(Convenience Translation into English from the Original Previously Issued in Portuguese)

Kroton Educacional S.A.

Interim Financial Statements for the Quarter Ended June 30, 2010 and Independent Accountants' Review Report

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders and Management of
Kroton Educacional S.A.
Belo Horizonte - MG

1. We have reviewed the accounting information included in the accompanying individual and consolidated interim financial statements of Kroton Educacional S.A. ("Company"), for the quarter ended June 30, 2010, consisting of the balance sheets, the related statements of income, changes in shareholders' equity and cash flows, the performance report and the related notes, prepared under the responsibility of its Management.

2. Our review was conducted in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Brazilian Federal Accounting Council (CFC), and consisted, principally, of: (a) inquiries of and discussions with certain officials of the Company who have responsibility for accounting, financial and operating matters about the main criteria adopted in the preparation of the interim financial statements; and (b) review of the information and subsequent events that had or might have had material effects on the Company's financial position and results of operations.

3. Based on our review, we are not aware of any material modifications that should be made to the accounting information included in the interim financial statements referred to above for them to be in conformity with Brazilian accounting practices and standards established by the Brazilian Securities and Exchange Commission (CVM) applicable to the interim financial statements.

4. The individual and consolidated interim financial statements for the quarter ended June 30 2009, presented for comparison purposes, were reviewed by other independent auditors, whose review report thereon, dated August 12, 2009, was unqualified.

5. As described in note 2.3, in 2009 the Brazilian Securities and Exchange Commission (CVM) approved several Pronouncements, Interpretations and Technical Guidance issued by the Accounting Pronouncements Committee (CPC), effective for 2010, which change the Brazilian accounting practices. As permitted by CVM Resolution 603/09, the Company's management elected to present its interim financial statements in accordance with the Brazilian accounting practices in effect through December 31, 2009, rather than early adopting the standards effective 2010 in preparing its interim financial statements. As required by CVM Resolution 603/09, the Company disclosed this fact in note 2.3 to the interim financial statements, including a description of the main changes that could have an impact on the financial statements for the annual reporting period, and clarifications on the reasons that prevent estimating its possible impacts on shareholders' equity and income (loss), as required by said Resolution.

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6. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, August 6, 2010

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Ismar de Moura
Engagement Partner

The sheets related to the interim financial statements reviewed by us are marked for identification purpose only.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

BALANCE SHEETS AS OF JUNE 30, 2010 AND MARCH 31, 2010
(In thousands of Brazilian reais - R$)

	Company		Consolidated	
ASSETS	06/30/10	03/31/10	06/30/10	03/31/10
CURRENT ASSETS				
Cash and cash equivalents	27	53	27,387	18,061
Securities	-	-	28,613	89,099
Trade accounts receivable	-	-	121,130	149,453
Inventories	-	-	10,478	9,527
Recoverable taxes	-	-	11,311	14,208
Prepaid expenses	-	-	1,199	1,628
Deferred income tax and social contribution	-	-	3,467	2,839
Advances to suppliers	-	45	7,575	7,401
Other receivables	2	2	11,538	11,255
Total current assets	29	100	222,698	303,471
NONCURRENT ASSETS				
Long-term assets:				
Deferred income tax and social contribution	-	-	5,056	5,807
Escrow deposits	-	-	6,881	6,520
Advances to suppliers	-	-	13,702	12,091
Recoverable taxes	-	-	4,246	-
Related companies	-	-	115	-
Other long-term assets	-	-	27,335	6,583
Investments	812,057	835,387	1,600	1,600
Property, plant and equipment	-	-	212,007	204,832
Intangible assets	7,191	7,191	560,130	565,551
Deferred assets	-	-	2,369	2,476
Total noncurrent assets	819,248	842,578	833,441	805,460
TOTAL ASSETS	819,277	842,678	1,056,139	1,108,931

	Company		Consolidated	
LIABILITIES AND SHAREHOLDERS' EQUITY	06/30/10	03/31/10	06/30/10	03/31/10
CURRENT LIABILITIES				
Trade accounts payable	4	6	18,093	17,075
Loans and financing	-	-	8,118	8,010
Taxes and fees payable	4	-	17,681	19,068
Payroll and related taxes	271	187	47,827	37,280
Tax debt refinancing program (PAES)	-	-	7,122	7,649
Advances from customers	-	-	18,391	26,941
Accounts payable - Acquisitions	-	-	34,967	65,212
Other payables	6,662	6,662	4,485	1,301
Total current liabilities	6,941	6,855	156,684	182,536
NONCURRENT LIABILITIES				
Loans and financing	-	-	13,271	13,643
Related companies	1,320	870	-	-
Tax debt refinancing program (PAES)	-	-	45,121	45,653
Deferred income tax and social contribution	-	-	703	586
Reserve for contingencies	-	-	30,929	30,155
Accounts payable - Acquisitions	-	-	10,434	10,263
Other payables	-	-	11,570	11,565
Total noncurrent liabilities	1,320	870	112,028	111,865
Non-controlling interests in subsidiaries	-	-	26	22
SHAREHOLDERS' EQUITY				
Capital	821,020	821,020	821,020	821,020
Share held in treasury	-	-	(25,599)	(21,436)
Capital reserve	14,585	14,585	16,569	15,576
Retained earnings	(24,589)	(652)	(24,589)	(652)
Total shareholders' equity	811,016	834,953	787,401	814,508
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	819,277	842,678	1,056,139	1,108,931

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

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KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009
(In thousands of Brazilian reais - R$, except earnings per share)

	Company		Consolidated	
	06/30/10	06/30/09	06/30/10	06/30/09
GROSS SERVICE REVENUE				
Primary school	-	-	83,189	75,334
College	-	-	266,038	143,035
DEDUCTIONS FROM GROSS REVENUE				
Primary school	-	-	(5,038)	(3,544)
College	-	-	(31,518)	(16,795)
NET REVENUE	-	-	312,671	198,030
COST OF SERVICES AND SALES	-	-	(200,360)	(113,277)
GROSS PROFIT	-	-	112,311	84,753
OPERATING INCOME (EXPENSES)				
Selling	-	-	(39,190)	(21,941)
General and administrative expenses	(1,021)	(95)	(60,436)	(22,939)
Amortization of goodwill on investments	-	-	(310)	(311)
Equity in subsidiaries	(4,093)	31,221	-	-
Other income and expenses, net	-	-	(2,067)	1,439
	(5,114)	31,126	(102,003)	(43,752)
INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)	(5,114)	31,126	10,308	41,001
FINANCIAL (EXPENSES) INCOME				
Financial income	(1)	-	14,056	6,429
Financial expenses	-	-	(24,653)	(8,626)
	(1)	-	(10,597)	(2,197)
INCOME FROM OPERATIONS BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	(5,115)	31,126	(289)	38,804
INCOME TAX AND SOCIAL CONTRIBUTION				
Current	-	-	(3,733)	(6,319)
Deferred	-	-	(1,087)	(1,435)
	-	-	(4,820)	(7,754)
NET INCOME BEFORE NON-CONTROLLING INTERESTS IN SUBSIDIARIES	(5,115)	31,126	(5,109)	31,050
NON-CONTROLLING INTERESTS IN SUBSIDIARIES	-	-	(6)	76
NET INCOME	(5,115)	31,126	(5,115)	31,126
NUMBER OF SHARES OUTSTANDING AT YEAREND (IN THOUSANDS)	427,922	213,292	427,922	213,292
EARNINGS PER SHARE AT YEAREND - R$	(0.01195)	0.14593	(0.01195)	0.14593

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

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KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2010 AND THE QUARTER ENDED MARCH 31, 2010
(In thousands of Brazilian reais - R$, except per share data)

	Capital	Capital reserve	Retained earnings	Total
BALANCES AS OF MARCH 31, 2010	821,020	14,585	(652)	834,953
Net income	-	-	(23,937)	(23,937)
BALANCES AS OF JUNE, 30 2010	821,020	14,585	(24,589)	811,016

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

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KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009
(In thousands of Brazilian reais - R$, except per share data)

	Company		Consolidated	
	06/30/10	06/30/09	06/30/10	06/30/09
CASH FLOW FROM OPERATING ACTIVITIES				
Income before income tax and social contribution	(5,115)	31,126	(289)	38,804
Adjustments to reconcile income before income tax and social contribution to net cash provided by (used in) operating activities:				
Depreciation and amortization	-	-	12,867	7,471
Income on sales of property, plant and equipment and intangible assets	-	-	453	278
Equity in subsidiaries	4,093	(31,221)	-	-
Allowance for investment losses	-	-	2,390	-
(Decrease) Increase in assets:				
Trade accounts receivable	-	-	(38,381)	(35,716)
Inventories	-	-	2,064	221
Other receivables	45	887	(14,346)	(2,203)
Increase (decrease) in liabilities:				
Trade accounts payable	(25)	-	3,761	1,038
Advances from customers	-	-	2,132	(1,566)
Other payables	976	(769)	2,075	(18,951)
Interest paid	-	-	(4,004)	838
Income tax and social contribution paid	-	-	(246)	(2,065)
Net cash provided by (used in) operating activities	(26)	23	(31,524)	(11,851)
CASH FLOW FROM INVESTING ACTIVITIES				
Acquisition of New Colleges	-	-	(161,626)	-
Purchase of property, plant and equipment and intangible assets	-	-	(16,028)	(20,302)
Additions on intangible assets	-	-	(3,334)	(13,339)
Securities	-	-	364,860	43,588
Others	-	-	-	2,020
Net cash (used in) provided by investing activities	-	-	183,872	11,967
CASH FLOW FROM FINANCING ACTIVITIES				
Share held in treasury	-	-	(4,163)	(368)
Repayments of loans and financing	-	-	(139,554)	(2,461)
Premium on Stock Options	-	-	1,607	-
Related companies	-	-	(115)	-
Net cash (used in) provided by financing activities	-	-	(142,225)	(2,829)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(26)	23	10,123	(2,713)
Cash and cash equivalents at beginning of year	53	5	17,264	9,114
Cash and cash equivalents at end of year	27	28	27,387	6,401
	(26)	23	10,123	(2,713)

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

1. OPERATIONS

Kroton Educacional S.A. (hereinafter the "Company") is engaged in holding equity interests, as partner or shareholder, in companies engaged in: (a) the management of preschool, elementary, high school, adult high school, college preparatory school, higher, professional, and post-graduation education, free courses, and/or other related educational activities; and (b) the wholesale, retail, distribution, import and export of textbooks, course books, magazines and other publications related to preschool, elementary, high school, adult high school, college preparatory school, higher, professional, and post-graduation education, free courses, and/or other related educational activities, and the licensing of school-related and pedagogical products.

The Company owns several colleges, high schools, and elementary schools, and a publisher of elementary school textbooks.

Acquisition of the IUNI Educacional Group

Upon approval of the Board of Directors, the Company entered into a purchase and sale agreement of 100% of the shares in the IUNI Educacional Group companies ("IUNI") on March 12, 2010. The transaction price was set based on a business appraisal of current and project earnings, based on the financial statements for the period ended June 30, 2009. The agreed price under the sale agreement is as follows:

- R$131,626 in cash.
- R$58,128 in installments. (a)
- 4,200,000 units of the Company. (b)

(a) Changes in working capital and debt burden verified in June 30, 2009 and February 28, 2010 will be deducted from the withheld amount payable. Through June 30, 2010, R$30,000 had been settled, with R$28,128 remaining to be settled. Management estimates that this second portion will be settled through August 30, 2010 and may generate some change in the total amount payable to IUNI's former controlling shareholder , and, ultimately, in total goodwill. The work to determine such value is still in progress. However, we do not expect any material effects.

(b) The Company's units will be issued once the steps to merge IUNI shares still held by the former controlling shareholder and issue new shares in Editora e Distribuidora Educacional S.A. - EDE are completed, and finally the Company merges these shares with the resulting issuance of own shares (units).

IUNI is the controlling shareholder of the following colleges:

- União Metropolitana para o Desenvolvimento da Educação e Cultura Ltda. - UNIME LF.
- União para Desenvolvimento da Educação e Cultura de Várzea Grande Ltda. - UNIC VÁRZEA GRANDE.
- União de Faculdades do Amapá Ltda. - FAMA MACAPÁ.
- União das Escolas de Ensino Superior Brasileiras Ltda. - FAMA MARABÁ.
- Unic Sinop Aeroporto Ltda. - UNIC SINOP.
- Unic Tangará do Sul Ltda. - UNIC TANGARÁ DO SUL.
- Sociedade Mantenedora de Ensino Superior de Primavera do Leste Ltda. - UNIC PRIMAVERA ANTIGA.
- Sociedade Mantenedora de Ensino e Cultura de Primavera do Leste Ltda. - UNIC PRIMAVERA NOVA.
- Unime Itabuna - Ltda. - UNIME ITABUNA.
- Unime Salvador Ltda. - UNIME SALVADOR.
- Unic Rondonópolis Floriano Peixoto Ltda. - UNIC ROO FP.
- Unic Rondonópolis Arnaldo Estevão Ltda. - UNIC ROO AE.
- Unic Tangará Norte Ltda. - UNIC TANGARÁ DO NORTE.

2. PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING PRACTICES

2.1. Presentation of interim financial statements

The financial statements for the six-month period include the assets and liabilities of IUNI and the results of its operations for the four-month period ended June 30, 2010. These interim financial statements were approved by the Company's Board of Directors on August 10, 2010.

The interim financial statements have been prepared and are presented in conformity with Brazilian accounting practices, based on the provisions of Corporate Law and the standards of the Brazilian Securities and Exchange Commission (CVM), including pronouncements, interpretations and guidance issued by the Accounting Pronouncements Committee (CPC).

In 2009, CVM approved several new Pronouncements, Interpretations and Technical Guidance issued by the Accounting Pronouncements Committee (CPC), effective for 2010, which change the Brazilian accounting practices. However, as permitted by CVM Resolution 603/09, the Company's management elected to present the interim financial statements for the period ended June 30, 2010 in conformity with the Brazilian accounting practices in effect until December 31, 2009.

The preparation of interim financial statements requires the use of estimates to record certain assets, liabilities and other transactions. The Company's and its subsidiaries' interim financial statements include, therefore, estimates related to the useful lives of property, plant and equipment and intangible assets, the amortization rates and estimated periods for the recovery of goodwill arising on the acquisitions of investments, the reserve for contingent liabilities, the determination of the provisions for income tax, allowances for doubtful accounts, criteria for the classification of expenses recorded in intangible assets and property, plant and equipment, etc. Actual results could differ from those estimates.

In case adjustments resulting from the adoption of new accounting practices this year are required in preparing its financial statements for the year ending December 31, 2010, the Company will restate its 2010 interim financial statements, comparatively with the 2009 to be disclosed together, as if these new procedures had been effective since the beginning of the year ended December 31, 2009.

The CPCs and ICPCs that might be applicable to the Company, considering the nature of its operations, are as follows:

CPC	Title
15	Business Combinations
20	Borrowing Costs
21	Interim Financial Reporting
22	Segment Reporting
23	Accounting Policies, Changes in Accounting Estimates and Errors
24	Events After the Balance Sheet Date
25	Reserves, Contingent Liabilities and Contingent Assets
26	Presentation of Financial Statements
27	Property, Plant, and Equipment
30	Revenues
32	Taxes on Income
33	Employee Benefits
36	Consolidated Financial Statements
37	First-Time Adoption of International Financial Reporting Standards
38	Financial Instruments: Recognition and Measurement
39	Financial Instruments: Presentation
40	Financial Instruments: Disclosures

ICPC	Title
08	Accounting for Proposed Dividend Payments
10	Clarifications on Technical Pronouncements CPC 27 - Property, Plant and Equipment and CPC 28 - Investment Property

The Company's management is still analyzing the impacts of the changes introduced by these new pronouncements and interpretations. Accordingly and due to the complexity of some matters and some outstanding issues regarding the recognition of the assets and liabilities of IUNI at fair value, it has not yet been possible to make an estimate of their possible impacts on our shareholders' equity and net income.

2.2. Significant accounting practices

a) Consolidated reporting

The consolidated interim financial statements include the following direct and indirect subsidiaries:

	Ownership interest - %	
Consolidated companies	June 30, 2010	March 31, 2010
Kroton's direct subsidiary -		
EDE - Publisher and controlling shareholder	99.99	99.99
Indirect subsidiaries:		
AESG - Guarapari college	99.99	99.99
ÁGORA - Sports junior school	99.99	99.99
CBTA - Rio Claro college	99.99	99.99
FAC ARACAJU - Aracaju college	99.99	99.99
FACTEF - Teixeira de Freitas college	99.99	99.99
FADOM - Divinópolis college	99.99	99.99
FATEC - Londrina technology college	99.99	99.99
GK - Feira de Santana college	99.99	99.99
INADE - Evaluation institute	99.99	99.99
JAPI - Jundiaí college	99.99	99.99
NABEC - Guarapari technology college	99.99	99.99
ORME - Belo Horizonte technology college	99.99	99.99
PAX - Publisher (Catholic chain)	99.99	99.99
PROJECTA - Educational solutions	99.99	99.99
PROJECTA EDE - Publisher	99.99	99.99
PSES - Belo Horizonte, Ipatinga, São Luís, Betim, Poços de Caldas colleges	99.99	99.99
SÃO FRANCISCO - Divinópolis college	99.99	99.99
SEG - Guarapari college	99.99	99.99
SESG - Guarapari college	99.99	99.99
SPES - Educação Básica	99.99	99.99
SUESC - Rio de Janeiro college	99.99	99.99
UMEP - Londrina college	99.99	99.99
UNILINHARES - Linhares college	99.99	99.99
UNIMINAS - Uberlândia college	99.99	99.99
IUNI - Controlling shareholder and Cuiabá college	99.99	99.99
FAMA MACAPÁ- Macapá college	99.99	99.99
FAMA MARABÁ - Marabá college	99.99	99.99
UNIC PRIMAVERA ANTIGA - Primavera do Leste college	99.99	99.99

Consolidated companies	Ownership interest - % June 30, 2010	March 31, 2010
UNIC PRIMAVERA NOVA - Primavera do Leste college	99.99	99.99
UNIC ROO AE - Rondonópolis college	99.99	99.99
UNIC ROO FP - Rondonópolis college	99.99	99.99
UNIC SINOP - Sinop college	99.99	99.99
UNIC TANGARÁ DO NORTE - Tangará da Serra college	99.99	99.99
UNIC TANGARÁ DO SUL - Tangará da Serra college	99.99	99.99
UNIC VÁRZEA GRANDE - Várzea Grande college	99.99	99.99
UNIME ITABUNA - Itabuna college	99.99	99.99
UNIME LF - Lauro de Freitas college	99.99	99.99
UNIME SALVADOR - Salvador college	99.99	99.99

b) Consolidation basis

The consolidation of the balance sheet and statement of income accounts corresponds to the sum of assets, liabilities, income and expenses of the consolidated companies, according to their nature, with the appropriate eliminations: (i) intercompany receivables and payables, (ii) investments and shareholders' equity, (iii) equity in subsidiaries' earnings (loss) for the six-month period, and (iv) intragroup business transactions.

Non-controlling interests in equity and in net income or loss are separately disclosed.

The reporting dates of the consolidated subsidiaries' financial statements coincide with the reporting dates of the Company's financial statements.

Reconciliation of Company's shareholders' equity to consolidated shareholders' equity:

	June 30, 2010	March 31, 2010
Company	811,016	834,953
Treasury shares (*)	(25,599)	(21,436)
Stock option award	1,984	991
Consolidated	787,401	814,508

(*) Refer to the buyback of Company shares to be exercised by EDE. Shares bought back will remain in treasury and could be used by the Company to cover the exercise of stock options granted to executives or for future resale.

c) Revenue and expense recognition

Recorded on the accrual basis and include interest, charges and inflation adjustments at official indices or rates charged on current and noncurrent assets and current and noncurrent liabilities. The portion attributable to income tax and social contribution are added to/deducted from income or loss.

Tuitions and discounts vary depending on the course, the unit, and the education level. Six tuitions are charged for each six-month period, including an enrollment fee. Prepaid enrollment fees, tuitions and textbooks are recorded as advances from customers and recognized in income in the accrual month or when the textbooks are delivered.

Deductions from gross revenue comprise taxes levied on sales and services provided, discounts related to the University for All Program (ProUni), optional discounts granted, and monthly fees and sales returned and/or cancelled.

d) Cash and cash equivalents

Include cash, bank deposits and short-term investments.

e) Financial instruments

Classification and measurement

The Company classifies its financial assets into the following categories: (i) loans and customers; and (ii) available-for-sale financial assets. Classification depends on the purpose for which financial assets have been obtained. Management determines the classification of its financial assets upon initial recognition.

Loans and receivables

Include loans granted and receivables that are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market. They are classified as current assets, except those with maturities exceeding 12 months after the balance sheet date (which are classified as noncurrent assets). The Company's loans and receivables include loans, trade accounts receivable and other receivables, and other cash and cash equivalents.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative instruments designated in this category and accounted for at fair value. Interest on available-for-sale securities, calculated under the effective interest rate method, is recognized in the statement of income as financial income. The portion corresponding to change in fair value is recorded in shareholders' equity, under valuation adjustments to equity, and is recognized in the statement of income upon settlement or impairment.

Fair value of financial instruments

The Company determines the fair value of financial instruments without an active market or which are not publicly quoted using valuation techniques. These techniques include the use of transactions recently contracted with third parties, the reference to other instruments substantially similar and the analysis of discounted cash flows, and rely as little as possible on entity specific inputs generated by the Company's management.

The Company measures at the balance sheet date if there is objective evidence that a financial asset or a group of financial assets is impaired. If there is any evidence of impairment of available-for-sale financial assets, the cumulative loss measured as the difference between cost of purchase and the current fair value, less any impairment loss for the financial asset previously recorded in income, is transferred from shareholders' equity and recognized in the statement of income.

f) Trade accounts receivable

Stated at their realizable values, including the allowance for doubtful accounts. The allowance for doubtful accounts is recognized when it is estimated that the Company will not be able to collect the amounts due on their original due dates (note 4).

g) Inventories

Stated at average cost of purchase, which is lower than the replacement costs or their realizable values (note 5).

h) Investment in subsidiaries

Business combination

As described in note 1, the effects of the business combination involving the acquisition of IUNI will be retrospectively recognized at the close of FY 2010.

Equity in subsidiaries

Investments in subsidiaries are valued and accounted for under the equity method, and recognized in income for the year as operating revenue (or expenses).

The accounting practices adopted by the subsidiaries are consistent with those adopted by the Company.

When the equity in subsidiaries' accumulated losses exceeds the Company's investment, the Company recognizes such accumulated losses in line account 'Accrued shareholders' deficit'. For consolidation purposes, these balances are eliminated.

Goodwill

Goodwill paid on IUNI was calculated based on the difference between the price (amount paid and payable) and its book shareholders' equity as of the acquisition date. Measurement at fair value will be retrospectively applied at the close of FY 2010.

Goodwill prior to 2010 corresponds to the difference between the acquisition price and the carrying amount of the acquiree's shareholders' equity. Such goodwill is based on: (i) asset appreciation, represented by the difference between the acquiree's carrying amount and the fair values of its assets and its liabilities, and (ii) future earnings, represented by the difference between the fair values of assets and liabilities and the acquisition price (both recognized in 'Investments'). The portion based on the appreciation of assets and liabilities is amortized proportionately to the realization of such assets and liabilities at the acquiree. Goodwill based on expected future earnings classified in line account 'Intangible assets' was amortized until December 31, 2008, over the period, to the extent of and proportionately to projected earnings, limited to 10 years. After this date, goodwill is no longer amortized and is annually tested for impairment.

i) Property, plant and equipment

Stated at historical cost of purchase or construction. Depreciation is calculated under the straight-line method to write down cost, at the rates disclosed in note 8, which are based on the expected useful lives of the assets.

j) Intangible assets

Project development costs are recognized as intangible assets when it is probable that the projects will be successful, considering their commercial and technological viability, regulatory requirements, and only if cost can be reliably measured. Capitalized development costs are amortized on a straight-line basis from start of operations and over the period during which future economic benefits are expected to flow to the entity. (See note 9 for further details.)

Software licenses are capitalized and amortized on a straight-line basis over their estimated useful lives, at the rates disclosed in note 9.

k) Deferred charges

Deferred charges until December 31, 2008, consisted primarily of preoperating expenses and are being amortized over a ten-year period, while being periodically tested for impairment.

l) Impairment of assets

Property, plant and equipment and other noncurrent assets, including goodwill and intangible assets, are tested for impairment on an annual basis or whenever significant events or changes in circumstances indicate that they may be impaired. When this is the case, recoverable values are calculated to determine if assets are impaired. Impairment losses are recognized at the amount by which the carrying amount of an asset exceeds its recoverable amount, which is the higher of net selling price and value in use of an asset. For valuation purposes, assets are grouped into the smallest group of assets for which there are separately identifiable cash flows.

m) Lease

Leases of property, plant and equipment items in which the Company retains substantially all the risks and rewards incidental to ownership are classified as finance leases and are recorded as purchase financing by recognizing at the commencement of the lease a fixed asset and a financial liability (lease). Property, plant and equipment items acquired under finance leases are depreciated at rates based on the estimated useful life of the assets (note 8).

n) Other current and noncurrent assets

Stated at cost or realizable value, including, when applicable, income and inflation adjustments earned.

o) Income tax and social contribution

The Corporate Income Tax ("IRPJ") is calculated based on income adjusted to taxable income by the additions and deductions provided for in legislation, as described in note 10. Social contribution ("CSLL") is calculated at the prevailing tax rate on pretax income, adjusted pursuant to current legislation. The Company and its subsidiaries are taxable based on actual income.

Deferred income tax and social contribution are calculated on tax loss carryforwards and temporary differences between the tax bases on assets and liabilities and the carrying amounts disclosed in the interim financial statements. The tax rates currently set to determine these tax credits are 25% for income tax and 9% for social contribution (note 10).

The Company has tax incentives related to the University for All Program (ProUni) (note 10).

