

SLM CORPORATION
SUPPLEMENTAL FINANCIAL INFORMATION
SECOND QUARTER 2002
(Dollars in millions, except per share amounts)

The following supplemental information should be read in conjunction with SLM Corporation's (the "Company") press release of second quarter 2002 earnings, dated July 18, 2002.

Statements in this Supplemental Financial Information release, which refer to expectations as to future developments, are forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve risks, uncertainties and other factors that may cause the actual results to differ materially from such forward-looking statements. Such factors include, among others, changes in the terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in such laws and regulations; changes in the demand for educational financing or in financing preferences of educational institutions, students and their families; and changes in the general interest rate environment. For more information, see the Company's filings with the Securities and Exchange Commission.

Pro-forma Statements of Income

Under generally accepted accounting principles ("GAAP"), the Company's securitization transactions have been treated as sales. At the time of sale, the Company records a residual asset that equals the present value of the estimated future net cash flows from the portfolio of loans sold. In addition, the Company records a gain on student loan securitizations based on the approximate difference between the fair value and the carrying value of the assets sold. Fees earned for servicing the loan portfolios and interest earned on the residual interest are recognized over the life of the securitization transaction as servicing and securitization revenue. Income recognition is effectively accelerated through the recognition of a gain at the time of sale while the ultimate realization of such income remains dependent on the actual performance, over time, of the loans that were securitized.

Most of the derivative contracts into which the Company enters are effective economic hedges for its interest rate risk management strategy but are not considered effective hedges under Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," because they do not typically extend to the full term of the hedged item or they are hedging securitized student loans. The majority of these hedges are treated as "trading" for GAAP purposes; therefore, the resulting mark-to-market is taken into GAAP earnings. In addition, SFAS 133 requires that the Company mark-to-market its written options through income, but none of its embedded options in its managed student loan assets. Effectively, in this case, SFAS 133 recognizes any change in value of the liability but not the corresponding asset.

Management believes that an important performance measure is pro-forma results of operations under the assumptions that the securitization transactions are financings rather than sales. In addition, effects of SFAS 133 are excluded from the pro-forma results of operations and the economic hedge effects of derivative instruments are recognized. The pro-forma results of operations also exclude the benefit of floor income, certain gains and losses on sales of securities and derivative transactions, and the amortization and changes in market value of goodwill and acquired intangible assets. The following pro-forma statements of income present the Company's results of operations under these assumptions. Management refers to these pro-forma results as "core cash" statements of income. Management monitors the periodic "core cash" earnings of the Company's managed student loan portfolio and believes that they provide a better measure of the Company's student loan business.

The following tables present the "core cash" statements of income and reconciliations to GAAP net income as reflected in the Company's Consolidated Statements of Income.

	Quarters ended			Six months ended	
	June 30, 2002	March 31, 2002	June 30, 2001	June 30, 2002	June 30, 2001
“Core Cash” Statements of Income:					
Managed student loans	\$ 818	\$ 805	\$ 1,145	\$ 1,623	\$ 2,416
Advances/Facilities	15	19	24	34	53
Investments	49	46	94	95	233
Total managed interest income	882	870	1,263	1,752	2,702
Managed interest expense.....	(532)	(536)	(949)	(1,068)	(2,092)
Net managed interest income	350	334	314	684	610
Less: provision for losses	35	27	19	62	38
Net managed interest income after provision for losses	315	307	295	622	572
Other income:					
Guarantor servicing and collection fees	78	80	58	158	113
Other.....	46	41	43	87	100
Total other income	124	121	101	245	213
Total operating expenses	162	161	158	323	318
Income before income taxes and minority interest in net earnings of subsidiary	277	267	238	544	467
Income taxes.....	98	97	83	194	164
Minority interest in net earnings of subsidiary	-	-	2	-	5
“Core cash” net income	179	170	153	350	298
Preferred stock dividends	3	3	3	6	6
“Core cash” net income attributable to common stock.....	<u>\$ 176</u>	<u>\$ 167</u>	<u>\$ 150</u>	<u>\$ 344</u>	<u>\$ 292</u>
“Core cash” diluted earnings per share	<u>\$ 1.11</u>	<u>\$ 1.05</u>	<u>\$.90</u>	<u>\$ 2.16</u>	<u>\$ 1.74</u>

