days after the expiration of the Postponement Period.

The Company may require each Holder of any Registrable Securities as to which any registration is being effected to furnish to the Company such information regarding such Holder and the distribution of such securities as the Company may from time to time reasonably request in writing and as shall be required by law in connection therewith. Each such Holder agrees to furnish promptly to the Company all information required to be disclosed in order to make the information previously furnished to the Company by such Holder not materially misleading.

The Company agrees not to file or make any amendment to any Registration Statement with respect to any Registrable Securities, or any amendment of or supplement to the Prospectus used in connection therewith, which refers to any seller of any securities covered thereby by name, or otherwise identifies such seller as the holder of any securities of the Company, without the consent of such seller, such consent not to be unreasonably withheld, except that no such consent shall be required for any disclosure that is required by law.

By the acquisition of Registrable Securities, each Holder shall be deemed to have agreed that upon receipt of any notice from the Company pursuant to Section 3.2(g) or (o), such Holder will promptly discontinue such Holder's disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Holder shall have received, in the case of clause (i) of Section 3.2(g), notice from the Company that such Registration Statement has been amended, as contemplated by Section 3.2(g); in the case of clause (ii) of Section 3.2(g), copies of the supplemented or amended Prospectus contemplated by Section 3.2(g); or, in the case of Section 3.2(o), the time period specified has elapsed or such Holder has received notice from the Company that the Postponement Period has been terminated. If so directed by the Company, each Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, in such Holder's possession of the Prospectus covering such Registrable Securities at the time of receipt of such notice. In the event that the Company shall give any such notice, the period mentioned in Section 3.2(b) shall be extended by the number of days during the period from and including the date of the giving of such notice to and including the date when each seller of any Registrable Securities covered by such Registration Statement shall have received the copies of the supplemented or amended Prospectus contemplated by Section 3.2(g).

**3.3 UNDERWRITTEN OFFERINGS.** The provisions of this Section 3.3 do not establish additional registration rights but instead set forth procedures applicable, in addition to those set forth in Sections 3.1 and 3.2, to any registration that is an underwritten offering.

(a) **UNDERWRITTEN OFFERINGS EXCLUSIVE.** Whenever a registration requested pursuant to Section 3.1 is for an underwritten offering, only securities that are to be distributed by the underwriters may be included in the registration.



(b) UNDERWRITING AGREEMENT. If requested by the underwriters for any underwritten offering by Holders pursuant to a registration requested under Section 3.1, the Company shall enter into an underwriting agreement with such underwriters for such offering, such agreement to be reasonably satisfactory in substance and form to the Holders of a majority of the Registrable Securities to be covered by such registration and to the underwriters and to contain such representations and warranties by the Company and such other terms and provisions as are customarily contained in agreements of this type, including, but not limited to, indemnities to the effect and to the extent provided in Section 3.5, provisions for the delivery of officers' certificates, opinions of counsel and accountants' "cold comfort" letters, and hold-back arrangements. The Holders of Registrable Securities to be distributed by such underwriters shall be parties to such underwriting agreement and may, at their option, require that any or all of the representations and warranties by, and the agreements on the part of, the Company to and for the benefit of such underwriters be made to and for the benefit of such Holders and that any or all of the conditions precedent to the obligations of such underwriters under such underwriting agreement shall also be conditions precedent to the obligations of such Holders. No such Holder shall be required by the Company to make any representations or warranties to, or agreements with, the Company or the underwriters other than as set forth in Section 3.3(d) and representations, warranties or agreements regarding such Holder and such Holder's intended method of distribution.

(c) SELECTION OF UNDERWRITERS. Whenever a registration requested pursuant to Section 3.1 is for an underwritten offering, the Holders of a majority of the Registrable Securities to be registered pursuant to such offering shall have the right to select one or more underwriters to administer the offering, subject to the consent of the Company, which shall not be unreasonably withheld. In all cases in this Section 3.3(c), at least one of the underwriters shall be an underwriter of nationally recognized standing.

(d) HOLD BACK AGREEMENTS. If the executive officers of the Company are required to enter into a similar agreement, if whenever the Company proposes to register any of its equity securities under the Securities Act, whether or not for its own account (other than pursuant to a Special Registration), or is required to use its best efforts to effect the registration of any Registrable Securities under the Securities Act pursuant to Section 3.1, each Holder who at such time holds more than 5% of the issued and outstanding shares of Common Stock of the Company, if required by the managing underwriter in an underwritten offering, agrees by acquisition of such Registrable Securities not to effect (other than pursuant to such registration) any public sale or distribution, including, but not limited to, any sale pursuant to Rule 144, of any Registrable Securities, any other equity securities of the Company or any securities convertible into or exchangeable or exercisable for any equity securities of the Company during the 10 days prior to, and for 90 days after, the effective date of such registration, to the extent timely notified in writing by the Company or the managing underwriter, and the Company agrees to cause each holder of any equity security, or of any security convertible into or exchangeable or exercisable for any equity security, of the Company purchased from the Company at any time other than in a public offering to enter into a similar agreement with the Company. The foregoing provisions shall not apply to any Holder if such Holder is prevented by applicable statute or regulation from entering into any such agreement; provided, however, that any such Holder shall undertake, in its request to participate in any such underwritten offering, not to effect any public sale or distribution of any applicable class of Registrable Securities

commencing on the date of sale of such applicable class of Registrable Securities unless it has provided 45 days prior written notice of such sale or distribution to the underwriter or underwriters. The Company further agrees not to effect (other than pursuant to such registration or pursuant to a Special Registration) any public sale or distribution, or to file any Registration Statement (other than such registration or a Special Registration) covering any, of its equity securities, or any securities convertible into or exchangeable or exercisable for such securities, during the 10 days prior to, and for 90 days after, the effective date of such registration if required by the managing underwriter.

3.4 PREPARATION; REASONABLE INVESTIGATION. In connection with the preparation and filing of each Registration Statement registering Registrable Securities under the Securities Act, the Company shall give the Holders of such Registrable Securities so to be registered and their underwriters, if any, and their respective counsel and accountants, the opportunity to participate in the preparation of such Registration Statement, each Prospectus included therein or filed with the SEC, and each amendment thereof or supplement thereto, and shall give each of them such access to all pertinent financial, corporate and other documents and properties of the Company and its Subsidiaries, and such opportunities to discuss the business of the Company with its officers, directors, employees and the independent public accountants who have issued audit reports on its financial statements as shall be necessary, in the opinion of such Holders' and such underwriters' respective counsel, to conduct a reasonable investigation within the meaning of the Securities Act.