Deferred tax assets are recognized to the extent it is probable that future taxable income is available to be utilized for the offset of temporary differences and/or tax loss carryforwards, using future earnings projections prepared based on entity-specific assumptions and future economic scenarios, which are, therefore, subject to changes.

p) Borrowings and financing

Borrowings are initially recognized at fair value when funds are received, net of transaction costs, and are stated at amortized cost, including charges and interest incurred on a pro rata basis.

q) Provisions

Provisions are recognized when the Company and its subsidiaries have a legal or constructive obligation as a result of past events, and it is probable that an outflow of funds will be required to settle the obligation, and its value can be reliably estimated.

r) Share-based compensation

The Company's officers and senior executives are offered a share-based compensation plan, settled with Company shares, and the Company receives services as consideration for the stock options granted. The fair values of options granted are recognized as expenses over the vesting period, during which certain vesting terms and conditions must be met. The consideration is recognized in a Capital reserve - Stock option award, in shareholders' equity. At the balance sheet date, the Company revises its estimates of the number of options that should be vested based on their specific terms and conditions. The impact of the revision of the initial estimates, if any, are recorded in the statement of income.

s) Other current and noncurrent liabilities

Stated at their known or collectible amounts and recognized on the accrual basis plus related charges and inflation adjustments, when applicable. Employee compensation payable, notably vacation pay and payroll, is accrued as earned.

t) Reclassifications

Some reclassifications were made to the balance sheet as of March 31, 2010 and to the consolidated statement of cash flows for the quarter ended June 30, 2009 to make them comparable to the balance sheet and consolidated statement of cash flows for the quarter ended June 30, 2010.

3. SECURITIES

	Consolidated	
	June 30, 2010	March 31, 2010
Short-term investments:		
Investments pegged to CDI (*)	28,613	89,085
Other	-	14
Total	28,613	89,099

(*) Refers to short-term investments made in prime banks in Bank Certificates of Deposit (CDBs), repurchase agreements backed by debentures and investment funds that can be redeemed at any time. These investments' yield is pegged to the fluctuation of the interbank deposit rate (CDI) (from 100% to 104.5%).

The investments above mentioned are highly liquid and were classified as securities because they are substantially linked to future investments related to expansion projects.

Average monthly income for the quarter ended June 30, 2010 was 0.74 % (March 31, 2010 - 0.67%) and income generated in the quarter ended June 30, 2010 totaled R$1,514 (June 30, 2009 - R$1,977).

4. ACCOUNTS RECEIVABLE

Balances breakdown

	Consolidated	
	June 30, 2010	March 31, 2010
Trade accounts receivable:		
Colleges (a)	162,066	140,710
Own high schools	4,328	3,989
Elementary education agreements	3,245	2,999
Textbook collections	40,861	61,499
Other	1,516	1,380
	212,016	210,577
Allowance for doubtful accounts: (b)		
Colleges	(66,448)	(58,331)
High schools	(1,399)	(1,332)
Elementary education agreements	(201)	(167)
Textbook collections	(938)	(869)
	(68,986)	(60,699)
Discount to present value (c)	(971)	(425)
Total	142,059	149,453
(-) Current assets	(121,130)	(129,970)
Noncurrent assets	20,929	19,483

(a) Upon the acquisition of IUNI it was agreed that tuitions that on February 28, 2010 were past due for more than 180 days would remain with the former shareholder. This asset was written off upon the preparation of the transfer balance sheet, pursuant to the purchase and sale agreement, and, when received, will be paid to the former controlling shareholder of IUNI as a price supplement.

(b) The Group companies, including IUNI beginning March 1, 2010, recognize an allowance for doubtful accounts measured based on collection efficiency (history and default tend). In the quarter ended June 30, 2010, the Company recognized as loss R$8,287, on a consolidated basis (June 30, 2009 - R$5,051, on a consolidated basis).

(c) The adjustment to present value (APV) is calculated on balances of trade accounts receivable from collections under the discounted cash flow method using SELIC as the discount rate. As receivables are realized, the balance classified as adjustment to present value is recognized as financial income.

5. INVENTORIES

	Consolidated	
	June 30, 2010	March 31, 2010
Pitágoras collections	10,321	9,896
Raw materials	1,656	1,122
Commercial books	206	215
Advertising and other material	636	275
Advances to suppliers	598	217
Storeroom supplies	175	182
Provision for inventory losses	(3,114)	(2,380)
Total	10,478	9,527

6. ADVANCES TO SUPPLIERS

		Consolidated	
"Campus"	Supplier	June 30, 2010	March 31, 2010
"Campus" Betim	PFC Gestão Patrimonial	10,386	8,309
"Campus" Raja	Construtora Almeida	6,565	6,994
"Campus" Governador Valadares	Novatécnica	371	1,000
Other		3,955	3,189
Total		21,277	19,492
(-) Current assets		(7,575)	(7,401)
Noncurrent assets		13,702	12,091

Consist basically of prepayments to suppliers for the construction and upkeep of the buildings of the higher education units in Betim, Raja, and Governador Valadares. These amounts are classified as recoverable amounts in current assets, as they will be offset against monthly lease payments, and are adjusted on a monthly basis as contractually prescribed.

7. INVESTMENTS

a) Information on investments - subsidiary EDE

	June 30, 2010	March 31, 2010
Number of shares held	790,399,960	790,399,960
Equity interest - %	99.99	99.99
Capital	790,340	790,340
Book shareholders' equity	814,041	836,379
Retained earnings (accumulated losses) for the period	(23,330)	19,237
Carrying amount of investments	812,057	835,387
Equity in subsidiaries	(23,330)	19,237

b) Information on investments as of June 30, 2010 - EDE's equity interest in its subsidiaries

	Number of shares held		Capital		Book shareholders' equity	
	June 30, 2010	March 31, 2010	June 30, 2010	March 31, 2010	June 30, 2010	March 31, 2010
AESG	8,599,571	7,850	8,600	7,850	6,459	6,075
ÁGORA	809,198	709,198	809	709	43	(46)
CBTA	3,583,044	2,403,044	3,583	2,403	1,514	450
FAC ARACAJU	56,022	56,022	56	56	37	38
FACTEF	2,114,333	2,014,333	2,114	2,014	4,713	4,165
FADOM	5,385,223	4,985,223	5,385	4,985	6,742	6,347
FATEC	916,919	816,919	917	817	675	582
GK	471,168	5,000	471	5	277	(104)
INADE	1,000,000	1,000,000	1,000	1,000	2,931	3,293
JAPI	7,568,809	5,968,809	7,569	5,969	3,995	2,872
NABEC	1,080,888	10,000	1,081	10	406	(666)
ORME	19,563,840	17,513,840	19,564	17,514	14,771	13,513
PAX	7,076,972	4,306,972	7,077	4,307	8,056	4,209
PROJECTA	100,000	100,000	100	93	51	52
PROJECTA EDE	9,233,336	5,003,336	9,223	5,003	5,724	2,545
PSES	124,036,613	106,336,613	124,037	106,337	146,434	135,956
SÃO FRANCISCO	258,000	258,000	258	258	258	258
SEG	404,787	299,787	405	300	395	292
SESG	60,000	60	60	60	853	723
SPES	18,352,151	18,316,710	18,352	18,317	17,516	16,395
SUESC	24,762,598	24,763,000	24,763	24,763	20,035	20,113
UMEP	19,759,874	18,009,874	19,760	18,010	8,024	6,796
UNILINHARES	8,157,757	6,927,757	8,158	6,928	6,371	5,518
UNIMINAS	12,418,304	10,168,304	12,418	10,168	6,911	5,347
IUNI	2,000,000	2,000,000	2,000	2,000	(109,715)	(115,956)
UNIC PRIMAVERA ANTIGA	366,000	366,000	366	366	(902)	(831)
UNIC PRIMAVERA NOVA	1,457,000	1,457,000	1,457	1,457	203	97
UNIC ROO AE	150,000	150,000	150	150	594	(49)
UNIC ROO FP	2,111,703	1,386,703	2,112	1,387	(2,306)	(3,097)
UNIC SINOP	120,000	120,000	120	120	2,141	1,887
UNIC TANGARÁ NORTE	3,097,000	2,108,000	3,097	2,108	1,434	2,411
UNIC TANGARÁ SUL	3,236,000	3,236,000	3,326	3,326	(411)	(459)
UNIC VG	271,100	111,100	271	111	456	68
FAMA MARABÁ	20,000	20,000	20	20	(196)	(454)
UNIME ITABUNA	5,069,000	5,069,000	5,069	5,069	(2,073)	(1,608)
UNIME SALVADOR	7,115,000	7,069,000	7,115	7,069	(1,021)	(245)
UNIME LF	23,718,026	17,883,026	23,718	17,883	(11,247)	(15,700)
FAMA MACAPÁ	40,000	40,000	40	40	(2,235)	(2,337)

	Net income (loss) for the six-month period		Carrying amount of investments		Equity in subsidiaries	
	June 30, 2010	June 30, 2009	June 30, 2010	March 31, 2010	June 30, 2010	June 30, 2009
AESG	(485)	(140)	6,459	6,074	(485)	(140)
ÁGORA	(106)	(84)	43	(46)	(106)	(84)
CBTA	(786)	913	1,514	450	(786)	913
FAC ARACAJU	(1)	-	37	38	(1)	-
FACTEF	1,192	1,075	4,713	4,165	1,192	1,075
FADOM	349	1,740	6,742	6,347	349	1,740
FATEC	-	(100)	675	582	-	(100)
GK	(194)	-	277	(104)	(194)	-
INADE	(607)	187	2,931	3,293	(607)	187

	Net income (loss) for the six-month period			Carrying amount of investments		Equity in subsidiaries	
	June 30, 2010	June 30, 2009		June 30, 2010	March 31, 2010	June 30, 2010	June 30, 2009
JAPI	(770)	315		3,995	2,872	(770)	315
NABEC	(11)	219		406	(666)	(11)	219
ORME	(573)	1,460		14,771	13,512	(573)	1,460
PAX	2,484	260		8,056	4,209	2,484	260
PROJECTA	(2)	(49)		51	52	(2)	(49)
PROJECTA EDE	(793)	494		5,724	2,545	(793)	494
PSES	(5,347)	15,538		146,434	135,942	(5,347)	15,538
SÃO FRANCISCO	-	-		258	258	-	-
SEG	(4)	(2)		395	292	(4)	(2)
SEL	-	(69)		-	-	-	(69)
SESG	299	87		853	723	299	87
SPES	1,467	712		17,516	16,394	1,467	712
SUESC	(51)	940		20,035	20,110	(51)	940
UCES	-	(605)		-	-	-	(605)
UMEP	(132)	349		8,024	6,795	(132)	349
UNILINHARES	459	463		6,371	5,517	459	463
UNIMINAS	(763)	(560)		6,911	5,346	(763)	(560)
IUNI (*)	5,944	-	(*)	(109,715)	(115,956)	5,944	-
UNIC PRIMAVERA ANTIGA (*)	124	-		(902)	(831)	124	-
UNIC PRIMAVERA NOVA (*)	453	-		203	97	453	-
UNIC ROO AE (*)	1,660	-		594	(49)	1,660	-
UNIC ROO FP (*)	223	-		(2,306)	(3,097)	223	-
UNIC SINOP (*)	582	-		2,141	1,887	582	-
UNIC TANGARÁ NORTE (*)	(107)	-		(1,434)	(2,411)	(107)	-
UNIC TANGARÁ SUL (*)	388	-		(411)	(459)	388	-
UNIC VG (*)	325	-		456	68	325	-
FAMA MARABÁ (*)	(19)	-		(196)	(454)	(19)	-
UNIME ITABUNA (*)	400	-		(2,073)	(1,608)	400	-
UNIME SALVADOR (*)	(702)	-		(1,021)	(245)	(702)	-
UNIME LF (*)	(1,431)	-		(11,247)	(15,700)	(1,431)	-
FAMA MACAPÁ (*)	339	-		(2,235)	(2,337)	339	-

(*) Net income and equity in subsidiaries beginning March 2010.

c) Changes in investments in IUNI in the quarters are as follows:

	Investment as of February 28, 2010	Additions	Equity in subsidiary	Investment as of June 30, 2010
IUNI	(119,163)	3,504	5,944	(109,715)

	Investment as of March 31, 2010	Additions	Equity in subsidiary	Investment as of June 30, 2010
IUNI	(115,956)	3,504	2,737	(109,715)

8. PROPERTY, PLANT AND EQUIPMENT

a) Breakdown

	Consolidated				
	June 30, 2010			March 31, 2010	Annual depreciation rate - %
	Cost	Accumulated depreciation	Net	Net	
IT equipment	24,151	(12,664)	11,487	11,026	20
Furniture, fixtures and facilities	49,278	(15,399)	33,879	26,461	10
Vehicles	1,775	(1,087)	688	755	20
Leasehold improvements	51,715	(9,014)	42,701	43,971	10
Library	37,735	(13,433)	24,302	24,905	10
Laboratory	16,104	(4,513)	11,591	12,975	10
Buildings and improvements	42,594	(4,007)	38,587	38,996	4
Property, plant and equipment in progress (*)	33,388	-	33,388	31,559	-
Land	15,370	-	15,370	14,154	-
Other	14	-	14	30	-
Total	272,124	(60,117)	212,007	204,832	