	Quarters ended			Six months ended	
	June 30, 2002	March 31, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Reconciliation of GAAP net income to “core cash” net income:					
GAAP net income	\$ 126	\$ 422	\$ 282	\$ 548	\$ 312
“Core cash” adjustments:					
Net interest income on securitized loans	221	208	174	429	320
Floor income on managed loans	(191)	(182)	(102)	(373)	(140)
Provision for losses on securitized loans	(8)	(7)	(5)	(14)	(11)
Gains on student loan securitizations	(14)	(44)	(18)	(58)	(28)
Servicing and securitization revenue	(180)	(195)	(194)	(375)	(314)
Losses on sales of securities	18	86	48	105	67
Goodwill and intangible amortization (A)	6	6	12	12	21
Net impact of derivative accounting	230	(259)	(116)	(30)	60
Other.....	(1)	(1)	(1)	(2)	(1)
Total “core cash” adjustments	81	(388)	(202)	(306)	(26)
Net tax effect (B)	(28)	136	73	108	12
“Core cash” net income	<u>\$ 179</u>	<u>\$ 170</u>	<u>\$ 153</u>	<u>\$ 350</u>	<u>\$ 298</u>

(A) Goodwill amortized only prior to 2002.

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

In the second quarter of 2002, the Company recognized \$230 million of net, pre-tax losses due to the net impact of derivative accounting versus \$259 million of net, pre-tax gains in the first quarter 2002 and \$116 million of net, pre-tax gains in the second quarter 2001. The net impact of derivative accounting represents the reversal of SFAS 133 income statement items and "core cash" adjustments based upon accounting treatment for derivatives prior to SFAS 133. These adjustments are summarized as follows:

	Quarters ended			Six months ended	
	June 30, 2002	March 31, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Reversal of SFAS 133 income statement items:					
Net derivative mark-to-market income.....	\$ 177	\$ (288)	\$ (117)	\$ (112)	\$ 51
Amortization of derivative items included in other comprehensive income at transition	1	1	(12)	1	(25)
"Core cash" derivative adjustments:					
Amortization of premiums on floor and cap hedges ...	32	32	22	65	26
Reversal of amortization of floor revenue contracts de-designated as effective hedges on December 31, 2000.....	3	3	3	6	7
Reversal of impact of Eurodollar futures contracts in net interest income.....	(2)	(9)	(10)	(12)	(10)
Reversal of impact of Eurodollar futures contracts in gain/loss on sales of securities	<u>19</u>	<u>2</u>	<u>(2)</u>	<u>22</u>	<u>11</u>
Total net impact of derivative accounting.....	<u>\$ 230</u>	<u>\$ (259)</u>	<u>\$ (116)</u>	<u>\$ (30)</u>	<u>\$ 60</u>

The net impact of derivative accounting has been excluded for "core cash" results.