### 3.5 INDEMNIFICATION.

(a) INDEMNIFICATION BY THE COMPANY. In the event of any registration of any Registrable Securities under the Securities Act pursuant to Section 3.1, the Company shall indemnify and hold harmless the seller of such securities, its directors, officers, and employees, each other person who participates as an underwriter, broker or dealer in the offering or sale of such securities and each other person, if any, who controls such seller or any such participating person within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, against any and all losses, claims, damages or liabilities, joint or several, to which such seller or any such director, officer, employee, participating person or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement under which such securities were registered under the Securities Act, any Prospectus or preliminary prospectus included therein, or any amendment or supplement thereto, or (ii) any omission or alleged omission to state a material fact required to be stated in any such Registration Statement, Prospectus, preliminary prospectus, amendment or supplement or necessary to make the statements therein not misleading; and the Company shall reimburse such seller and each such director, officer, employee, participating person and controlling person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, liability, action or proceeding as such expenses are incurred; provided that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or expense arises out of or is based upon an untrue statement or omission made in any such Registration Statement, Prospectus, preliminary prospectus, amendment or

supplement in reliance upon and in conformity with written information furnished to the Company by such seller or participating person expressly for use in the preparation thereof.

(b) INDEMNIFICATION BY THE SELLERS. In the event of any registration of any Registrable Securities under the Securities Act pursuant to Section 3.1, each of the prospective sellers of such securities, will indemnify and hold harmless the Company, each director of the Company, each officer of the Company who shall sign such Registration Statement, and each other person, if any, who controls the Company or any such participating person within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, against any and all losses, claims, damages or liabilities, joint or several, to which the Company or any such director, officer, employee, participating person or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement under which such securities were registered under the Securities Act, any Prospectus or preliminary prospectus included therein, or any amendment or supplement thereto, or any omission or alleged omission to state a material fact with respect to such seller required to be stated in any such Registration Statement, Prospectus, preliminary prospectus, amendment or supplement or necessary to make the statements therein not misleading if such statement or omission was made in reliance upon and in conformity with written information furnished to the Company by such seller expressly for use in the preparation of any such Registration Statement, Prospectus, preliminary prospectus, amendment or supplement; provided that the liability of each such seller shall be in proportion to and limited to the net amount received by such seller (after deducting any underwriting discount and expenses) from the sale of Registrable Securities pursuant to such Registration Statement.

(c) NOTICES OF CLAIMS, ETC. Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim referred to in the preceding paragraphs of this Section 3.5, such indemnified party shall, if a claim in respect thereof is to be made against an indemnifying party hereunder, give prompt written notice to the latter of the commencement of such action, provided that the failure of any indemnified party to give notice as provided therein shall not relieve the indemnifying party of its obligations under the preceding paragraphs of this Section 3.5 unless the failure to provide prompt written notice shall cause actual prejudice to the indemnifying party. In case any such action is brought against an indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party shall have the right to retain counsel reasonably satisfactory to such indemnified party to defend against such proceeding and shall pay the reasonable fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel and the payment of such fees by the indemnifying party or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them or (iii) the indemnifying party has not retained counsel to defend such proceeding, in which case (under any of such clauses (i), (ii) or (iii)) it is understood that (x) the indemnifying party shall not, in connection with any proceeding or

related proceedings in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate firm for all such indemnified parties and (y) such firm shall be designated in writing by the Holders of a majority of the Registrable Securities included in such Registration Statement in the case of parties indemnified pursuant to Section 3.5(a) and by the Company in the case of parties indemnified pursuant to Section 3.5(b). All fees and expenses that an indemnified party is entitled to receive from an indemnifying party under this Section 3.5 shall be reimbursed as they are incurred, provided that each such indemnified party shall promptly repay such fees and expenses if it is finally judicially determined that such indemnified party is not entitled to indemnification hereunder. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of such indemnified party, which consent shall not be unreasonably withheld, consent to entry of any judgment or enter into any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such judgment or settlement includes as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

(d) OTHER INDEMNIFICATION. Indemnification similar to that specified in the preceding paragraphs of this Section 3.5 (with appropriate modifications) shall be given by the Company and each seller of Registrable Securities with respect to any required registration or other qualification of such Registrable Securities under any federal or state law or regulation of governmental authority other than the Securities Act.

(e) OTHER REMEDIES. If for any reason the foregoing indemnity is unavailable, or is insufficient to hold harmless an indemnified party, other than by reason of the exceptions provided therein, then the indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Holders of Registrable Securities covered by the Registration Statement in question and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Holders agree that it would not be just and equitable if contribution pursuant to this Section 3.5 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph of this Section 3.5 shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. No party

shall be liable for contribution under this Section 3.5(e) except to the extent and under such circumstances as such party would have been liable to indemnify under this Section 3.5 if such indemnification were enforceable under applicable law.

3.6 EXPENSES.. The Company shall pay all Registration Expenses in connection with each registration of Registrable Securities pursuant to this Section 3.

#### 4 MISCELLANEOUS.

##### 4.1 RULE 144; LEGENDED SECURITIES; ETC.

(a) The Company shall file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder (or, if the Company is not required to file such reports, it shall, upon the request of any Holder, make publicly available such information as necessary to permit sales pursuant to Rule 144 or Rule 145), and shall take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such holder to sell shares of Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 or Rule 145. Upon the request of any Holder, the Company shall deliver to such Holder a written statement as to whether it has complied with such requirements.

(b) The Company shall issue new certificates for Registrable Securities without a legend restricting further transfer if (i) such securities have been sold to the public pursuant to an effective Registration Statement under the Securities Act (other than Form S-8 if the Holder of such Registrable Securities is an Affiliate) or Rule 144, or (ii) (x) such issuance is otherwise permitted under the Securities Act, (y) the Holder of such shares has delivered to the Company an opinion of counsel, which opinion and counsel shall be reasonably satisfactory to the Company, to such effect and (z) the Holder of such shares expressly requests the issuance of such certificates in writing.

