Zacks Small-Cap Research

May 10, 2011
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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 (05/09/11)	$2.04
Six- Month Target Price	**$2.50**

OUTLOOK

FMD announced today that it will be restating results for the prior two quarters of fiscal 2011, ending September 30, 2010 and December 31, 2010, due to a change in accounting for 11 National Collegiate Student Loan Trusts (NCSLT Trusts). At the same time, FMD stated that fiscal third quarter results, ending March 31, 2011, will be released no later than May 16, 2011. Importantly, none of these changes hurt the cash position of FMD. In addition, FMD intends to supplement its GAAP financial statements with non-GAAP disclosures that will increase transparency of the results of operations for investors and shareholders. We will be issuing a more comprehensive report after FMD posts its fiscal third quarter results. Our 2011 and 2012 estimates, as well as our target price, are currently under review.

SUMMARY DATA

52-Week High	**$3.35**
52-Week Low	**$2.00**
One-Year Return (%)	**-33.55**
Beta	**2.14**
Average Daily Volume (sh)	**143,729**
Shares Outstanding (mil)	**101**
Market Capitalization ($mil)	**$206**
Short Interest Ratio (days)	**27.42**
Institutional Ownership (%)	**39**
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	**12 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

FMD announced today that it will be restating results for the prior two quarters of fiscal 2011, ending September 30, 2010 and December 31, 2010, due to a change in accounting for 11 National Collegiate Student Loan Trusts (NCSLT Trusts). At the same time, FMD stated that fiscal third quarter results, ending March 31, 2011, will be released no later than May 16, 2011.

This is the second accounting change that has occurred this fiscal year. The first occurred when FMD adopted on July 1, 2010 Accounting Standards Update 2009-16 (ASU 2009-16), Accounting for Transfers of Financial Assets, and Accounting Standards Update 2009-17 (ASU 2009-17), Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (VIEs). At that time, the 11 NCSLT Trusts were consolidated into FMD's financial statements, even though FMD does not own any of the residual interests in these trusts. Results of these 11 NCSLT Trusts were reported separately and attributed to non-controlling interests in both the income statement and the balance sheet, following consultation with KPMG LLP, FMD's auditors.

However on May 9, KPMG LLP opined to FMD's Board of Directors and Audit Committee that non-controlling-interest treatment of the 11 NCSLT Trusts was not consistent with generally accepted accounting principles (GAAP). Rather the results of the 11 NCSLT Trusts should be allocated to FMD until either the Trusts are deconsolidated or the Trust liabilities extinguished, even though the assets and debt liabilities of the Trusts are nonrecourse to FMD.

In addition, the Company will increase the valuation allowance for certain deferred tax assets for periods prior to July 1, 2010.

The effects of these changes are shown in the table below.

$ in Thousands except Per Share Items	**Quarter Ending Sep 2010**		**Quarter Ending Dec 2010**	
	Reported	Restated	Reported	Restated
Income Statement				
Total Net Loss	(61,301)	(64,968)	(31,684)	(33,437)
Non-controlling Interests Net Loss	50,680		32,034	
First Marblehead Net Loss	(10,621)		(1,450)	
Net Loss Per Share	(0.11)	(0.64)	(0.01)	(0.33)
Balance Sheet				
First Marblehead Stockholders' Equity	321,910		321,626	
Non-controlling Interests	(1,029,637)		(1,059,871)	
Total Equity (Deficit)	(707,727)	(727,337)	(738,245)	(759,608)

Importantly, none of these changes hurt the cash position of FMD. In addition, FMD intends to supplement its GAAP financial statements with non-GAAP disclosures that will increase transparency of the results of operations for investors and shareholders.