Under the Higher Education Act, student loans have interest rate terms indexed to the 91-day Treasury bill, commercial paper, 52-week Treasury bill or the constant maturity Treasury rate, but limited by a minimum interest rate (the "floor"). The Company generally finances its loan portfolio by entering into debt transactions at either a fixed rate or variable rate tied to the 91-day Treasury bill, commercial paper, 52-week Treasury bill, LIBOR or the constant maturity Treasury rates without minimum rates. In order to manage the cash inflow characteristics of these assets with the cash outflow characteristics of the Company's debt, the Company has entered into primarily two types of derivative transactions. First, the Company will often sell floor contracts to offset the floor on the student loan, for all or a portion of the estimated student loan life. SFAS 133 does not recognize these floor contracts as effective hedges unless the terms of the sold floor match the terms of the embedded floor in the student loan asset. In cases where the Company sells a floor for a term shorter than the average life of the student loan or sells a floor on a securitized student loan, the floor must be marked-to-market with any changes in value reflected in the income statement, while the value changes in the embedded floor in the student loan asset are ignored. Second, to the extent that the Company has on- or off-balance sheet, variable LIBOR-based debt, the Company will enter into basis swaps to better match the cash flows of the managed assets and liabilities. In this situation, SFAS 133 requires that the change in the value of the hedge effectively offsets both the change in the value of the asset and the change in the value of the liability. Because of the existence of a minimum rate in the assets or the off-balance sheet treatment of the liabilities, this effectiveness test cannot be met and as a result, these swaps are recorded at market value with subsequent changes in value reflected in the income statement.

Under Statement of Financial Accounting Standards No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities," the Company does mark-to-market through equity its residual interest asset for its securitization trusts. This mark-to-market includes a valuation adjustment for the floor option embedded in the securitized student loans. In the second quarter of 2002, the Company recognized through equity an unrealized, after-tax loss on this asset of \$34 million and recorded in the income statement as a pre-tax loss a \$38 million reduction in the residual interest due to a change in the estimated constant prepayment rate ("CPR"). For further discussion on the change in CPR, see "Securitization Program" below.

“Core Cash” Student Loan Spread and Net Interest Income

The following table analyzes the reported earnings from the Company’s portfolio of managed student loans, which includes loans both on-balance sheet and off-balance sheet in securitization trusts.

“Core Cash” Student Loan Spread Analysis

	Quarters ended			Six months ended	
	June 30, 2002	March 31, 2002	June 30, 2001	June 30, 2002	June 30, 2001
“Core cash” student loan yields	5.10%	5.19%	7.19%	5.13%	7.65%
Consolidation loan rebate fees	(.25)	(.24)	(.19)	(.24)	(.19)
Offset fees	(.06)	(.07)	(.08)	(.06)	(.08)
Borrower benefits	(.11)	(.12)	(.11)	(.12)	(.11)
Premium amortization	(.28)	(.27)	(.26)	(.27)	(.26)
Student loan income	4.40	4.49	6.55	4.44	7.01
Student loan cost of funds	(2.53)	(2.62)	(4.74)	(2.57)	(5.25)
“Core cash” student loan spread	<u>1.87%</u>	<u>1.87%</u>	<u>1.81%</u>	<u>1.87%</u>	<u>1.76%</u>
Average Balances					
Managed student loans	<u>\$ 74,518</u>	<u>\$ 72,748</u>	<u>\$ 70,154</u>	<u>\$ 73,638</u>	<u>\$ 69,450</u>

In certain declining interest rate environments, the portfolio of managed student loans may be earning the minimum borrower rate, while the Company’s funding costs (exclusive of fluctuations in funding spreads) will generally decline along with short term interest rates. For loans where the borrower’s interest rate is fixed to term, lower interest rates may benefit the spread earned on student loans for extended periods of time. For loans where the borrower’s interest rate is reset annually, any benefit of a low interest rate environment will only enhance student loan spreads through the next annual reset of the borrower’s interest rate, which occurs on July 1 of each year. Due to the low Treasury bill and commercial paper rates in the second quarter of 2002 compared to the minimum borrower rates on the reset dates, the Company realized \$173 million of floor revenue, which is net of \$17 million in hedge transaction losses, in the second quarter of 2002. In comparison, the Company realized \$102 million in floor revenue in the year-ago quarter, and \$129 million of floor revenue, which was net of \$53 million in hedge transaction losses in the prior quarter. These net earnings have been excluded from student loan income to calculate the “core cash” student loan spread and “core cash” net income.