4.2 AMENDMENTS AND WAIVERS. This Agreement may be amended, modified or supplemented, and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company shall have obtained the written consent to such amendment, action or omission to act, of the Holder or Holders of at least a majority of the Registrable Securities. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders whose securities are being sold pursuant to a Registration Statement and that does not directly or indirectly affect, impair, limit or compromise the rights of other Holders may be given by Holders of at least a majority of the Registrable Securities being sold by such Holders pursuant to such Registration Statement; provided, however, that the provisions of this sentence may not be amended, modified or supplemented except in accordance with the provisions of the immediately preceding sentence. No amendment, modification or discharge of this Agreement, and no waiver hereunder, shall be valid or binding unless set forth in writing. Any such waiver shall constitute a waiver only with respect to the specific matter described in such writing and shall in no way impair the rights of the party or parties granting such waiver in any other respect or at any other time.

4.3 NOMINEES FOR BENEFICIAL OWNERS. In the event that any Registrable Securities are held by a nominee for the beneficial owner thereof, the beneficial owner thereof may, at its election and unless notice is otherwise given to the Company by the record owner, be treated as the holder of such Registrable Securities for purposes of any request or other action by any Holder or Holders pursuant to this Agreement or any determination of any number or percentage of shares of Registrable Securities held by any Holder or Holders contemplated by this Agreement. If the beneficial owner of any Registrable Securities so elects, the Company may require assurances reasonably satisfactory to it of such owner's beneficial ownership of such Registrable Securities.

4.4 SUCCESSORS, ASSIGNS AND TRANSFEREES. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors assign and transferees. Group or a Holder may assign its rights hereunder to an Affiliate or to other successors, assigns and transferees of Group or such Holder. This Agreement shall survive any transfer of Registrable Securities to and shall inure to the benefit of an Affiliate or such other successors, assigns and transferees of Group or such Holder. In addition, and whether or not any express assignment shall have been made, the provisions of this Agreement which are for the benefit of the parties hereto other than the Company shall also be for the benefit of and enforceable by any subsequent Holder of Registrable Securities, subject to the provisions respecting the minimum numbers or percentages of shares of Registrable Securities required in order to be entitled to certain rights, or take certain actions, contained herein.

4.5 NOTICES. All notices and other communications in connection with this Agreement shall be in writing. Any notice or other communication in connection herewith shall be deemed duly given to any party (a) two Business Days after it is sent by express, registered or certified mail, return receipt requested, postage prepaid, (b) one Business Day after it is sent by overnight courier, (c) when delivered by hand, if personally delivered or (d) when receipt is acknowledged by the addressee, if telecopied. Notices shall be addressed, if to any Holder not a party hereto on the date hereof, to the address of such Holder in the stock record books of the Company, and if to the Company to the following address:

SLM Holding Corporation  
11600 Sallie Mae Drive  
Reston, VA 20193  
Attn: Marianne M. Keler  
(703) 810-5208 (phone)  
(703) 810-7695 (telefax)

with a copy to:  
Wilmer, Cutler & Pickering  
2445 M Street, N.W.  
Washington, D.C. 20037  
Facsimile: (202) 663-6363  
Attention: Richard W. Cass

or at such other address or addresses as the Company may have designated in writing to each holder of Registrable Securities at the time outstanding.

Any party may give any notice or other communication in connection herewith using any other means (including, but not limited to, messenger service, telex or ordinary mail), but no such notice or other communication shall be deemed to have been duly given unless and until it is actually received by the individual for whom it is intended.

4.6 NO INCONSISTENT AGREEMENTS. The Company shall not hereafter enter into any agreement, or amend any existing agreement, with respect to its securities if such agreement would be inconsistent with the rights granted to the Holders by this Agreement.

4.7 REMEDIES; ATTORNEYS' FEES. Each Holder of Registrable Securities, in addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, shall be entitled to specific performance of its rights under this Agreement. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of any provision of this Agreement and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate. As between the parties to this Agreement, in any action or proceeding brought to enforce any provision of this Agreement, or where any provision hereof is validly asserted as a defense, the successful party shall be entitled to recover reasonable attorney's fees in addition to its costs and expenses and any other available remedy.

4.8 SEVERABILITY. If any clause, provision or section of this Agreement shall be invalid, illegal or unenforceable, the invalidity, illegality or unenforceability of such clause, provision or section shall not affect the enforceability or validity of any of the remaining clauses, provisions or sections hereof to the extent permitted by applicable law. The invalidity of any one or more phrases, sentences, clauses, Sections or subsections of this Agreement shall not affect the remaining portions of this Agreement.

4.9 HEADINGS. The headings contained in this Agreement are for purposes of convenience only and shall not affect the meaning or interpretation of this Agreement.

4.10 COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed an original and all of which together constitute one and the same instrument.

4.11 GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware, without giving effect to its principles or rules of conflict of laws that would require the application of the laws of any other jurisdiction.

4.12 NO THIRD PARTY BENEFICIARIES. Except as provided in Sections 3.5 and 4.4, nothing in this Agreement shall confer any rights upon any person or entity other than the parties hereto, each such party's respective successors and permitted assigns.

4.13 CONSENT TO JURISDICTION. Each party irrevocably submits to the personal exclusive jurisdiction of the United States District Court for the District of Delaware for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby (and, to the extent permitted under applicable rules of procedure, agrees not to commence any action, suit or proceeding relating hereto except in such court). Each party

further agrees that service of any process, summons, notice or document hand delivered or sent by registered mail to such party's respective address set forth in Section 4.5 will be effective service of process for any action, suit or proceeding in Delaware with respect to any matters to which it has submitted to jurisdiction as set forth in the immediately preceding sentence. Each party irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in the United States District Court for the District of Delaware, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in such court that any such action, suit or proceeding brought in such court has been brought in an inconvenient forum.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK.]



IN WITNESS WHEREOF, each of the undersigned has executed this Registration Rights Agreement or caused this Agreement to be executed on its behalf as of the date first written above.

SLM HOLDING CORPORATION

By: /s/ Marianne M. Keler  
-----  
Name: Marianne M. Keler  
-----  
Title: Senior Vice President  
-----

USA GROUP, INC.