(*) Refers basically to expenses incurred on the new campuses of college Faculdade Pitágoras in São Luis, Betim, Ipatinga, Contagem, Maceió, Belo Horizonte, Lauro de Freitas, Cuiabá, Rondonópolis, Tangará da Serra, Sinop, Macapá, Primavera, Salvador, and Itabuna. The construction schedule is prepared as the degree requests filed with the Ministry of Education and Culture (MEC) are approved, and said improvements are transferred to line item 'Leasehold improvements' as the classrooms, laboratories, and common areas as made available to students.

b) Change in property, plant and equipment

The change in the balances in quarter ended June 30, 2010 is as follows:

	Consolidated		
	Cost	Accumulated depreciation	Net
Balance as of March 31, 2010	265,191	(60,359)	204,832
Additions	9,119	(5,374)	3,745
Write- offs	(171)	207	36
Transfers	(2,015)	5,409	3,394
Balance as of June 30, 2010	272,124	(60,117)	212,007

9. INTANGIBLE ASSETS

a) Company

	June 30, 2010			March 31, 2010
	Cost	Accumulated amortization	Net	Net
Goodwill on investments- Publisher (iii)	10,523	(3,332)	7,191	7,191
Total	10,523	(3,332)	7,191	7,191

b) Consolidated

	June 30, 2010			March 31, 2010	Annual amortization rate - %
	Cost	Accumulated amortization	Net	Net	
Software	19,680	(4,871)	14,809	13,411	20
Goodwill on investments:					
AESG (iv)	2,438	(229)	2,209	2,209	(*)
CBTA (iv)	3,082	(205)	2,877	2,877	(*)
Cidade Jardim (ii)	9,644	(2,755)	6,889	6,889	(*)
Editora (iii)	10,523	(3,332)	7,191	7,191	(*)
FACTEF (iv)	5,751	(328)	5,423	5,423	(*)
FADOM (iv)	10,784	(1,426)	9,358	9,358	(*)
FAMA MACAPÁ (iv)	8,007	-	8,007	8,007	(*)
FATEC (iv)	324	(19)	305	305	(*)
GK (iv)	500	-	500	500	(*)
JAPI (iv)	4,272	(463)	3,809	3,809	(*)
NABEC (iv)	143	(13)	130	130	(*)
São Francisco (iv)	928	-	928	928	(*)
SESG (iv)	2,021	(202)	1,819	1,819	(*)
SUESC (iv)	7,550	-	7,550	7,550	(*)
UMEP (iv)	12,953	(1,403)	11,550	11,550	(*)
UNILINHARES (iv)	11,204	(728)	10,476	10,476	(*)
UNIMINAS (iv)	21,654	(1,624)	20,030	20,030	(*)
IUNI (i)	307,414	-	307,414	310,916	(*)
FAMA MARABÁ (iv)	254	-	254	254	(*)
UNIC PRIMAVERA ANTIGA (iv)	3,457	-	3,457	3,457	(*)
UNIC PRIMAVERA NOVA (iv)	7,673	-	7,673	7,673	(*)
UNIC ROO AE (iv)	8,848	-	8,848	8,848	(*)
UNIC ROO FP (iv)	2,780	-	2,780	2,780	(*)
UNIC SINOP (iv)	2,666	-	2,666	2,666	(*)
UNIC TANGARÁ DO NORTE (iv)	8,084	-	8,084	8,084	(*)
UNIC TANGARÁ DO SUL (iv)	8,792	-	8,792	8,417	(*)
UNIC VÁRZEA GRANDE	(197)	-	(197)	(197)	(*)
UNIME ITABUNA (iv)	15,700	-	15,700	15,700	(*)
UNIME SALVADOR (iv)	11,130	-	11,130	11,130	(*)
Allowance for investment losses	(2,390)	-	(2,390)	-	(**)

	June 30, 2010			March 31, 2010	Annual amortization rate - %
	Cost	Accumulated amortization	Net	Net	
Development of internal projects:					
New units and new courses (v)	54,709	(3,088)	51,621	52,234	10
Sistema Universitário Pitágoras (vi)	9,629	(2,435)	7,194	7,469	10
New contracts (vii)	8,755	(831)	7,924	8,231	10
Distance Learning (viii)	3,571	(105)	3,466	3,571	-
Higher education assessment (ix)	1,854	-	1,854	1,856	-
Total	584,187	(24,057)	560,130	565,551	

(*) Assets with indefinite useful lives.

(**) Allowance for equity losses in CBTA (note 25).

(i) Refers to goodwill recognized as set out in the purchase and sale agreement entered into with the former controlling shareholder of IUNI, dated March 12, 2010. The parties have 150 days to obtain the certificates required to complete a corporate restructuring that will grant the former controlling shareholder 4,200,000 units in the Company, representing an equity interest of 6.31%, in exchange for the ownership of 550,512 IUNI shares. As a result of the recognition of the full control of IUNI beginning March 1, 2010, the Company recorded a R$32,805 increase in goodwill, corresponding the carrying amount of these IUNI shares as of February 28, 2010. Even though the exchange ratio remains unchanged under this agreement, goodwill will be adjusted when we measure the fair values of the assets, liabilities and exchange ratios as prescribed by CPC 15 Business Combinations.

(ii) Refers to goodwill recognized on the increase in PSES's equity interest in Colégio Pitágoras Cidade Jardim S.A., which was merged by PSES in October 2003. Such goodwill is based on expected future earnings and is being amortized since 2004, at the rate of 10% per year. In January 2007, such goodwill was transferred to SPES because of the acquisition of Cidade Jardim high school.

(iii) Refers to goodwill originally recognized by APOLLO PARTNERS, due to the acquisition of EDE shares held by APOLLO EUROPE. During the corporate restructuring undertaken in the second quarter of 2007, there was the downstream merger of APOLLO PARTNERS into and with EDE to allow the utilization of goodwill for tax purposes, and in line with CVM Instruction 349/01 guidelines, the merged company recognized an allowance amounting to the difference between goodwill and the tax benefit arising from its amortization. When the corporate restructuring was completed, goodwill was recognized by the Company pursuant to CVM Instruction 349/01.

(iv) Refers to goodwill recognized upon the acquisition of colleges based on expected future earnings, except for SUESC, basically recognized based on the appreciation of its property, plant and equipment.

(v) Refer to expenses incurred on:

- The opening of units such as Ipatinga, Betim, São Luís, Poços de Caldas, Uberlândia, Guarapari, Votorantim, Feira de Santana, Aracaju, Contagem, Governador Valadares and Maceió, and the expansion of the campuses Cidade Jardim, Guajajaras, Venda Nova and Contagem, among other campuses.

- Investments in new product launchings.

- Additional operating and technology infrastructure required by the MEC to allow the operation of higher education units.

- Development of a PDI (Institutional Development Plan) detailing all the degrees to be requested to the MEC and the expenses incurred in the certification of the new campuses and courses.

(vi) Refers to expenses incurred on the design and development of a teaching methodology (student and teacher handbooks and assessment systems) and an operating methodology (operations manual) to ensure the growth of the Pitágoras University System.

(vii) Refers to expenses incurred on the development of products to be sold in the Catholic Chain and the Pitágoras Chain.

(viii) Refers to expenses incurred on the design and development of the new distance learning business that will offer partial distance and web-based learning courses in several Brazilian cities.

(ix) Refers to expenses incurred on the development of a new higher education product and assessment methodology, offered by INADE.

c) Changes in intangible assets

Changes in the balances in the quarter ended June 30, 2010 is as follows:

	Consolidated		
	Cost	Accumulated amortization	Net
Balances as of March 31, 2010	587,348	(21,797)	565,551
Additions	2,356	(2,260)	96
Goodwill adjustment	(3,127)	-	(3,127)
Allowance for investment losses(*)	(2,390)	-	(2,390)
Balances as of June 30, 2010	584,187	(24,057)	560,130

(*) Allowance for equity losses in CBTA (note 25).

d) Impairment of assets

Goodwill based on expected future earnings were tested for impairment in the years ended December 31, 2009 and no need to adjust goodwill balances was identified. Goodwill will be tested for impairment again at the end of FY 2010.

10. INCOME TAX AND SOCIAL CONTRIBUTION

a) Breakdown of deferred income tax and social contribution

Deferred tax assets, basically recognized by subsidiary EDE, are as follows:

	Consolidated	
	June 30, 2010	March 31, 2010
Income tax loss carryforwards	5,207	5,159
Social contribution tax loss carryforwards	1,874	1,858
Temporary differences (primarily goodwill)	1,442	1,629
Total	8,523	8,646

Management prepared a technical study on the viability of the future realization of deferred tax assets, considering the probable ability of the companies to generate future taxable income, using the main variables applicable to their businesses, which are, therefore, subject to changes.

Income tax and social contribution on temporary additions refer mainly to goodwill arising on the merger of Apollo do Brasil Participações Ltda. by Pitágoras Apollo Internacional S.A.

According to projections prepared by the companies' management, noncurrent deferred income tax and social contribution will be realized in the following years:

	Consolidated	
	June 30, 2010	March 31, 2010
2010	1,966	2,088
2011	3,003	3,003
2012	3,246	3,246
2013	308	309
Total realizable within 4 years	8,523	8,646
(-) Current assets	(3,467)	(2,839)
Noncurrent assets	5,056	5,807

b) Deferred income tax and social contribution liability - consolidated

The balance recorded at subsidiary SPES arises from goodwill arising on the acquisition of the Cidade Jardim high school, subsequently merged, which made goodwill deductible for income tax and social contribution purposes. Under CPC 04 - Intangible Assets, intangible assets with indefinite useful lives cannot be amortized; however, this goodwill is being amortized for tax purposes, writing down the related tax base. On the amount amortized for tax purposes, we recognized deferred income tax and social contribution amounting to R$703 (March 31, 2010 - R$586).

c) Reconciliation of income tax and social contribution expense

Reconciliation of income tax and social contribution at their statutory rates and their actual tax rates:

(i) Company

	June 30, 2010	June 30, 2009
Income (loss) before income tax and social contribution	(5,115)	31,126
Combined income tax and social contribution rate - %	34%	34%
Income tax and social contribution at statutory rates	1,739	(10,583)
Reconciliation of income tax and social contribution income:		
Equity in subsidiary	(1,392)	10,615
Unrecognized tax credit	(347)	(32)
Income tax and social contribution in income (loss) for the six-month period	-	-

(ii) Consolidated

	June 30, 2010	June 30, 2009
Income before income tax and social contribution	(289)	38,804
Combined income tax and social contribution rate - %	34%	34%
Income tax and social contribution at statutory rates	98	(13,193)
Reconciliation of income tax and social contribution income:		
Tax incentive of subsidiary entitled to PROUNI benefit (1)	1,568	6,269
Permanent additions, net	(4,791)	299
Reversal of tax credit (2)	(1,244)	(1,078)
Unrecognized tax credit	(451)	(51)
Income tax and social contribution in income (loss) in the quarter	(4,820)	(7,754)

(1) As described below, refer to companies exempt from income tax and social contribution because they joined the University for All Program (ProUNI).

(2) These amounts are related to the tax credits arising from the corporate restructuring, which are being reversed at the ratio of 1/120th per month.

d) Tax incentives

The University for All Program (ProUNI), grants, under Law 11096 of January 13, 2005, exemption from several federal tax to higher education entities that grant partial and full scholarships to low-income graduate students enrolled with traditional and technology courses. The higher education entities controlled by the Company have joined this program.

Under Federal Revenue Service Regulatory Instruction 456 of October 5, 2004, private higher education entities that joined the ProUNI are fully or partially exempt from the following taxes while they are part of the program:

- Income tax and social contribution levied on net income proportional to revenue generated by traditional and technology graduation degrees.

- Social security funding tax on revenue (COFINS) and social integration program tax on revenue (PIS) levied on revenue generated by traditional and technology graduation degrees.

In view of the tax exemptions granted to companies joining ProUNI, the subsidiaries that have tax loss carryforwards do not recognize tax credits.

Additionally, the companies which are mainly engaged in the sale of books, have the benefit of not paying PIS and COFINS on the revenue arising from the sale of books in the domestic market, as set out in Article 28 of Law 10865/04. These companies are also not subject to State VAT (ICMS) on transactions involving textbooks, as set out in Article 5 of Decree 43808, of December 13, 2002.

11. TRADE ACCOUNTS PAYABLES

The balance of trade accounts payable consists mainly of o services and products necessary for the production and sale of Pitágoras Collection textbooks, which are distributed to the elementary education school chain. The balance also includes education-related services and consulting.

12. BORROWINGS AND FINANCING

	Consolidated	
	June 30, 2010	March 31, 2010
Local currency:		
Minas Gerais Development Bank (BDMG) (a)	12,521	13,166
Working capital (b)	2,391	2,486
Leases (c)	6,477	6,001
	21,389	21,653
(-) Current liabilities	(8,118)	(8,010)
Noncurrent liabilities	13,271	13,643

(a) Refers to financing using funds from the Development Incentive Fund (FINDES), granted by Banco de Desenvolvimento de Minas Gerais S.A. - BDMG (state development bank), to expand higher education operations. Funding obtained was invested in books, furniture, machinery, laboratory and IT equipment, construction, and logistics and IT infrastructure. The last installment of the financing will be paid on December 5, 2013.

