Zacks Small-Cap Research

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The First Marblehead Corporation (FMD-NYSE)

FMD: Zacks Company Report - NEUTRAL

Current Recommendation	**Neutral**
Prior Recommendation	N/A
Date of Last Change	06/10/2010
Current Price (04/26/11)	$2.08
Six- Month Target Price	**$2.50**

OUTLOOK

We are continuing our Neutral recommendation on The First Marblehead Corporation (FMD). We expect FMD to release its 2011 fiscal third quarter results for the quarter ending March 31, 2011 within the next week or so. We are maintaining our fiscal-year (June 30) diluted estimates at a loss of $0.32 per share for 2011 and a loss of $0.25 per share for 2012. Management continues to make headway transforming its business model, curtailing expenses, stabilizing losses, and strengthening the balance sheet, despite a very challenging economic environment.

SUMMARY DATA

52-Week High	**$3.66**
52-Week Low	**$2.00**
One-Year Return (%)	**-37.91**
Beta	**2.16**
Average Daily Volume (sh)	**148,510**
Shares Outstanding (mil)	**101**
Market Capitalization ($mil)	**$210**
Short Interest Ratio (days)	**20.38**
Institutional Ownership (%)	**43**
Insider Ownership (%)	**31**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**N/A**
Industry	**Fin-Cons Loans**
Zacks Rank in Industry	**11 of 12**

ZACKS ESTIMATES

Net Revenue

(in millions of $)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2009	(84.9)A	(86.1)A	(130.6)A	11.6A	(290.0)A
2010	13.5A	10.1A	(16.8)A	9.5A	16.3A
2011	5.1A	9.5A	11.5E	13.1E	39.2E
2012					80.0E

Education finance only in 2011-12

Earnings per Share

(EPS is operating earnings before nonrecurring items)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2009	$(0.94)A	$(0.94)A	$(1.42)A	$(0.36)A	$(3.66)A
2010	$(0.95)A	$(0.12)A	$(0.30)A	$(0.10)A	$(1.46)A
2011	$(0.11)A	$(0.07)A	$(0.07)E	$(0.07)E	$(0.32)E
2012					$(0.25)E

Quarterly EPS may not add to total dues to changes in shares outstanding

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RECENT NEWS

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Fiscal 2Q11 Results

On February 1, 2011, the company reported its fiscal 2Q11 results for the period ending December 31, 2010. For fiscal 2Q11, the company recorded a net loss of $1.5 million, for a loss of $0.01 per share, versus a net loss of $11.7 million, or a loss of $0.12 per share for the same period in the prior fiscal year. The quarterly results included $8.1 million in gains related to the reorganization proceeding of TERI, which was partially offset by $1.1 million in acquisition costs, the net effect of which moderated the quarterly net loss by $0.06 per share.

Effective December 31, 2010, FMD completed the acquisition of Tuition Management Systems (TMS), formerly a KeyCorp (KEY) division. TMS is one of the largest U.S. providers of outsourced tuition planning, billing, and payment technology services for universities, colleges, and elementary and secondary schools. Of the total purchase price premium of $46.8 million, approximately $27.6 million has been allocated to intangible assets and $19.2 million has been allocated to goodwill. Based on the closing date, FMD's assets and liabilities include TMS though the income statement does not.

- Total consolidated revenues for the fiscal 2Q11 came in at a loss of $54.4 million, including losses of $56.4 million from Securitization Trusts (net interest income of $68.5 million offset by a provision for loan losses of $124.9 million).
- Fiscal 2Q11 non-interest expenses were $28.8 million versus $31.2 million in the year ago period (including a $10.7 million loss on education loans held for sale). General and administrative expenses broadened to $20.6 million for 2Q11, versus $12.4 million in the prior year's period.
- For fiscal 2Q11, the company recorded $293.8 million in cash, cash equivalents and short-term investments, down from fiscal 1Q11 $328.6 million. FMD's liquidity position for the quarter included the $45.1 million (from federal income tax refund received during the quarter), $23.6 million in planned reductions (bank deposits held by its subsidiary Union Federal Savings Bank), and the net payment of $46.1 million for the acquisition of TMS.
- Overall, the net operating cash usage remained relatively level and approximated $11.5 million for the quarter ended December 31, 2010, down from approximately $12.4 million for 1Q11. Loss before income taxes was $32.5 million for the quarter ended December 31, 2010, down from approximately $63.9 million for the quarter ended September 30, 2010.
- As of the earnings release, the company was on the lender list of 119 colleges and universities across the nation, up from 77 at the end of the last quarter. The company anticipates it will be on the lending list of 200 institutions by the end of the current fiscal year.

For the quarter, the ***Education Financing Segment*** reported a net loss of $2.4 million versus a loss of $12.4 million for the linked quarter. Trust updates for additional structural advisory fees and residuals improved $6.2 million quarter over quarter. During 2Q11, the company recognized $8.1 million in gains related to the TERI reorganization in the quarter ended December 31, 2010.