By: /s/ Jeffrey E. Good  
-----  
Name: Jeffrey E. Good  
-----  
Title: Executive Vice President  
-----

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made as of the closing date (the "Closing Date") of the transactions contemplated by the Purchase Agreement among SLM Holding Corporation, USA Group, Inc. and certain of its affiliates (the "Purchase Agreement") by and between James C. Lintzenich, residing at 10707 Club Chase, Fishers, Indiana 46038 ("Executive"), and SLM Holding Corporation, a corporation organized and existing under the laws of the State of Delaware ("SLM").

WHEREAS, SLM has entered into the Purchase Agreement with USA Group, Inc. ("Group"), a private not-for-profit Delaware corporation ("USA"), USA Group Loan Services, Inc. ("Loan Services"), a non-stock Delaware corporation of which Group is the sole member, and USA Group Guarantee Services, Inc. ("Guarantee Services"), a non-stock Delaware corporation of which Group is the sole member, whereby SLM will purchase substantially all of the assets of Group, Loan Services and Guarantee Services; and

WHEREAS, in connection with the Purchase Agreement, SLM desires to have Executive employed by SLM and by one or more of its principal operating subsidiaries and Executive desires to be employed by SLM for a period of time in the future upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties subject to the terms and conditions set forth herein, agree as follows:

### 1. EMPLOYMENT AND TERM.

(a) SLM hereby agrees to employ Executive and Executive hereby agrees to accept employment with SLM as President and Chief Operating Officer for a period commencing on the Closing Date and continuing through July 31, 2003 unless sooner terminated pursuant to Section 12 hereof (the "Original Term"). The Original Term shall be extended automatically for additional one-year periods (each a "Renewal Term" and together with the Original Term, the "Term") unless written notice that the then current Original Term or Renewal Term, as applicable, will not be extended is given by either party to the other at least 30 days prior to the expiration of the Original Term or any Renewal Term. Executive shall also serve as a member of the Board of Directors of SLM during the Term, including any Renewal Terms, subject to the requisite shareholder vote. SLM shall nominate Executive to serve as a member of the SLM Board of Directors during the Term and shall use its reasonable best efforts to obtain the requisite shareholder vote.

(b) This Agreement is contingent on the closing of the transaction contemplated by the Purchase Agreement. In the event such closing does not occur, this Agreement shall be deemed null and void.

2. DUTIES. During the Term, Executive shall serve SLM faithfully and to the best of his ability and shall devote his full business time, attention, skill and efforts to the performance of the duties required by or appropriate for his position as President and Chief Operating Officer. Executive agrees to assume such duties and responsibilities that are consistent with such position as may be reasonably assigned to Executive from time to time by the Board of Directors and the Chief Executive Officer of SLM. Executive shall be principally responsible for managing loan servicing, guarantor servicing, information technology and human resource functions for the combined SLM/USA companies and Executive's employment pursuant to this Agreement shall be deemed to encompass employment with all of the subsidiaries through which SLM principally conducts such functions. In addition, Executive shall have duties with respect to the planning and implementation of merger integration as a member of the Integration Steering Committee.

3. OTHER BUSINESS ACTIVITIES. Executive shall devote substantially all of his full business time and energies to the business and affairs of SLM and its Affiliates; provided, however, that nothing contained in this Section 3 shall be deemed to prevent or limit his right to: (i) own not more than one percent (1%) of the securities of a company that is publicly traded on a securities exchange or over-the-counter market, provided that Executive does not otherwise have any relationship with such company; (ii) make passive investments in the securities of any entity not engaged in a competing business with SLM or any of its Affiliates and with respect to which he is not obligated or required to, and which he does not in fact, devote any substantial efforts which interfere with his fulfillment of his duties hereunder; (iii) subject to the prior approval of the Chief Executive Officer of SLM, to serve as a member on the Board of Directors, Board of Trustees or other similar body of other corporations, trade associations, professional associations or entities; and (iv) subject to the prior approval of the Chief Executive Officer of SLM, to serve as a member on the Board of Directors, Board of Trustees or other similar body of charitable and community organizations or entities provided that, in any event, Executive may continue to serve as a member on boards of which he is currently a member, as identified on SCHEDULE 1 hereto.

4. COMPENSATION. SLM shall pay (or cause to be paid to) Executive, and Executive hereby agrees to accept as compensation for all services rendered hereunder, a salary at the annual rate of \$500,000 (the "Base Salary"). The Base Salary shall be inclusive of all applicable income, Social Security and other taxes and charges which are required by law to be withheld by SLM or which are requested to be withheld by Executive, and which shall be withheld and paid in accordance with SLM's normal payroll practice for its similarly-situated executives from time to time in effect. The Base Salary may be increased (but may not be decreased) at the discretion of the Compensation Committee of SLM's Board of Directors effective as of each January 1, during the Term of the Agreement. In addition to the Base Salary, Executive shall participate in SLM's Management Incentive Plan ("MIP") subject in all respects to the terms and conditions of the MIP, except that for the year ending December 31, 2000, Executive shall receive under the MIP and as approved by SLM's Compensation and Personnel Committee of the Board of Directors, a bonus equal to no less than 200% of Base Salary, assuming that the corporate performance results for the 2000 MIP are at or above 80% of target, and provided that as of January 1, 2001 Executive remains employed by SLM.

5. PRINCIPAL LOCATION. The principal location at which Executive will perform his duties will initially be in Indianapolis, Indiana. Executive shall be entitled to reimbursement for all ordinary and reasonable out-of-pocket business expenses which are reasonably incurred by him in furtherance of SLM's business, including reimbursement for all reasonable expenses incurred by Executive in travelling between Indianapolis and Reston in connection with the performance of his services hereunder, including the cost of travel in the same class as the Chief Executive Officer and the President and Chief Marketing Officer and suitable temporary living accommodations. In the event that the principal location of Executive's duties is transferred to SLM's corporate headquarters currently located in Reston, Virginia, Executive will receive relocation benefits in connection with the reassignment of his duties from Indianapolis to SLM's headquarters in accordance with SLM's policies as described in Schedule 2 hereto.

6. STOCK OPTION GRANT. (a) On the date of the execution of the Purchase Agreement, Executive will receive stock options for a total of 700,000 shares of common stock of SLM (the "Stock Options") subject in all respects to the terms and provisions set forth in the stock option agreement, approved on June 13, 2000 by the SLM Compensation Committee and provided to Executive, a copy of which is attached hereto as Schedule 3.