Total financing is R$15,000, bearing interest of 6% per year and adjusted based on the Extended Consumer Price Index (IPCA) (March 31, 2010 - 6% per year), a 24-month grace period beginning December 2006 and amortization in 60 months. Interest rate decreases to 4% per year in case of timely payment of the first 12 installments.

(b) Refers to working capital used to expand its activities. Contractual borrowing costs are pegged to the fluctuation of the Bank Certificates of Deposit (CDB) plus fixed and floating rates at approximately 1.06% per month. Borrowings are guaranteed by receivables, promissory notes, and IUNI's founding shareholders' collateral signatures.

(c) Refers to IT equipment leased under irreversible agreements subject to interest ranging from 0.56% to 3% per month, with purchase option clauses, whose lease period ranges from 24 to 36 months.

In the second half of March, the Company decided to settle all IUNI working capital loans and leases, and only maintain borrowings from development banks. The prepayment of IUNI debts totaled R$140,853, which reduced the Company's short-term investments.

There are no clauses requiring the maintenance of financial indices (covenants).

The noncurrent portion matures as follows:

	Consolidated	
	June 30, 2010	March 31, 2010
2011 (six months as of June 30, 2010)	3,680	5,455
2012	5,166	5,188
2013	3,550	3,000
2014	441	-
2015	434	-
Total	13,271	13,643

13. ADVANCES FROM CUSTOMERS

	Consolidated	
	June 30, 2010	March 31, 2010
Current:		
Advances on the sale of textbook collections (a)	11,933	19,874
Prepaid enrollment fees and tuitions (b)	6,458	7,067
Total	18,391	26,941

(a) Advances on the sale of textbook collections to be delivered throughout the next school year are allocated to revenue when the related collections are delivered.

(b) Prepaid elementary education enrollment fees are allocated to revenue over the school year at the ratio of 1/12th per month, and prepaid tuitions are recognized as the services are provided.

14. ACCOUNTS PAYABLE

	Company		Consolidated	
	June 30, 2010	March 31, 2010	June 30, 2010	March 31, 2010
Current:				
Acquisition of IUNI (a)	-	-	28,128	58,128
Acquisition of AESG and SESG	-	-	996	969
Acquisition of FATEC	-	-	36	36
Acquisition of CBTA	-	-	15	82
Acquisition of SÃO FRANCISCO	-	-	640	640
Acquisition of GK	-	-	-	250
Acquisition of Unic ROO AE	-	-	1,213	1,194
Acquisition of UNIC TANGARÁ DO SUL	-	-	1,197	1,178
Purchase of property in Ipatinga	-	-	1,548	1,548
Purchase of land in Rondonópolis	-	-	401	395
Acquisition of equity interest in ILANG	-	-	793	792
Reimbursement to EDE (b)	6,662	6,662	-	-
	6,662	6,662	34,967	65,212
Noncurrent:				
Acquisition of UCES	-	-	648	632
Acquisition of AESG and SESG	-	-	2,245	2,185
Acquisition of CBTA	-	-	246	241
Acquisition of UNIC TANGARÁ DO SUL	-	-	4,586	4,109
Purchase of property in Ipatinga	-	-	2,709	3,096
	-	-	10,434	10,263
Total payables	6,662	6,662	45,401	75,475

(a) Refers to the amount payable for the acquisition of the IUNI Group, as set out in the purchase and sale agreement entered into with the former controlling shareholder of IUNI, dated March 12, 2010. The amount R$28,128 will be paid within 145 days after the acquisition and can change in view of changes in working capital and debt burden in the period June 30, 2009-February 28, 2010.

(b) Refers to costs on the issuance of new Company shares paid by EDE.

15. OTHER PAYABLES - NONCURRENT

Consist basically of the obligation related to the onlending of student loans received after the acquisition of Uniminas and IUNI's tuitions past-due for more than 180 days, totaling R$11,570 (March 31, 2010 - R$11,565). These amounts will remain withheld as escrow as they are received.

16. TAX DEBT REFINANCING PROGRAM (REFIS)

The Company joined the following tax installment plans to settle its debts to tax authorities:

	Consolidated	
	June 30, 2010	March 31, 2010
REFIS IV (a)	39,933	39,428
Municipal tax installment plans (b)	5,170	5,650
INSS installment plans (c)	7,140	7,389
Federal tax installment plans (d)	-	835
	52,243	53,302
(-) Current liabilities	(7,122)	(7,649)
Noncurrent liabilities	45,121	45,653

(a) The Federal Revenue Service created on May 27, 2009, pursuant to Law 11941 and Federal Revenue Service (RFB)/National Treasury Attorney General (PGFN) Joint Administrative Rule 06/2009, the Special Tax Installment Plan called "REFIS IV". The option for the payment of taxes in installments as set out in said Law entails an irrevocable acknowledgment by a taxpayer of the debts to be included in such installment plan, which constitutes extrajudicial acknowledgment. The plan permits the payment of tax debts outstanding until November 30, 2008 and debts arising from tax assessment notices issued by the Federal Revenue Service in 180 monthly installments, and requires the withdrawal of any lawsuits challenging such debts.

This installment plan provides for, without limitations, (i) the abatement of a certain percentage of fine and interest due, depending on the number of installments elected by the Company's subsidiaries and (ii) the offset of tax loss carryforwards against the remaining fine and interest. The debt will be consolidated in course of 2010.

In September to November 2009, the subsidiaries filed their option for the payment of 180 monthly installments, and so far have complied all the requirements to remain eligible for said plan. Note that to remain in the plan, entities cannot pay installments after due dates and have to drop any lawsuits related to the debts in installments, when applicable.

The subsidiaries' tax debts included in the installment plan consist basically of social security contributions (INSS) and the remaining balances of previous tax installment plans related to business income tax (IRPJ), social contribution on net income (CSLL), withholding income tax (IRRF), social integration program tax on revenue (PIS), and social security funding tax on revenue (COFINS). The table below shows the adjusted debt amount in installments as of June 30, 2010:

	Consolidated	
	June 30, 2010	March 31, 2010
Total outstanding debt	60,333	59,828
Decrease in fine, interest and legal charges under adhesion to installment plan	(12,400)	(12,400)
Utilization of tax loss carryforwards to abate fines and interest	(8,000)	(8,000)
	39,933	39,428
(-) Current liabilities	(2,805)	(2,731)
Noncurrent liabilities	37,128	36,697

Under the program, the Company agreed to pay 180 monthly installments, and, as of June 30, 2010, there are 172 installments payable. The balance of installments payable is adjusted on a monthly basis using the SELIC (central bank overnight rate), and in June 2010, R$1,142 was paid as adhesion installments before debt consolidation.

The table below shows a summary of the net effects by higher education institution recognized in these interim financial statements:

		Consolidated	
Higher Education Institution	Tax in installments	June 30, 2010	March 31, 2010
FAMA MACAPÁ	INSS, IRPJ, CSLL, IRRF, PIS and COFINS	2,096	2,063
IUNI	INSS, IRPJ, CSLL, IRRF, PIS and COFINS	10,822	10,722
UNIC PRIMAVERA NOVA	INSS and IRRF	726	716
UNIC PRIMAVERA ANTIGA	INSS and IRRF	605	598
UNIC SINOP	INSS, IRPJ, CSLL and IRRF	301	296
UNIC TANGARÁ DO NORTE	INSS and IRRF	836	823
UNIC TANGARÁ DO SUL	INSS, IRPJ, CSLL, IRRF, PIS and COFINS	1,089	1,073
UNIC ROO AE	IRPJ, CSLL and IRRF	136	114
UNIC ROO FP	INSS, IRRF, PIS and COFINS	81	99
UNIME ITABUNA	IRPJ, CSLL, IRRF and COFINS	423	417
UNIME LF	INSS, IRPJ, CSLL, IRRF, PIS and COFINS	22,558	22,248
UNIME SALVADOR	IRPJ, CSLL, IRRF, PIS and COFINS	260	259
Total		39,933	39,428

The noncurrent portion matures as follows:

	Consolidated	
	June 30, 2010	March 31, 2010
2011 (six months as of June 30, 2010)	1,402	1,990
2012	2,805	2,731
2013	2,805	2,731
2014	2,805	2,731
2015	2,805	2,731
2016	2,805	2,731

	Consolidated	
	June 30, 2010	March 31, 2010
2017	2,805	2,731
2018	2,805	2,731
2019	2,805	2,731
2020	2,805	2,731
2021	2,805	2,731
2022	2,805	2,731
2023	2,805	2,731
2024	2,066	1,935
Total	37,128	36,697

The tax loss carryforwards utilized to settle tax debts total R$8,000 as of June 30, 2010.

(b) Municipal tax installment plans:

(i) FACTEF

Refers to debts with the City of Teixeira de Freitas from July 2003 to March 2008, consolidated in July 2008. The tax installment plan granted consists of 48 monthly installments, payable from debt consolidation date. Tax debts total R$1,042, including fines and interest. Fifty percent of the debt was amortized in the first two installments. The outstanding debt is being paid in installments of R$11 each. Through June 30, 2010, 22 installments had been paid and the remaining balance amounts to R$296.

(ii) IUNI

Refers to a notice of assessment of service tax (ISS) from April 2008 to June 2009. The debt, totaling R$2,164, was divided into 36 installments. As of June 30, 2010, 29 installments of R$65 each, monthly adjusted by IPCA, remain outstanding.

(iii) UNIME LF

Refers to the payment in installments of tax assessment notices issued in January 2002-July 2007, related to ISS. As of June 30, 2010, the outstanding balance totals R$2,631. The installments are adjusted using annual IPCA.

(iv) Other subsidiaries:

Other subsidiaries, FAMA MACAPÁ, UNIC VÁRZEA GRANDEG, UNIC SINOP, UNIME ITABUNA, UNIC PRIMAVERA ANTIGA and UNIC PRIMAVERA NOVA, joined tax installment plans totaling R$358, which have different installment amounts and payment periods.

(c) National Social Security Institute (INSS) installment plans:

(i) IUNI

Currently there are two outstanding INSS installment plans:

- PAEX art. 1: Refers to the remaining 2000 REFIS balance. It was consolidated in 130 installments and started to be paid in September 2006. As of June 30, 2010, 70 installments of R$38 each, monthly adjusted based on the Long-term Interest Rate (TJLP), remain outstanding.

- Regular installment plan: Debt referring to INSS not paid in 2008 and 2009. The installment plan consists of 60 installments that began to be paid in November 2009. Each installment amounts to R$39. As of June 30, 2010, 52 installments adjusted by monthly SELIC, remain outstanding.

(ii) UNIME LF

Regular installment plan: Debt referring to INSS not paid in 2008 and 2009. Initially, this debt was amortizable in 60 installments in September 2009. As of June 30, 2010, 50 installments of R$32 each, adjusted by monthly SELIC, remain outstanding.

(iii) Other subsidiaries:

Other subsidiaries, UNIC ROO FP, FAMA MACAPÁ, UNIME SALVADOR, UNIC ROO AE and UNIC TANGARÁ DO NORTE, joined different installment plans, covering 2008 and 2009 debts, which total R$852 and have different installment amounts and payment periods.

(d) Federal taxes in installments:

- IUNI

Refers to IRRF first payable under the REFIS installment plan in 2000. As not all the installments were paid, the remaining balance was included in the PAES installment plan in June 2003 and divided into 180 installments. In April 2010, these installments were fully settled.

17. CONTINGENCIES

a) Reserve for contingencies

The Company and its subsidiaries are parties to lawsuits and administrative proceedings arising from the normal course of business. The provisions for losses on these lawsuits are estimated and adjusted by Management, based on the opinion of its legal counsel.

As of June 30, 2010, contingencies accrued, recorded in noncurrent liabilities, are as follows:

	Consolidated	
	June 30, 2010	March 31, 2010
Tax (i)	9,280	9,619
Labor (ii)	20,188	19,383
Civil (iii)	1,461	1,153
Total	30,929	30,155

(i) Refer to the collection of Real Estate Tax (IPTU) from SUESC in 2004-2009 and Severance Pay Fund (FGTS) from IUNI prior to 2008.

(ii) Refers to labor lawsuits filed by former employees and teachers.

(iii) Refers to the claims filed by students and former students.