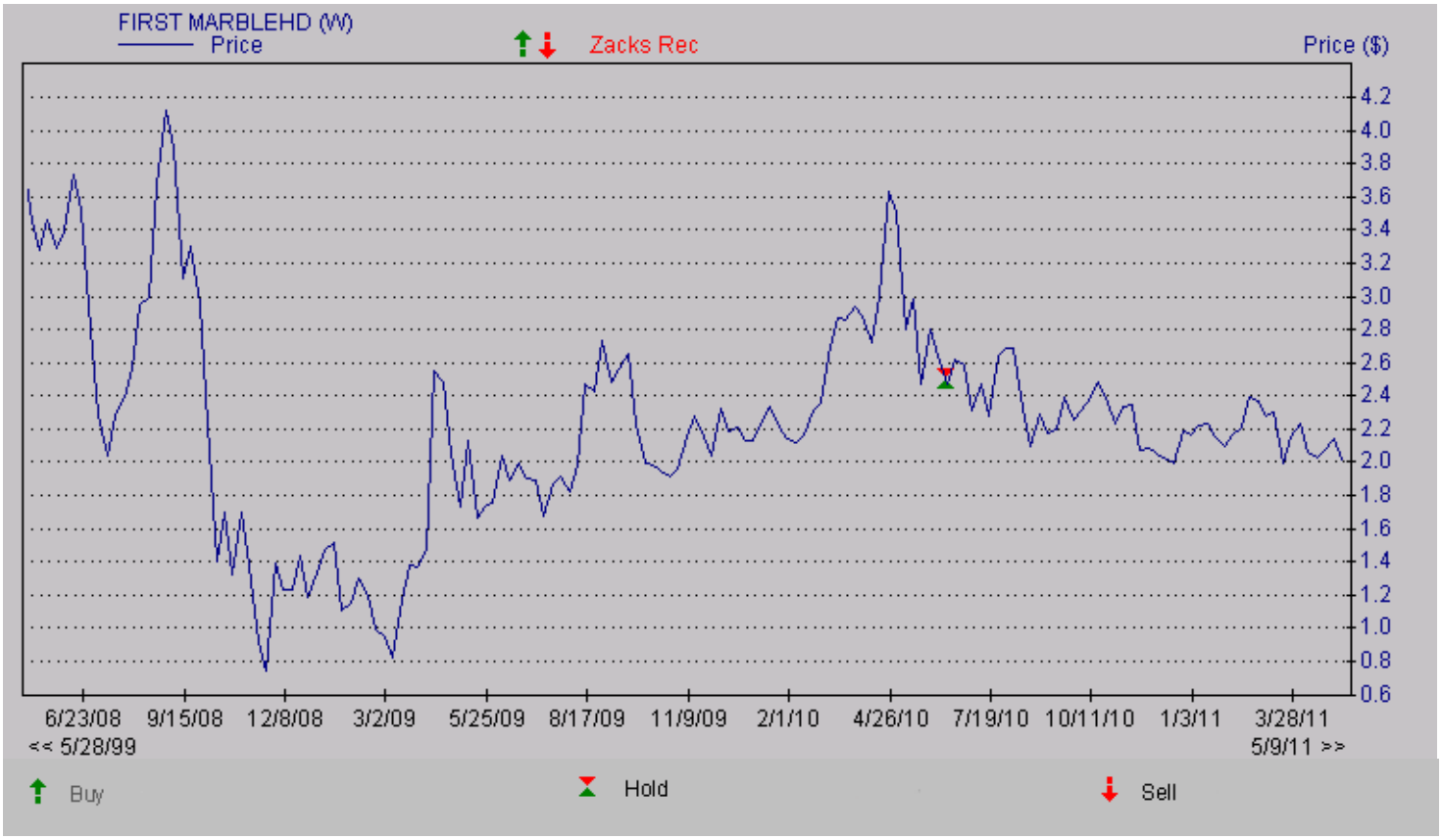
We will be issuing a more comprehensive report after FMD posts its fiscal third quarter results. Our 2011 and 2012 estimates, as well as our target price, are currently under review.

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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The current distribution of Zacks Ratings is as follows on the 1026 companies covered: Buy/Outperform- 14.0%, Hold/Neutral- 78.3%, Sell/Underperform – 6.3%. Data is as of midnight on the business day immediately prior to this publication.