7. ADDITIONAL COMPENSATION. On the Closing Date, Executive will be granted 50,000 shares of Performance Stock and an Incentive Bonus Award equal to Three Million Eight Hundred Thousand dollars (\$3,800,000) under the MIP. All terms and conditions affecting the vesting and payment of such awards will be set as set forth on the term sheet approved on June 13, 2000 by the SLM Compensation Committee and provided to Executive.

In addition to the awards described above, SLM agrees to grant 50,000 shares of Performance Stock under the MIP to Executive on January 1, 2002. All terms and conditions affecting the vesting and payment of this award will be as set forth on the term sheet approved on June 13, 2000 by the SLM Compensation Committee and provided to Executive.

8. PENSION BENEFITS. Executive shall receive pension benefits as provided in Section 5.3(k) of the Purchase Agreement.

9. BENEFITS.

(a) VACATION. Executive shall be entitled to vacation equal to five (5) weeks in each twelve-month period commencing on the Closing Date and ending on the first anniversary thereof and each twelve (12) month period thereafter during the Term.

(b) OTHER BENEFITS. Executive shall be entitled to receive or participate in benefit and welfare plans offered by SLM to its executive officers generally, in accordance with the plan terms, and subject to such modifications and amendments to such plans as may be deemed appropriate by SLM or as may be provided in this Agreement.

(c) SUPPLEMENTAL LIFE INSURANCE. SLM shall continue Executive's current supplemental life insurance providing a death benefit of at least \$1 million. SLM will pay all premiums due under the policy.

10. NONDISCLOSURE OF CONFIDENTIAL INFORMATION.

(a) Executive and SLM acknowledge that Executive has in the course of his employment with Group and will, in the course of his employment with SLM and its Affiliates, come into possession of confidential, proprietary business and technical information, and trade secrets of SLM and its Affiliates (the "Proprietary Information"). Proprietary Information includes, but is not limited to, the following:

- o BUSINESS PROCEDURES. All information concerning or relating to the way the SLM and its Affiliates conduct their business, which is not generally known to the public or within the industry or trade in which SLM or its Affiliates compete (such as contracts, internal business procedures, controls, plans, licensing techniques and practices, supplier, subcontractor and prime contractor names and contacts and other vendor information, computer system passwords and other computer security controls, financial information, distributor information, and employee data) and the physical embodiments of such information (such as check lists, samples, service and operational manuals, contracts, proposals, printouts, correspondence, forms, listings, ledgers, financial statements, financial reports, financial and operational analyses, financial and operational studies, management reports of every kind, databases, employment or personnel records, and any other written or machine-readable expression of such information as are filed in any tangible media).
- o MARKETING PLANS AND CUSTOMER LISTS. All information not generally known to the public or within the industry or trade in which SLM or its Affiliates compete pertaining to SLM's and its Affiliates' marketing plans and strategies; forecasts and projections; marketing practices, procedures and policies; goals and objectives; quoting practices, procedures and policies; and customer data including the customer list, contracts, representatives, requirements and needs, specifications, data provided by or about prospective customers, and the physical embodiments of such information.
- o BUSINESS VENTURES: All information not generally known to the public or within the industry or trade in which SLM or its Affiliates operate concerning new product development, negotiations for new business ventures, future business plans, and similar information and the physical embodiments of such information.
- o SOFTWARE. All information relating to SLM's and its Affiliates' software or hardware in operation or various stages of research and development, which are not generally known to the public or within the industry or trade in which SLM or its Affiliates compete and the physical embodiments of such information.
- o LITIGATION. Information which is not a public record or is not generally known to the public or within the industry or trade in which SLM or its Affiliates compete

regarding litigation and potential litigation matters and the physical embodiments of such information.

- o INFORMATION NOT GENERALLY KNOWN. Any information which (a) is not generally known to the public or within the industry or trade in which SLM or its Affiliates compete, (b) gives SLM or its Affiliates a significant advantage over its or their competitors, or (c) has significant economic value or potentially significant economic value to SLM or its Affiliates, including the physical embodiments of such information.

(b) Proprietary Information does not include (i) information known to Executive prior to commencement of employment with Group and Group's Affiliates and (ii) information that is known to the public or generally known in the industry or trade in which SLM and its Affiliates compete.

(c) Executive acknowledges that the Proprietary Information is a valuable and unique asset of SLM and its Affiliates. Executive agrees that he will not, at any time during his employment or after the termination of his employment with SLM, without the prior written consent of SLM or its Affiliates, as applicable, either directly or indirectly divulge any Proprietary Information for his own benefit or for any purpose other than the exclusive benefit of SLM and/or its Affiliates.

#### 11. AGREEMENT NOT TO COMPETE.

(a) Executive agrees that, without the express written consent of SLM, he shall not compete with SLM or its Affiliates during the term of this Agreement and for a period of two (2) years after the termination of Executive's employment with SLM for any reason (the "Restricted Period") if such termination occurs within the first 2 years of the date of execution of this Agreement. In the event Executive's employment terminates for any reason after such two year period, the Restricted Period shall be one (1) year. For purposes of this Section 11, "compete" shall mean working or serving as a director, officer, employee, consultant, agent, representative, or in any other capacity, with or without compensation, in the student loan business or on behalf of one or more entities engaged in the student loan business. For purposes of this Agreement, "student loan business" shall mean the business of originating, funding, guaranteeing, buying, selling, servicing or securitizing student loans in the United States. SLM will not withhold its consent if the Executive's expected duties within an otherwise competing organization are not related directly or indirectly to the student loan business. Executive will provide any request for consent to SLM in writing, describing the position, organization and expected duties. SLM will respond to such request in writing within fifteen (15) days of receipt, granting or withholding its consent and stating its reasons if consent is withheld. Executive expressly agrees that (i) the markets served by SLM and its Affiliates are national and are not dependent on the geographic location of the executive personnel or the businesses by which they are employed and (ii) the restrictions set forth in this Section 11 have been designed to be reasonable and are no greater than are required for the protection of SLM and its Affiliates.