Changes in contingencies recorded in the quarter is as follows:

	Consolidated			
	March 31, 2010	Additions	Write-offs	June 30, 2010
Tax (i)	9,619	-	(339)	9,280
Labor (ii)	19,383	1,457	(652)	20,188
Civil (iii)	1,153	403	(95)	1,461
Total	30,155	1,860	(1,086)	30,929

b) Escrow deposits

Some escrow deposits were made related to some lawsuits, which can be recovered by the companies or utilized to settle potential unfavorable outcomes. These escrow deposits, recorded in long-term assets (in line account 'Other') total R$6,881 (March 31, 2010 - R$6,520).

c) Guarantees

The agreements entered into for all business acquisitions, including IUNI's acquisition, required certain guarantees. In the case of IUNI, in addition to guarantees in properties granted by its former controlling shareholder, the main guarantee is the possibility of deducting possible losses on rentals payable, which total R$1,293 per month, as adjusted by the IPCA, effective for a ten-year period (note 19 a)).

d) Unaccrued possible losses

The Company is a party to tax, labor and civil lawsuits whose risk of an unfavorable outcome is classified by management as possible, based on the assessment of its legal counsel, for which no reserve is recognized. The estimated amounts are broken down as follows:

	Consolidated	
	June 30, 2010	March 31, 2010
Tax (*)	34,840	34,840
Labor	1,008	679
Civil	2,004	146
Total	37,852	35,665

(*) Refers to tax lawsuits of IUNI, guaranteed as mentioned above, which declared itself as a nonprofit organization and, therefore, immune to taxes on its operations until the first quarter of 2008.

18. SHAREHOLDERS' EQUITY

a) Capital

	Number of shares	
	June 30, 2010	March 31, 2010
Pitágoras Administração e Participações Ltda.	248,063,505	248,063,505
Other shareholders	179,858,117	181,914,717
Outstanding shares	427,921,622	429,978,222
Treasury shares	8,918,000	6,861,400
Total shares issued	436,839,622	436,839,622

The Company's authorized capital is represented by 500,000,000 shares. As of June 30, 2010, the Company's fully subscribed and paid-up capital is R$821,020 (R$821,020 as of March 31, 2010).

b) Legal reserve

The legal reserve is recognized annually with the allocation of 5% of net income for the year until it reaches 20% of capital. This allocation is optional when the legal reserve plus the capital reserves does not exceed 30 percent of capital. The objective of the legal reserve is to ensure the integrity of capital and can only be utilized to offset losses or increase capital.

c) Distribution of profits

The Company can, at the discretion of the Board of Directors, prepare interim balance sheets and, based on these balance sheets, distribute interim profits deducted from retained earnings or revenue reserves existing on the last annual balance sheet.

According to the shareholders' agreement entered into on June 24, 2009, accumulated losses and the provisions for income tax and social contribution must be deducted from net income. The remaining net income is allocated as follows: (i) 5% to the legal reserve; (ii) 25% distributed to shareholders as mandatory dividends; and (iii) from 25% to 75% to a bylaws earnings reserve. The remaining balance is allocated as approved by the Shareholders' Meeting, based on a proposal submitted by the Board of Directors.

d) Treasury shares

The share buyback is in conformity with Article 157, Paragraph 4, of Law 6404/76, CVM Regulatory Instructions 10/80 and 390/03, and other relevant legislation.

Through June 30, 2010, EDE bought back 1,274,000 units, represented by 1,274,000 common shares and 7,644,000 preferred shares, at a total cost of R$25,559. The price of the units ranged from R$8.00 to R$33.00, with an average price per unit of R$17.00. As of June 30, 2010, the fair value of treasury shares is R$17,008. No treasury shares were sold or adjusted for inflation.

19. RELATED-PARTY TRANSACTIONS

The main intercompany balances and transactions are as follows:

a) Payables to and receivables from subsidiary and associates

	Company		Consolidated
	Payables to subsidiary	Payables to subsidiary	Receivables From associates
	June 30, 2010	March 31, 2010	June 30, 2010
EDE	7,982	7,532	-
Other	-	-	115
Total	7,982	7,532	115

The main balances of assets and liabilities as of June 30, 2010 relate to business transactions, advances for future capital increase and debit notes, such as Company amounts arising from the reimbursement of funding expenses for the Company's capital increase, and sale of books to PAX, which are sold at cost. These amounts bear no interest.

b) Other related-party transactions

The companies PSES, SPES and SEL (the latter only in 2009) use properties leased by CNG Patrimonial Ltda., which is owned by the Company's founding shareholders. Monthly rents total R$112 (June 30, 2009 - R$149). These amounts are recorded in the income statement, in line account 'Cost of services'.

EDE entered into a contract for the sale of learning material with Fundação Pitágoras, under market terms and conditions. Net sales for the quarter ended June 30, 2010 totaled R$3,428 (June 30, 2009 - R$1,802). The balances receivable for the quarter ended June 30, 2010 is R$11,892 (March 31, 2010 - R$9,435).

The company also entered into lease agreements with a real estate developer owned by the former controlling shareholder of IUNI. These lease agreements are long-term agreements and were executed on March 12, 2010 for a ten-year period, adjusted annually using the IPCA.

Lessee	Lessor	Property	Lease amount
IUNI Educacional	Vértia Empreendimentos Imobiliários Ltda.	Av. Projetada, 1 - Sinop - Mato Grosso	30
IUNI Educacional	Vértia Empreendimentos Imobiliários Ltda.	Av. Beira Rio, 3.100, Jardim Europa - Cuiabá - Mato Grosso	700
UNIC TANGARÁ DO SUL	Vértia Empreendimentos Imobiliários Ltda.	Av. Vergílio Favetti, 1.200-S - Tangará da Serra - Mato Grosso	33
UNIC PRIMAVERA DO LESTE - NOVA	Vértia Empreendimentos Imobiliários Ltda.	Av. Guterres, 239 e 241 - Primavera do Leste - Mato Grosso	65
UNIC SINOP	Vértia Empreendimentos Imobiliários Ltda.	Estrada Nanci, 900, Lotes 77-B e 77-C, Bairro Eunice - Sinop - Mato Grosso	25
UNIC VÁRZEA GRANDE	Vértia Empreendimentos Imobiliários Ltda.	Rua Arthur Bernardes, 525 - Várzea Grande - Mato Grosso	25
UNIME LF	Vértia Empreendimentos Imobiliários Ltda.	Av. Luís Tarquínio Pontes, 600, Centro - Lauro de Freitas - Bahia	415

c) Compensation of key management personnel

Management are the individuals with authority and responsibility for planning, directing and controlling the Company's and its subsidiaries' activities, either directly or indirectly, and includes Board of Directors' and Fiscal Council' members, the Chief Executive Officer, Vice-Chief Executive Officer and Officers.

In the six-month period ended June 30, 2010, management was paid short-term benefits (compensation, stock option plan, health care, life and liability insurance), which were recognized in "General and administrative expenses".

Compensation paid to management is as follows:

	Consolidated	
	June 30, 2010	June 30, 2009
Salaries (*)	2,542	1,162
Variable Compensation (*)	560	697
Share-based compensation plan - stock options	1,252	-
Total	4,354	1,859

(*) The Annual Shareholders' Meeting set management's annual overall compensation for fiscal year 2010 at R$15,000. This amount does not include the share-based compensation plan, detailed in note 20.

20. SHARE-BASED COMPENSATION PLAN

a) The Company approved on October 23, 2009 a stock option plan with the objective of retaining Company executives and aligning their interests with the interests of the shareholders and the Company. The Company's independent directors, its officers and its senior executives are eligible for the plan.

Options granted must not exceed the cap of 5,000,000 common shares and 30,000,000 preferred shares, corresponding to 5,000,000 units, equivalent to 8.01% of the Company's capital on approval date.

The Board of Directors or the Human Resources Committee, as applicable, will set out the terms and conditions of each option in a Stock Option Agreement (the "Agreement"), to be signed by the Company and each beneficiary.

The price of the options is equivalent to the average price of Company shares quoted on the trading sessions of the São Paulo Stock Exchange conducted in the 60 days prior to grant date. The exercise price can be adjusted for inflation, calculated using the fluctuation of a consumer price index to be defined in the related agreements, and can also have a discount of up to 20%.

b) Assumption and calculations of the fair values of granted options

	June 30, 2010	March 31, 2010
Total stock options granted	2,820,000	2,000,000
Exercise price on grant date - R$	18.23	17.82
Fair value at granting date - R$	4.58	4.89
Option exercise deadline (days)	1,350	1,171

The Company recognizes in income during the period services are provided, the vesting period and the costs of compensation paid to beneficiaries based on the fair value of the options on grant date, using the Black-Scholes pricing model to measure the fair values of the options.

The following economic assumptions were used to determine fair values:

	June 30, 2010	March 31, 2010
Share price volatility - %	9.87	10.03
Risk-free return rate - %	8.92	8.71
Share price on option grant date - R$	17.63	18.38

The Company settles this stock option plan by delivering its own shares, which are held in treasury up to the actual exercise of the options by the executives.

Changes in the number of stock options are as follows:

	Number of options
Outstanding at beginning of period - October 23, 2009	5,000,000
Granted during the period	(2,000,000)
As of March 31, 2010	3,000,000
Granted during the quarter	(1,020,000)
Grants cancelled during the quarter	200,000
As of June 30, 2010	2,180,000

21. FINANCIAL INCOME (EXPENSES)

Contingent discounts granted, arising from the timely payment of monthly tuitions are recognized as financial expenses, even though they are directly related to the monthly tuitions of students. Interest and fines collected from students are recognized as financial income.

	Consolidated	
	June 30, 2010	June 30, 2009
Financial expenses:		
Interest on loans	(2,759)	(838)
Contingent discounts granted	(15,637)	(5,107)
Banking expenses	(1,911)	(602)
Inflation losses	(705)	(1,328)
Interest and fines	(3,200)	(296)
Other	(441)	(455)
	(24,653)	(8,626)
Financial income:		
Income from short-term investments	8,393	5,006
Interest on financial assets	3,983	741
Other	1,680	682
	14,056	6,429
Financial income (expenses)	(10,597)	(2,197)

22. FINANCIAL INSTRUMENTS

a) Identification and valuation of financial instruments

The Company and its subsidiaries use several financial instruments, particularly cash and cash equivalents, including short-term investments, trade accounts receivable, trade accounts payable, and borrowings and financing, all under usual market terms and conditions.

The amounts recorded in current assets and current liabilities are highly liquid or their maturities do not exceed three months in most cases. Given the maturities and the features of such instruments, which are renegotiated systematically, their carrying amounts approximate their fair values.

b) Cash and cash equivalents, short-term investments, trade accounts receivable, other current assets, and trade accounts payable

Carrying amounts approximate realizable values.

c) Investments

Consist principally of investments in subsidiaries (limited liability partnerships) accounted for under the equity method, in which the Company has strategic interests. Fair value considerations for shares held do not apply.

d) Borrowings and financing

The carrying amount of borrowings includes rates pegged to the Extended Consumer Price Index (IPCA) and to fluctuations of the Bank Certificates of Deposit (CDB).

e) Interest rate risk

This risk arises from the possibility of the companies incurring losses because of interest rate fluctuations that increase financial expenses related to borrowings and financing raised in the market. The Company continuously monitors market interest rates with the objective of assessing the need to hedge against the risk of volatility in these rates.

f) Credit risk

The Company’s and its subsidiaries’ sales policy is closely related to the level of credit risk that they are willing to assume in the ordinary course of their businesses, limited to Federal Government rules (Law 6870/99, which provides for total school annual tuitions). Enrollment for the next school year is blocked whenever a student is in default with the institution. Possible default is minimized by diversifying the receivables portfolio, selecting students, and monitoring collection deadlines. The companies also have an allowance for doubtful accounts totaling R$68,986 corresponding to 32.54% (March 31, 2010 - R$60,699, corresponding to 28.83%), of the gross balance of outstanding receivables from third parties, to face credit risk.

The Company restricts its exposure to credit risks related to banks and short-term investments by investing through prime financial institutions and in accordance with previously established limits.

g) Derivatives

The Company did not carry out derivative transactions.

h) Sensitivity analysis

The table below shows the sensitivity analysis for financial instruments, describing the risks that may result in material losses for the Company using a most probable scenario, according to an assessment made by management for a 12-month period. Additionally, in accordance with CVM Instruction 475/08, two other scenarios are presented to show a 25% and 50% stress of the risk variable considered.

For the sensitivity analysis, we used as assumption the macroeconomic indicators prevailing at the close of the quarter ended June 30, 2010, given that, in view of the current market volatility, the probable scenario for the coming twelve months will be similar to the scenario of the period ended June 30, 2010.

Sensitivity analysis table:

(i) Securities

Index	Amount	Risk	Probable scenario	Possible scenario (25%)	Remote scenario (50%)
CDI	28,613	Decrease of CDI	2,690	2,017	1,345

(ii) Borrowings and financing

Index	Amount	Risk	Probable scenario	Possible scenario (25%)	Remote scenario (50%)
IPCA	12,521	IPCA increase	606	758	909

Indices used: CDI - 9.4% and IPCA - 4.84%.

Management prepared a sensitivity analysis for the other financial instruments as of June 30, 2010 and concluded that they do not present risks of material losses.

23. STATEMENTS OF CASH FLOWS

a) Cash and cash equivalents

The balances of cash and cash equivalents included in the statements of cash flows also include the balance of securities and are stated in note 3.

b) Supplemental information

Information on income tax, social contribution and repayment of borrowings and financing is stated in the changes in cash flows.

Non-cash transactions refer to depreciation and amortization, gains (losses) on sale of noncurrent assets and premiums on stock options issued.

24. INSURANCE

The Company has a risk management program designed to limit risks, seeking in the market coverage that is compatible with their size and operations. The insurance coverage obtained in the amount below, is considered sufficient by management to cover possible losses, considering the type of its activities, risks involved in the operations, and advice from insurance brokers.