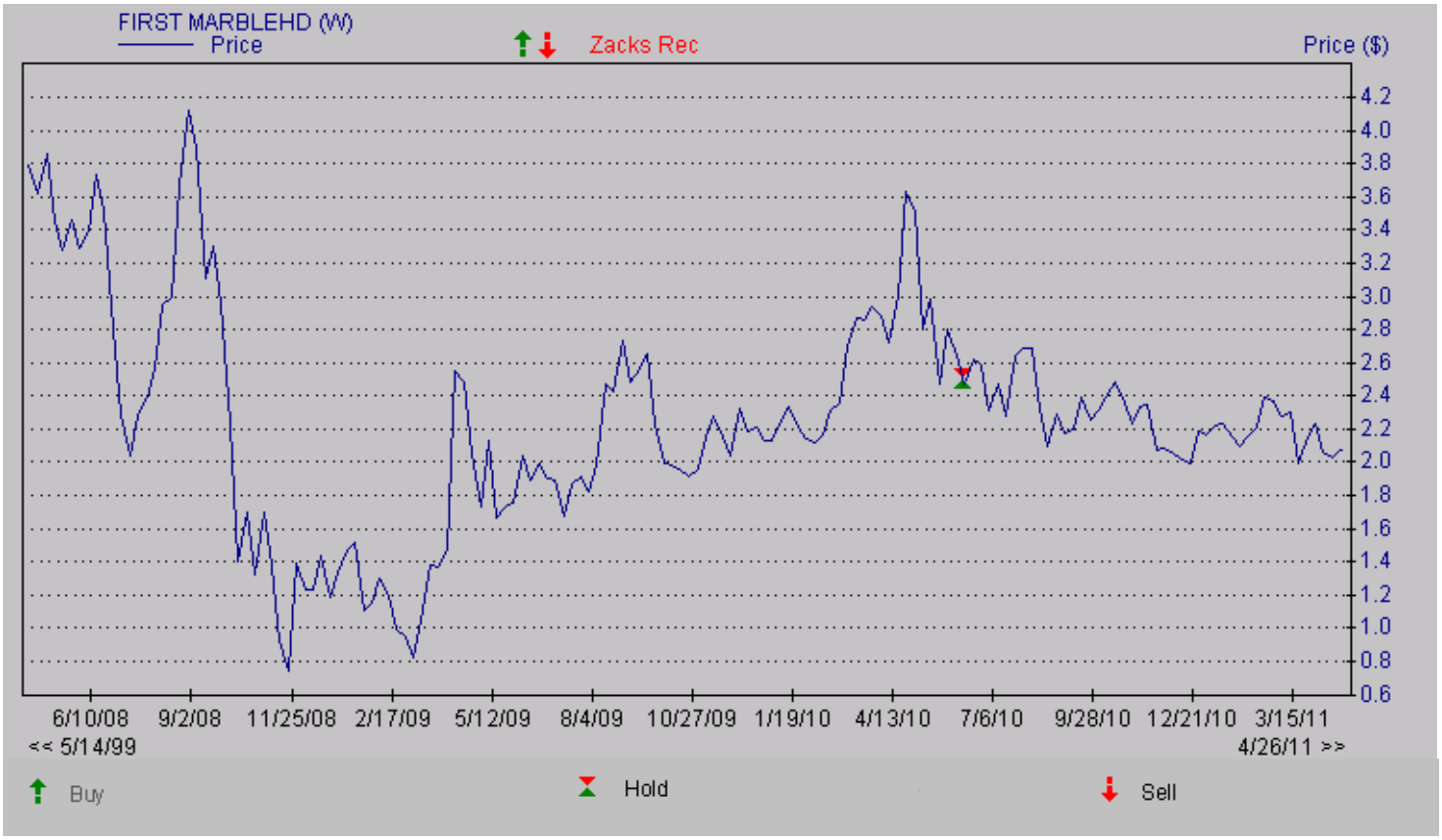
For the quarter, the ***Securitization Trusts Segment*** reported a before income tax loss of $28.5 million, versus $49.1 million for the linked quarter. The 2Q11 before income tax loss was affected by a $42.6 million gain related to the TERI reorganization and the $30.2 million non-controlling interest for those trusts (while consolidated, the company has no ownership interest). The provision for loan losses increased $17.8 million quarter-over-quarter, as the company revised its default projections given changes to its macroeconomic indicators used for its models.

OVERVIEW

Founded in 1991, The First Marblehead Corporation (FMD), headquartered in Boston, Massachusetts, focused on creating private, nongovernment-sponsored, education loan programs. The company had its initial public offering on the NYSE in October 2003. First Marblehead currently has more than 200 employees. Through a fully integrated suite of services, the company offers outsourcing capabilities to national and regional financial institutions (banks-to-mutual institutions) and educational institutions (colleges and universities), with respect to the design and implementation of private education loan programs for undergraduates and graduates.

Prior to fiscal 2009, First Marblehead's primary source of revenue came from the structuring and facilitation of securitizations comprised of private education loans generated by its clients. As dislocation in the capital markets and overall credit performance of consumer-related loans affected demand for these securities over the past few years, the Company embarked on a plan to adjust their business model beginning in fiscal 2009. In addition to refining its traditional capital markets business model, the Company has added fee-for-service and risk share offerings. Finally, the Company has completely redesigned its loan program offerings in an effort to provide prospective lender clients with flexible product features intended to meet their desired risk control and return objectives, while also providing borrowers with some ability to configure the terms of their loans through FMD's new Monogram loan program.

HISTORICAL ZACKS RECOMMENDATIONS



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