(b) For purposes of this Agreement, the term "Affiliate" shall be deemed to refer to SLM, and any entity (whether or not existing on the date hereof) controlling, controlled by or under common control with SLM.

12. TERMINATION. Executive's employment hereunder may be terminated during the Term upon the occurrence of any one of the events described in this Section 12. Upon termination, Executive shall be entitled only to such compensation and benefits as described in this Section 12.

12.1. TERMINATION FOR DISABILITY.

(a) To the extent Executive becomes physically or mentally disabled to such an extent that he is not able to perform the duties provided for pursuant to Section 2 of this Agreement, with or without a reasonable accommodation, for a period of more than 180 days, either consecutively or within any 365-day period ("Disability"), SLM may terminate Executive's employment hereunder.

(b) If SLM terminates Executive's employment during the Term due to a Disability, Executive will be entitled to receive whatever benefits are available to him under any disability benefit plan(s) applicable to him at the time of such termination, all accrued but unpaid (as of the effective date of such termination) Base Salary and benefits, and the applicable payments set forth in Section 12.4 based on the date of such termination of employment. Further, the Stock Options shall immediately become fully exercisable and vested and Executive will have one year from the date of termination under this Section 12.1 to exercise such vested Stock Options. In addition unless previously paid, the Performance Stock and Incentive Bonus Award described in Section 7 shall be paid and shares issued in satisfaction thereof as soon as administratively feasible.

(c) The determination of whether a Disability has occurred will be made by a licensed physician selected by Executive and shall be based upon a full physical examination and good faith opinion by such physician. In the event that the SLM Board of Directors disagrees with such physician's conclusion, the SLM Board of Directors may require that Executive submit to a full physical examination by another licensed physician selected by the SLM Board of Directors and reasonably acceptable to Executive. If the two opinions shall be inconsistent, a third opinion shall be obtained after a full physical examination by a third licensed physician selected by the first two physicians. The third opinion shall be conclusive.

12.2. TERMINATION BY DEATH. If Executive dies during the Term, SLM shall pay to Executive's executors, legal representatives or administrators the applicable payments set forth in Section 12.4 based on the date of such termination of employment and all accrued but unpaid (as of the effective date of the termination) Base Salary and benefits. Further, if Executive dies during the Term, the Stock Options shall immediately become fully exercisable and vested and Executive's executors shall have one year from the date of termination under this Section 12.2 to exercise such vested Stock Options. In addition, unless previously paid, the Performance Stock and Incentive Bonus Award described in Section 7 shall be paid and shares issued in satisfaction thereof to Executive's executors as soon as administratively feasible. Except as specifically set

forth in this Section 12.2 or under applicable laws, SLM shall have no liability or obligation hereunder to Executive's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through him by reason of Executive's death, except that Executive's executors, legal representatives or administrators will be entitled to receive any death benefit that may be payable to them as beneficiaries under any insurance policy or other benefits plans in which Executive participates as an employee of SLM and to exercise any rights afforded them under any benefit plan then in effect.

12.3 TERMINATION FOR GOOD REASON. Executive may terminate his employment hereunder for good reason, as defined below by delivering written notice thereof to SLM. In the event Executive terminates his employment for Good Reason, Executive shall receive all accrued but unpaid Base Salary and benefits through the effective date of such termination, and the applicable payments set forth in Section 12.4 based on the date of such termination of employment. Further, the Stock Options shall immediately become fully exercisable and vested and Executive will have one year from the date of termination under this Section 12.3 to exercise such vested Stock Options. In addition, unless previously paid, the Performance Stock and Incentive Bonus Award described in Section 7 shall be paid and shares issued in satisfaction thereof as soon as administratively feasible.

For purposes of this Agreement "Good Reason" is defined as, in the absence of a prior written consent of Executive, (i) a significant diminution of the Executive's assigned duties and responsibilities, including without limitation, any removal of the Executive's title(s) or any material diminution of the powers associated with Executive's positions, excluding for this purpose isolated, insubstantial and, inadvertent action not taken in bad faith and which is remedied by SLM within 30 days after receipt of notice thereof given by Executive; (ii) any failure by SLM to comply with any material provisions of the Employment Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by SLM within 30 days after receipt of notice thereof given by Executive; or (iii) for any reason following the six month anniversary of (x) a Change of Control as defined in Section 12.5 below or (y) unless Executive is promoted to the position of Chief Executive Officer, the current Chief Executive Officer ceasing to serve as Chief Executive Officer of SLM; or (iv) from and after the second anniversary of the Closing Date, for any reason following the date the current Chief Executive Officer of SLM ceases to serve as Chief Executive Officer of SLM unless Executive is promoted to the position of Chief Executive Officer of SLM.

12.4. INVOLUNTARY TERMINATION; TERMINATION PAYMENTS. SLM may terminate Executive's employment hereunder at any time upon written notice to Executive. In the event of an involuntary termination of Executive's employment, other than for gross misconduct, pursuant to the first sentence of this Section 12.4, or in the event Executive's employment is terminated by Executive for Good Reason as defined in Section 12.3, or by SLM on account of Disability under Section 12.1 or death under Section 12.2, Executive (or Executive's executors under Section 12.2) shall receive all accrued but unpaid Base Salary and benefits through the effective date of such termination and (i) \$5.0 million less applicable withholding taxes, if the date of such termination of employment occurs prior to August 1, 2001; (ii) \$3.0 million less applicable withholding taxes, if the date of such termination of employment occurs on or after



August 1, 2001 and prior to August 1, 2002, and (iii) \$2.0 million less applicable withholding taxes, if the date of such termination of employment occurs on or after August 1, 2002 and prior to August 1, 2003. Further, in the event (i) SLM gives written notice to Executive pursuant to Section 1 of SLM's desire not to renew the Employment Agreement, (ii) of an involuntary termination of Executive's employment, other than for gross misconduct, or (iii) Executive's employment is terminated by Executive for Good Reason, (x) the Stock Options shall be immediately vested and exercisable and Executive shall have one year from the date of termination to exercise such vested Stock Options and (y) unless previously paid, the Performance Stock and Incentive Bonus Award described in Section 7 shall be paid and shares issued in satisfaction thereof as soon as administratively feasible. As a condition to receiving any of the consideration described in this Section 12.3, other than unpaid Base Salary, Executive and SLM shall sign a mutual release of claims.