As of June 30, 2010, the Company had insurance policies with single maximum compensation of R$105,878 (June 30, 2009 - R$24,000), and which cover electrical damages, riots, window breaking, electronic equipment, fire, robbery, lightning, explosions, windstorms, vehicle impact, and aircraft crashes.

25. EVENTS AFTER THE BALANCE SHEET DATE

On July 26, 2010, all the shares in the education unit CBTA - Faculdade de Rio Claro, in Rio Claro, State of São Paulo, were sold. KrotonManagement decided to sell CBTA given that the unit has not achieved the expected growth rate and would further require significant investments to reach a performance level that is adequate and in line with Kroton's higher education institutions.

The amount of R$2,000 will be received as follows:

i) R$1,400 upon the execution of the contract.

ii) R$100 to be received on September 15, 2010, subject to the validation of the actual number of students enrolled as of August 30, 2010.

iii) R$300 to be received through December 31, 2010.

iv) R$200 to be received through May 2013.

This transaction resulted in a loss on sale of investment of R$2,390, which was recorded in the Company's statutory books (note 9).

MESSAGE FROM THE MANAGEMENT

Our main objective in 2010 is to integrate Kroton and IUNI into **ONE COMPANY, BETTER AND STRONGER**, preparing it for solid growth in 2011.

The focus of management in the second quarter of 2010 was the Post Merger Integration (PMI) project, with 15 task forces that designed the streamlined processes and defined all the parameters and systems of the resulting company.

Two projects that became operational on August 1st are a priority for the successful integration of Kroton and IUNI: **(a) implementation of the new Academic Model for Post-Secondary Education** and **(b) unification of the financial ERPs and of the integrated planning and control process**. Both goals were successfully achieved. The relevant impact of these projects on academic and management quality and on the Company's operating margins will begin to show in 3Q10, as detailed in this report.

The other PMI projects are being implemented according to their specific schedules. Several of the Company's departments have already been unified. The remaining ones, which depend on more complex system integration and/or geographic changes, will be completely consolidated by the end of 2010.

Management Agenda

During the first six months of 2010, the Company defined and implemented integration and costs optimization projects. In the second half of the year, management will review the company´s strategy, adjusting its commercial positioning, redesigning the course offerings, and improving the students' retention and attraction processes.

INTEGRATION STATUS

New Academic Model

The new academic model became operational on August 1st at all post-secondary education facilities, including both Pitágoras and IUNI units. The new model was designed after IUNI's successful experience and based on the best concepts of the Pitágoras teaching model.

The new academic model will assure high educational standards to our students by introducing new concepts and improvements, including extracurricular activities and several digital tools to support the teaching and learning processes. The content of all courses were redesigned based on the balanced-scorecard (BSC) methodology, which takes into consideration each market's demands and individual needs in order to assure that our students are prepared to succeed in their personal and professional lives.

The implementation of the new model will also immediately improve the operation's gross margin, mainly at the Pitágoras units, by optimizing both the curriculum matrix and the number of traditional classroom hours. With the new model, the number of faculty at Pitágoras facilities decreased by 449 professors for the second half of 2010.

To implement the new academic model, several activities were carried out in 2Q10, including:

- Review of the content of all courses with the revision and adaptation of over 2,200 curriculum matrixes ;
- Individual review of curriculum matrixes for the over 40,000 Pitágoras students;
- Implementation of the Faculty and Student Portals;
- Implementation of an intense training program for directors, coordinators and professors;
- Holding hundreds of meetings with directors, coordinators, professors and students;
- Holding several meetings with the Professors' Unions; a company proposal essentially based on maintaining scholarships for faculty who are no longer part of our staff was approved;
- Communication with the responsible authorities.

See the "**KROTON NEW ACADEMIC MODEL"** on Kroton's investor relations website: **www.kroton.com.br/ir,** for more information on the model's premises and concepts.

Structural and Process Changes

To guarantee a fast integration of the Company's financial systems, we decided to use the "Protheus" system, which was used by IUNI as the single company´s ERP, and the "RM" system, which Kroton uses for payrolls. Consequently, as of August 1st, Kroton discontinued the Datasul financial ERP. By the end of the year, the payroll of all IUNI´s units will have migrated to the RM system.

The new integrated ERP is essential for the implementation of the new management and control process and to unify the control, finances and human resources teams. The management model implemented assures budget execution following the approved budget through a system that only allows for the disbursement of previously-approved operating expenses and investments.

"Lyceum", Kroton's academic system, was improved and adjusted to operate in accordance with the Company's new academic model and also with Protheus. "Olimpo", IUNI's academic system, was also improved.

Improvements to credit and collection processes implemented at Kroton are being expanded to IUNI's units.

The Company's integrated organizational structure has been defined and several departments and facilities have already optimized their staff. The new structure will be fully in place by the end of the year.

The back-office structure of the Company's campuses was redefined and adjusted to fall into one of three structural patterns based on the number of students. Integrated support rooms for professors and students were implemented at all facilities. The organization structure and staffing levels of the integrated company as well the necessary adjustments to be implemented by the end of 2010 have been defined.

Synergies

Taking into consideration the successful implementation of the new academic model and integration projects, and the additional actions that will be fully implemented by the end of the year, management is confident to indicate the financial goals described below.

With the adjustment on the teaching staff of 449 professors, the new academic model will allow for annualized savings of R$14.4 million for the period August-December 2010. With the full implementation of the academic model savings of R$17 million/year will be achieved by 2011-2012.

Furthermore, the adjustment of the administrative staff already implemented, of 630 people, will reduce the administrative payroll by R$16.2 million/year, already impacting the period August-December 2010.

In addition to the adjustments implemented in the academic and back-office areas which reduced the staff by 1,079 people, other actions that have been implemented to optimize costs, corresponding to R$4 million/year, will also impact positively the financial performance in the second half of the year. Many other initiatives currently under way will provide additional synergies in the future.

With the completion of the integration project and the implementation of the new academic model, synergies from the integration of IUNI will exceed R$40 million/year compared with the R$20 million originally forecasted. Due to more profound optimizations, non-recurring integration costs will reach approximately R$30 million (R$15 million in the first half and R$15 million in the second half of the year), higher than the R$20 million estimated during the acquisition. The main difference is related to a larger number of layoffs than originally forecasted. Taking into consideration that the benefits of the new academic model and back-office adjustments will impact mainly the period from August to December, the Company's estimate for the 2010 pro forma adjusted EBITDA (excluding non-recurring expenses) is R$60 million (or nearly R$68 million, also excluding start-up and greenfield expenses, which can no longer be deferred).

Based on the results from August to December, the Company's annualized EBITDA running rate, excluding non-recurring payment expenses, will be approximately R$100 million/year.

Finally, EBITDA margin should reach between 22% and 23% in 2012-2013 by completing the integration and the process-optimization projects, fully implementing the new academic model and gradually adjusting gross margins in courses with lackluster margins.

2Q10 RESULTS

2Q10 results were impacted by R$11.7 million in non-recurring expenses (R$15.8 million in the first six months of 2010 - pro forma), mainly due to the acquisition of IUNI and the integration project.

In addition, margins have also been impacted by several factors, including:

(a) Expenses and costs from the following greenfields and start-ups: Barreiro, Poços de Caldas, Votorantim, Governador Valadares, Feira de Santana, Marabá and Maceió - totaling R$3.7 million in 2Q10 and R$6.4 million in the pro forma first six months of 2010;

(b) Provision for the stock option program (R$1.0 million in 2Q10 and R$1.6 million in the first six months of 2010);

(c) Specific discounts at the facilities acquired from IUNI due to promotional campaigns implemented before the acquisition for the purpose of bringing in new students;

(d) Negative performance in some Pitágoras units that still have courses with negative gross margins;

(e) Seasonal lower EBITDA in the primary and secondary education segment, since most of the revenues are posted in the first quarter; and

(f) Negative EBITDAs from Projecta, the new basic education segment focused in the public sector (R$0.7 million in 2Q10 and R$0.6 million in the first six months of 2010).

EBITDA adjusted for the exclusion of non-recurring and start-up expenses amounted to R$2.3 million in 2Q10 (1.5% over net revenue) and R$46.8 million in the first six months pro forma (13.6% over net revenue).

NEW FIES - FINANCING FOR POST-SECONDARY EDUCATION STUDENTS

In May 2010, the Ministry of Education announced a new students loan program (new FIES), which could have a huge impact on the sector's growth. The new FIES may also have a significant effect on reducing delinquency and student dropout rates.

According to the new measure, students will have access to lines of credit at an interest rate of 3.4% p.a., with an 18-month grace period following graduation and maturity of more than 3-times the course length.

In June and July, the Company implemented a support structure to facilitate students' access to FIES. Defaulting and dropout students were targeted in this period. Until August 10th, 2010, about 1,500 students had signed contracts for the new FIES and more 2,500 students were with their approval processes in progress. Another 3,000 students who were already part of the FIES will also migrate to the new conditions. Therefore we shall have approximately 7,000 students in the FIES by the end of this year and surpass 10,000 by the beginning of 2011.

Several initiatives were put into place, including:

- **For new and current students:**
  - Creation of an exclusive Kroton webpage - www.novofies.com.br
  - Material on the FIES for marketing consultants and to monitor sign-ups;
  - Billboard campaigns in facilities eligible to participate in FIES;
  - Active call-center campaigns and wide announcements in eligible facilities;
  - Announcements through attendants within the student support system;

- Announcements regarding FIES in classrooms;
- Contact with students with scholarships and default students to offer FIES;
- Creation of special rooms containing FIES promotional material in each unit;
- Agreements with the Caixa Econômica (Federal Bank that supports the FIES) for on-campus assistance.

- **Dropout students:**

  - Active call-center campaigns in conjunction with collection initiatives;
  - The creation of a link on the student portal containing information on FIES.

The Company expects the number of students associated with FIES to increase since admission examinations will include this new option to attract and retain students in the different facilities.

Kroton also understands that the new FIES will show the competitive advantages of schools that provide quality education with strong brands and reputation, since the average course ticket will be less relevant in the students' decision and choice. In this sense, the Company recently concluded an extensive segmentation and positioning study supported by *Copernicus Marketing Consulting* showing that, the Pitágoras brand is well recognized in the cities where the study was conducted and stands out for its quality education compared to its competitors. The combination of a brand name, strong reputation, and availability of attractive financing will allow the Company to attract new students and reduce delinquency and dropouts.

OPERATING PERFORMANCE

PRIMARY AND SECONDARY EDUCATION

Recent mergers and acquisitions and the presence of international players in primary and secondary education have shown the importance of this segment in the education industry.

Kroton is one of the main companies in this segment, and Pitágoras is recognized throughout Brazil for its solid reputation regarding quality in education. Since its foundation in the 1960s, the Company has experience operating primary and secondary educational facilities. Since the 1990s, it has been offering education-related solutions to a network comprising over 720 associated schools that serve 265,000 students.

In 2009, the Company started selling its services to public schools through the Projecta brand based on its 40-year experience in the private sector and supported by its own management technology used in the municipalities, which was tested for over ten years by Fundação Pitágoras. Twenty-four thousand students in primary and secondary public schools are already part of Projecta. There is great potential for growth in the primary and secondary public sector, which is substantially larger than the private sector.

In 2010, the Company has been developing several improvements focusing on quality and using state-of-the-art educational and support tools to be offered to the primary and secondary education network. Some of the developments to be introduced in 2011 are:

- A new Educational Portal that allows integration among students, parents and teachers through a virtual platform;

- The Robotics Project in partnership with Lego that brings together state-of-the-art technology and learning;

- The "Mind Lab", which consists of brain teasers (tabletop games) linked to the course program;

- "The Connected Room" - using laptops, students can keep up with the topics shown on a digital board.

POST-SECONDARY EDUCATION

In the second quarter of 2010, there were 88,094 post-secondary education students in the Company, of which 78,8 thousand were enrolled in our bachelor's and associate degree programs and 9,2 thousand in graduate programs.

In 2Q10, Pitágoras units conducted their last quarterly entrance exam. The admission processes will now be held every six months following the implementation of the new academic model.

With the new graduate and transfer students, Kroton added 5,691 students. Dropout students and graduates totaled 5,946 students.

FINANCIAL PERFORMANCE

CORPORATE RESULTS

GROSS REVENUE

Kroton's gross revenue amounted to R$187.1 million in 2Q10, up 83.8% year over year. Gross revenue increased from R$218.4 million in 1H09 to R$349.2 million in 1H10, up 59.9%. Variations in gross revenue are basically due to the growth in post-secondary education after the acquisition of IUNI, which increased Kroton's platform by 16 new campuses and over 42,000 students.

In the first six months of 2010, Kroton recorded gross revenues of R$83.2 million in primary and secondary education a 10.4% increase year over year. This growth is directly related to the higher number of contracts in our education network and the annual adjustment of average prices for teaching materials sold to associated schools.

GROSS REVENUE DEDUCTIONS

Total deductions in 2Q10 amounted to R$32.7 million, of which R$2.7 million are related to primary and secondary education operations and R$30.1 million to post-secondary education. In the first six months, deductions totaled R$52.2 million.

Deductions - Primary and Secondary Education

Given the fact that the sale of textbooks is exempt from the taxes PIS, COFINS and ICMS, primary and secondary education deductions comprise taxes related to school operations, reimbursements for teaching materials and discounts given for payments at sight.

In 2Q10, deductions amounted to R$2.7 million - R$0.8 million in taxes and R$1.9 million in returns. Primary and secondary education deductions represented 10.8% of the segment's net revenue, or 1.7% of the Company's total net revenue.

Deductions - Post-Secondary Education

In the quarter, post-secondary education reported deductions of R$30.1 million, comprising taxes (ISS on operational revenue related to bachelor's and associate degree programs and ISS, PIS and COFINS on graduate courses), the ProUni scholarship program, reimbursements or cancelled tuitions after issuing the corresponding bill and unconditional discounts. For better understanding we have also included conditional discounts (calculated as financial expenses) granted for timely monthly tuition payments offered to employees at companies with which we have commercial agreements.

Year over year, the 4-p.p. increase in post-secondary education deductions over the segment's net revenue is due to discounts given in acquired IUNI facilities, which were incorporated into to our financial results. The special discounts aimed at attracting more students impacted intensely the 2Q10 and were part of a promotional program implemented before the aforementioned acquisition.

NET REVENUE

Net revenue in the second quarter of 2010 was up 77.0% on 2Q09, for a total of R$156.6 million. This growth in revenue is the result of the addition of IUNI operations, as clearly shown by the net revenue evolution in post-secondary education, which jumped from R$61.5 million to R$131.7 million in 2Q10.

In the first six months of the year, total revenue stood at R$301.0 million, with an 8.9% increase in revenue from primary and secondary education and an 82.9% increase in revenue from post-secondary education.

Average Ticket

The price of books sold to primary and secondary schools were increased by 5% at the beginning of the year in accordance with the variation of the Extended Consumer Price Index (INPC) during the period. In 2010, the average annual net ticket for primary and secondary education stood at R$349.65.

In post-secondary education, of the tuition for all courses was adjusted in accordance with the variation of INPC. Following a standardizing of calculation criteria between Kroton and IUNI, the average net ticket for 2Q10 was R$495.63 per month.

COSTS OF PRODUTCS AND SERVICES

The Company's total costs in the second quarter of 2010 totaled R$120.7 million, or 77.1% of Kroton's net revenue in the period. Costs of post-secondary education - the segment with the greatest share in Kroton's business mix - were responsible for over 90.5% of all costs, equal to 69.7% of net revenue in 2Q10.

The cost of products related to the publishing and printing of teaching material for Kroton's primary and secondary education network totaled R$4.1 million in the quarter, equivalent to 2.6% of the Company's net revenue, versus 3.9% in 2Q09.

In post-secondary education, faculty and other personnel totaled R$69.6 million in the quarter (44.4% of the Company's net revenue).

The 15.4-p.p. increase in the cost of post-secondary services as a percentage of net revenue between 2Q09 and 2Q10 is mainly the result of costs related to start-ups that are still under development (new courses and greenfield facilities in Poços de Caldas, Barreiro, Feira de Santana, Votorantim, Marabá, Governador Valadares and Maceió).

GROSS PROFIT AND GROSS MARGIN

Kroton's gross profit in the second quarter of 2010 increased by 21.3% year over year, ending 2Q10 at R$35.9 million (gross margin of 22.9%). Growth in the period totaled 25.2%, up from R$80.4 million in the first half of 2009 to R$100.6 million in the first six months of 2010.

Primary and Secondary Education

Kroton's gross profit in the primary and secondary education segment totaled R$13.4 million in 2Q10, with a margin of 53.8%. This result is made up of the Kroton's own operations - which include the Company's schools and contracts with private companies to operate schools - and the educational network of associated schools.

Due to its scale and current stage of maturity, the primary and secondary education network's margins contribute significantly more than those of the Company's own operations. The education network recorded a gross margin of 72.7% in 2Q10, while the margin from the Company's own operations stood at 24.9%.

The 8.2-p.p. decrease in the education network's gross margin from 2Q09 to 2Q10 is the result of the introduction of new businesses, such as Projecta - an education network for public schools - in an early stage of operations.

Post-Secondary Education

Many post-secondary education facilities are currently in the process of organic growth and maturation, while several are still in the earliest stages of development. Several other facilities acquired in the last few years are currently undergoing restructuring in order to increase their margins. Thus, the gross margin in 2Q10 stood at 17.1%.

OPERATING EXPENSES

The Company's total operating expenses in the second quarter of 2010 totaled R$47.4 million. In addition to these expenses, Kroton recorded non-recurring expenses amounting to R$11.7 million in 2Q10 and R$15.2 million in 1H10 (excluding the months of January and February for IUNI) mainly related to the process of integrating IUNI.

For the second half of the year, additional non-recurring expenses of nearly R$15.0 million should be recorded as a consequence of the integration process and implementation of the new academic model.

Selling Expenses

Selling expenses are composed of expenses with marketing, copyrights, and provisions for doubtful accounts (PDA). The "other" line mainly covers travel and third-party service expenses.

Total expenses, including advertising and the sales team, dropped in relation to net revenue in the quarter and in the first half of the year. The percentage of these expenses versus net revenue decreased by 1.1 p.p., from 6.2% in 2Q09 to 5.1% in 2Q10. Year to date, the decrease was 0.5 p.p.

The Company significantly adjusted its account receivables at the end of last year and restructured its credit and collections department, with the support of a specialized consultant. At the same time Kroton also implemented a change in the provision criteria, adjusting the provision for doubtful accounts to meet the reality of operations and students' profile.

In 2Q10, the PDA was R$8.3 million, equivalent to 5.3% of the Company's net revenue in the period. Year to date, the PDA totaled R$15.5 million, equivalent to 5.1% of the accumulated revenue.

Personnel Expenses

Personnel expenses in 2Q10 were up 45.1% in comparison with the previous quarter, mainly reflecting increased payrolls after the integration of IUNI, which in 1Q10 only included a single month, the agreement with the unions of an average of 5.4% applied during the 6M10 and the provision for the stock option program that increased from R$0.6 million to R$1.0 million between 1Q10 and 2Q10.

The exercise price of the most recent options granted by the Company was R$19.05 per unit. Despite the R$13.35 market price of units on June 30, 2010, accounting rules required the Company to record provisions in the 6M10 of non-cash expenses totaling R$1.6 million.

General and Administrative Expenses

In 2Q10, general and administrative expenses, which include travel, rent, third-party services, and consultancy, totaled R$10.6 million, up 20.2% on 1Q10.

Goodwill Amortization

In accordance with Federal Law 11,638/07, as of January 1st, 2009, the amortization of goodwill was suspended, and goodwill will now be evaluated annually based on impairment testing. The only goodwill that continues to be subject to amortization is part of the goodwill allocated as the surplus value of assets, amounting to R$0.2 million in 2Q10 (corresponding to the acquisition of Sociedade Unificada de Ensino e Cultura - SUESC).

The goodwill paid for IUNI totaled R$307.4 million, but is subject to change due to the retained portion, the pending ownership restructuring involving the issue of shares by the former controlling shareholders and the application of the new rule introduced by CPC 15. Management is currently evaluating the allocation and use of this goodwill for accounting and fiscal purposes.

ACCOUNTS RECEIVABLE TURNOVER

Since the Company adjusted its balance sheet at the end of 2009 and implemented new credit and collection policies, the Company's portfolio has performed in accordance with previously projected levels.

Accounts receivable turnover in 2Q10 was 82 days, down 17 days in comparison with 2Q09 and up 11 days compared to the pro forma 1Q10 numbers, reflecting the seasonality of Post-Secondary operations.

RECURRING EBITDA AND RECURRING EBITDA MARGIN

Recurring EBITDA in 2Q10 was negative, at R$1.3 million, with a negative margin of 0.8%. EBITDA margin in the half year was 9.7%, for a total of R$29.1 million.

If expenses related to start-ups and greenfields were also excluded, adjusted EBITDA would be positive, totaling R$2.3 million in 2Q10 (1.5% of net revenue) and R$33.6 million in the half year (11.2% of net revenue).

ADJUSTED FINANCIAL RESULT

Kroton’s financial result, adjusted to eliminate interest on overdue monthly tuition payments and conditional discounts, totaled R$3.0 million in 2Q10 and consisted of R$2.3 million in financial revenue and R$5.3 million in expenses.

After the payment of a large part of IUNI's bank debt in March, interest on loans were down in relation to last quarter, from R$2.0 million to R$0.7 million.

With the incorporation of IUNI, bank expenses increased, but shall be reduced in the near future through the amplified centralization of financial operations.

INCOME TAX AND SOCIAL CONTRIBUTION TAX

As a result of the accounting loss recorded in the second quarter of 2010, the Company totaled R$2.3 million in tax credits. This amount is the difference between the income tax and social contribution credit of R$2.5 million from the fiscal year and deferred taxes of R$0.2 million.

As a result of ProUni, operations in post-secondary education are not taxed, and income from primary and secondary education is taxed at a rate of 34%.

ADJUSTED NET INCOME AND ADJUSTED NET MARGIN

In addition to increased costs and expenses, which have already been addressed in this report, accounting losses of R$11.8 million in 2Q10 were also the result of investment losses totaling R$2.4 million due to the sale of the Rio Claro facility (see “Subsequent Events”). Adjusted net income in the 6M10 totaled R$11.5 million, with a margin of 3.8%.

CASH AND CAPITALIZATION

As specified in the IUNI stock purchase agreement, of the total value of the acquisition, part will be paid to the company's former controller up to 145 days after the agreement’s signature. The remaining part to be paid was estimated at R$58.1 million (subject to adjustments considering IUNI's net debt and working capital between June 30, 2009 and February 28, 2010). Given that the adjustment process has not yet ended, the Company paid to seller in June 2010 R$30.0 million in advance. Also, at the end of 1Q10, R$140.9 million were used to pay back IUNI’s bank debt.

The Company’s total cash, after these payments, was R$56.0 million in 2Q10. Considering a total of R$21.4 million in loans and financing (R$8.1 million in short-term and R$13.2 million long term), Kroton’s net cash balance in the second quarter stood at R$34.6 million.

CASH FLOW AND INVESTIMENTS

The Company has been rigorously reviewing the management of its investments. Funds are invested after consistency with the approved budget, and are submitted to a rigid appraisal of return on capital invested.

Investments in new facilities and courses are made on a selective basis, taking into account each investment’s potential for growth and the maturity cycle. New classes only begin after a minimum number of students have enrolled, taking into account the business’ intrinsic natural dropout rate. The opening of new campuses is always preceded by a widespread and substantive market analysis.

In 2Q10, in addition to the R$30.0 million payment for the acquisition of IUNI, Kroton invested an additional R$11.5 million, broken down as follows:

(i) R$9.1 million to improve existing campuses;
(ii) R$2.4 million in corporate projects.

CAPITAL MARKET

SHAREHOLDING STRUCTURE

Kroton's capital stock is represented by 436,839,622 shares, of which 229,913,715 are common shares and 206,925,907 preferred. The Company's free-float is 41.2%, equivalent to 25,693,314 units.

SHARE PERFORMANCE

Kroton's units (KROT11) have been listed on Level 2 of the BM&FBovespa since July 2007, composing the Differentiated Corporate Governance Index (IGC) and the Differentiated Share Tag Along Index (ITAG).

KROT11 have been present in all trading sessions in 2Q10, with a trading volume of R$91.6 million in 8,590 trades and an average daily trading volume of R$1.5 million. On June 30, 2010, shares were listed at R$13.35 per unit, equivalent to a market value of R$833.1 million.

During 2Q10, KROT11 drop 19.6%, while the Ibovespa fell by 13.4%, the IGC fell by 9.4% and the ITAG by 8.5% in the same period. Currently, Kroton units are followed by 10 different local and international research brokers.

SHARE BUYBACK

The Board of Directors approved on last May 11th the second Buyback Program, authorizing the purchase of a maximum of one million (1,000,000) units to be held in treasury for future sale or cancellation, equivalent to 3.9% of all outstanding shares.

This second program was carried out considering the Company's need to purchase shares in order to honor its Stock Option Plan and considering the current price of the Company's shares on the market. Under the second buyback plan, as of June 30, 2010, a total of 293,800 units had been purchased, equivalent to 29.4% of the approved total, at an average of R$14.06 per unit.

SUBSEQUENT EVENTS

SALE OF POST-SECONDARY UNIT

On July 26, 2010, the Company informed the market of the sale of the Instituto de Ensino de Rio Claro e Representações (“CBTA” or “IERC”), a post-secondary educational facility located in the city of Rio Claro in the state of São Paulo. The campus was sold considering that it did not achieve the desired growth and still required significant investment in order to reach adequate performance levels in line with other Kroton's post-secondary units.

The transaction totaled R$2.0 million, of which:

- R$1.4 million was paid up front;
- R$0.1 million to be paid on September 15, 2010, conditioned upon the validation of the effective number of students enrolled on the base date of August 30, 2010;
- R$0.3 million to be paid by December 31, 2010;
- R$0.2 million to be paid by 2013.

* * * * *