For purposes of this Agreement, "gross misconduct" is defined as (i) the willful engaging by Executive in misconduct which is materially injurious to SLM, monetarily or otherwise, (ii) the willful violation by Executive of any material provision of this Agreement, (iii) any knowing material violation of Section 10 of this Agreement, or (iv) Executive's conviction of a felony.

#### 12.5 CHANGE IN CONTROL.

(a) In the event that Executive's employment with SLM terminates for any reason other than for gross misconduct within eighteen months after a Change in Control (as defined in Section 12.5(c) below), Executive shall be entitled to receive the payments set forth in Section 12.4.

(b) In the event of a Change in Control as defined in Section 12.5(c) below, all of the Stock Options shall be immediately vested and exercisable and unless previously paid, the Performance Stock and Incentive Bonus Award described in Section 7 shall be paid and shares issued in satisfaction thereof immediately prior to the Change in Control.

(c) For purposes of this Agreement, "Change in Control" is as defined in Section 12.2 of the MIP.

(d) Notwithstanding any provision to the contrary in this Agreement, if any part of the payments provided for under or pursuant to this Agreement to Executive as a result of Executive's termination of his employment for Good Reason (other than for the Good Reason event described in clause (iii)(x) of the definition thereof in Section 12.3) (the "Agreement Payments"), together with all payments in the nature of compensation to or for the benefit of Executive under any other arrangement, would if paid constitute a "parachute payment" under Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") solely by reason of the payment of such Agreement Payments to Executive being deemed to be contingent upon the change in control of Group contemplated by the Purchase Agreement (a "Group Change in Control"), then the amount payable to Executive under or pursuant to this Agreement in such circumstances shall be subject to the following sentence of this Section 12.5(d). If (i) the value of the Agreement Payments plus the value of all other payments to or for the benefit of Executive that constitute "parachute payments" solely by reason of such payments being deemed to be

contingent on a Group Change in Control minus the amount of any unreimbursed excise taxes payable under Code Section 4999 with respect to such payments and the amount of any unreimbursed similar or comparable taxes payable only in connection with a Group Change in Control, is greater than (ii) the greatest value of payments in the nature of compensation contingent upon a Group Change in Control that could be paid at such time to or for the benefit of Executive and not constitute a "parachute payment" (the "Alternative Payment"), then the Agreement Payments shall be payable to Executive; otherwise, only the Alternative Payment shall be payable to Executive.

(e) Excess Parachute Payment Dispute Resolution. SLM shall notify the Executive in writing within ten (10) days after an event triggering "parachute payments" (as such terms are defined in Section 280G of the Internal Revenue Code), of the amounts of payments to be made by SLM under this Agreement, together with any other payments made or to be made by SLM to the Executive, that constitute parachute payments and the excess payments and of the amount of the reduction, if any, required by Section 12.5. Within thirty (30) days after such notice is given, the Executive shall notify SLM in writing whether or not he agrees with SLM's characterization and calculation of the amount of parachute payments and excess parachute payments, and the amount of any reduction. If the Executive does not agree with SLM's characterization or calculations, the Executive shall inform SLM of the characterization or amounts he believes to be the correct characterization or amounts. If SLM and the Executive cannot agree within forty five (45) days after SLM provides the notice of the amount of parachute payments and excess parachute payments, and on the amount of any reduction, the characterization and calculation of such amounts (and reduction) shall be made by an independent tax accountant selected by SLM's independent auditors and reasonably acceptable to Executive. Such determination shall be completed within fifteen (15) days after it is submitted to such independent counsel and shall be conclusive and binding on the parties.

12.6 OTHER TERMINATION OF EMPLOYMENT. In the event that Executive's employment with SLM terminates on account of a voluntary termination of employment by Executive other than pursuant to Section 12.3, or in the event Executive gives written notice under Section 1 of his desire not to renew the Employment Term, or in the event Executive's employment is terminated by SLM for gross misconduct as defined in Section 12.4, Executive shall receive only all accrued but unpaid (as of the effective date of such termination) Base Salary, MIP bonus and benefits.

13. OTHER AGREEMENTS. Executive represents and warrants to SLM that:

(a) There are no restrictions, agreements or understandings whatsoever to which Executive is a party or by which he is bound that would prevent or make unlawful Executive's execution of this Agreement or Executive's employment hereunder, or which is or would be inconsistent or in conflict with this Agreement or Executive's employment hereunder, or would prevent, limit or impair in any way the performance by Executive of his obligations hereunder.

(b) Executive shall disclose the existence and terms of the restrictive covenants set forth in this Agreement to any employer by whom Executive may be employed during the Term

(which employment is not hereby authorized) or during the Restricted Period as defined in Section 11 hereof.

14. SURVIVAL OF PROVISIONS. The provisions of this Agreement set forth in Sections 10, 11, 12, 13(b), 24 and 25 hereof shall survive the termination of Executive's employment hereunder and the payment of all amounts payable pursuant to this Agreement incident to any such termination of employment.

15. SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon SLM and its successors and, provided that the obligations of SLM under this Agreement are expressly assumed in a manner reasonably acceptable to Executive, permitted assigns and Executive and his executors, administrators or heirs. Executive may not assign any obligations or responsibilities under this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of SLM. The SLM Board of Directors may assign any or all of its responsibilities hereunder to any committee of the SLM Board, in which case references to the SLM Board of Directors shall be deemed to refer to such committee.

16. EXECUTIVE BENEFITS. This Agreement shall not be construed to be in lieu of or to the exclusion of any other rights, benefits and privileges to which Executive may be entitled as an executive of SLM under any retirement, pension, profit-sharing, insurance, hospitalization or other plans or benefits which may now be in effect or which may hereafter be adopted.

17. NOTICES. All notices required to be given to any of the parties of this Agreement shall be in writing and shall be deemed to have been sufficiently given, subject to the further provisions of this Section 17, for all purposes when presented personally to such party, or sent by facsimile transmission, any national overnight delivery service, or certified or registered mail, to such party at its address set forth below:

(a) If to Executive:

James Lintzenich  
10707 Club Chase  
Fishers, Indiana 46038

(b) If to SLM:

SLM Holding Corporation  
Sallie Mae, Inc.  
11600 Sallie Mae Drive  
Reston, VA 20193  
ATTENTION: General Counsel  
Fax No. (703) 810-7695

Such notice shall be deemed to be received when delivered if delivered personally, upon electronic or other confirmation of receipt if delivered by facsimile transmission, the next business day after the date sent if sent by a national overnight delivery service, or three (3)

business days after the date mailed if mailed by certified or registered mail. Any notice of any change in such address shall also be given in the manner set forth above. Whenever the giving of notice is required, the giving of such notice may only be waived in writing by the party entitled to receive such notice.

18. ENTIRE AGREEMENT; AMENDMENTS. This Agreement and any other documents, instruments or other writings delivered or to be delivered in connection with this Agreement as specified herein constitute the entire agreement among the parties with respect to the subject matter of this Agreement and supersede all prior and contemporaneous agreements, understandings, and negotiations, whether written or oral, with respect to the terms of Executive's employment by SLM. This Agreement may be amended or modified only by a written instrument signed by all parties hereto.

19. WAIVER. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

20. GOVERNING LAW. This Agreement shall be governed and construed as to its validity, interpretation and effect by the laws of the Commonwealth of Virginia without reference to the provisions thereof regarding conflicts of laws.

21. SEVERABILITY. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement or such provisions, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

22. SECTION HEADINGS. The section headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

23. COUNTERPARTS. This Agreement may be executed in any number of counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute one and the same instrument.

24. SPECIFIC ENFORCEMENT; EXTENSION OF PERIOD. Executive acknowledges that the restrictions contained in Sections 10 and 11 hereof are reasonable and necessary to protect the legitimate interests of SLM and its Affiliates and that SLM would not have entered into this Agreement in the absence of such restrictions. Executive also acknowledges that any breach by him of Sections 10 or 11 hereof will cause continuing and irreparable injury to SLM for which monetary damages would not be an adequate remedy. Executive shall not, in any action or proceeding by SLM to enforce Sections 10 or 11 of this Agreement, assert the claim or defense that an adequate remedy at law exists. In the event of such breach by Executive, SLM shall have the right to enforce the provisions of Sections 10 and 11 of this Agreement by seeking injunctive or other relief in any court, and this Agreement shall not in any way limit remedies at law or in equity otherwise available SLM. In the event that the provisions of Sections 10 or 11 hereof should ever be adjudicated to exceed the time, geographic, or other limitations permitted by

applicable law in any applicable jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, or other limitations permitted by applicable law.

25. ARBITRATION. Any dispute or claim other than those referred to in Section 24, arising out of or relating to this Agreement or otherwise relating to the employment relationship between Executive and SLM, shall be submitted to Arbitration, in Fairfax County, Virginia, before the American Arbitration Association in accordance with the rules of the American Arbitration Association as the exclusive remedy for such claim or dispute. Executive and SLM agree that such arbitration will be confidential and no details, descriptions, settlements or other facts concerning such arbitration shall be disclosed or released to any third party without the specific written consent of the other party, unless required by law or court order or in connection with enforcement of any decision in such arbitration. Any damages awarded in such arbitration shall be limited to the contract measure of damages, and shall not include punitive damages. Judgment on the arbitration award can be entered in any court of competent jurisdiction.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year first written above.

SLM Holding Corporation

By: /s/ Marianne M. Keler  
-----

/s/ James C. Lintzenich  
-----

Title: Senior Vice President  
-----

James C. Lintzenich

USA EDUCATION, INC. MANAGEMENT INCENTIVE PLAN  
AWARDS TO [NAME]

TERMS OF PERFORMANCE STOCK AWARD

Pursuant to the provisions of the USA Education, Inc. Management Incentive Plan ("MIP"), on \_\_\_\_\_, 20\_\_, the Compensation and Personnel Committee of the USA Education, Inc. Board of Directors ("Committee") authorized shares of Performance Stock to be granted to ("Executive"), subject to the following terms and conditions:

1. On and from the date of grant, the shares of Performance Stock shall be subject to forfeiture and shall not be vested or transferable, except as provided below:
  - a. [upon achievement of corporate and/or individual performance goals as determined by the Committee and subject to section 10.2 of the MIP.]
  - b. Notwithstanding anything to the contrary in the foregoing provisions listed above, not more than \_\_\_\_\_ shares shall become vested and transferable prior to \_\_\_\_\_, 20\_\_, and not more than \_\_\_\_\_ shares shall become vested and transferable prior to \_\_\_\_\_, 20\_\_.
2. Notwithstanding the above, the Performance Stock shall be vested in full if any of the following events occur on or prior to \_\_\_\_\_, 20\_\_.
  - a. immediately prior to a Change of Control, as that term is defined in Section 12.2 of the MIP, provided that Executive's employment has not terminated before the date of the Change of Control; and
  - b. immediately upon termination of Executive's employment as a result of death, disability, or as a result of an involuntary termination by the Company, other than for gross misconduct.
3. The Performance Stock that, after allowing for vesting pursuant to the terms of Sections 1 and 2 above, have not vested as of \_\_\_\_\_, 20\_\_ shall be forfeited.
4. Executive may at any time elect to have a sufficient number of shares of Performance Stock withheld by the Company to satisfy his income and employment tax withholding requirements in connection with the Performance Stock Awards, and the Committee hereby approves the transfer of such shares to the Company for purposes of SEC Rule 16b-3.

5. The Compensation Committee of the Board of Directors shall administer the grant of Performance Stock. The Company will not amend or revise the terms of Executive's Performance Stock award, and may not exercise negative discretion with respect to Executive's Performance Stock award, without Executive's prior written consent.





9-MOS

	DEC-31-2000	
	JAN-01-2000	
	SEP-30-2000	704,559
	0	0
		0
3,522,395	912,638	
	912,835	
		37,171,060
		311,524
	45,644,014	0
		30,900,143
1,886,014		
	11,522,577	
	0	
		165,000
		37,519
		1,132,761
45,644,014		
	2,138,199	
	387,550	
	0	
	2,525,750	
	0	
	2,041,907	
	483,843	
		22,766
	43,817	
	411,399	
	556,499	
366,360		
	0	0
		366,360
		2.26
		2.20
		1.58
		0
		650,000
		0
		0
	303,743	
	(36,144)	
	21,159	
	311,524	
	311,524	
	0	
	0	