The “core cash” student loan spread at 1.87 percent was unchanged from the prior quarter. The increase in the “core cash” student loan spread versus the year-ago quarter is due to an increasing percentage of higher yielding private loans versus federal loans, a higher percentage of federal loans in a repayment status, additional floor income locked-in through term hedges and better funding spreads.

The “core cash” net interest margin for the second quarters of 2002 and 2001 and the first quarter of 2002 was 1.76 percent, 1.64 percent and 1.71 percent, respectively. The increase in the second quarter of 2002 “core cash” net interest margin versus the second quarter of 2001 is due to an increase in the percentage of average managed student loans to average managed earning assets and higher student loan spreads.

Student Loan Spread and Net Interest Income

The following table analyzes the reported earnings from student loans on-balance sheet.

Student Loan Spread Analysis

	Quarters ended			Six months ended	
	June 30, 2002	March 31, 2002	June 30, 2001	June 30, 2002	June 30, 2001
On-Balance Sheet					
Student loan yields	5.90%	5.90%	7.54%	5.90%	7.86%
Consolidation loan rebate fees	(.39)	(.35)	(.29)	(.37)	(.29)
Offset fees	(.11)	(.11)	(.14)	(.11)	(.14)
Borrower benefits	(.07)	(.07)	(.07)	(.07)	(.07)
Premium amortization	<u>(.26)</u>	<u>(.25)</u>	<u>(.22)</u>	<u>(.26)</u>	<u>(.22)</u>
Student loan income	5.07	5.12	6.82	5.09	7.14
Student loan cost of funds	<u>(2.49)</u>	<u>(2.54)</u>	<u>(4.92)</u>	<u>(2.51)</u>	<u>(5.36)</u>
Student loan spread	<u>2.58%</u>	<u>2.58%</u>	<u>1.90%</u>	<u>2.58%</u>	<u>1.78%</u>
Average Balances					
On-balance sheet student					
loans	\$ 42,268	\$ 42,357	\$ 39,674	\$ 42,312	\$ 39,195
Securitized student loans	<u>32,250</u>	<u>30,391</u>	<u>30,480</u>	<u>31,326</u>	<u>30,255</u>
Managed student loans	<u>\$ 74,518</u>	<u>\$ 72,748</u>	<u>\$ 70,154</u>	<u>\$ 73,638</u>	<u>\$ 69,450</u>

In periods of declining interest rates, the Company's on-balance sheet portfolio of student loans may be earning the minimum borrower rate, while the Company's funding costs (exclusive of fluctuations in funding spreads) will generally decline along with short-term interest rates in a manner similar to the Company's managed portfolio of student loans discussed in detail above under "Core Cash' Student Loan Spread Analysis." Due to the low Treasury bill and commercial paper rates in the second quarter of 2002 compared to the minimum borrower rates on the reset dates, the Company realized \$81 million in floor revenue in the second quarter of 2002 versus \$27 million in the year-ago quarter and \$76 million in the prior quarter.

Average Balance Sheets

The following tables reflect the rates earned on assets and paid on liabilities for the quarters ended June 30, 2002, March 31, 2002 and June 30, 2001 and for the six months ended June 30, 2002 and 2001.

	Quarters ended					
	June 30, 2002		March 31, 2002		June 30, 2001	
	Amount	Rate	Amount	Rate	Amount	Rate
Average Assets						
Student loans	\$ 42,268	5.07%	\$ 42,357	5.12%	\$ 39,674	6.82%
Warehousing advances/academic facilities financings.....	1,129	6.11	1,716	5.07	1,763	6.25
Investments	<u>5,339</u>	<u>4.00</u>	<u>5,372</u>	<u>3.47</u>	<u>6,653</u>	<u>6.00</u>
Total interest earning assets	48,736	<u>4.98%</u>	49,445	<u>4.94%</u>	48,090	<u>6.68%</u>
Non-interest earning assets	<u>4,679</u>		<u>4,916</u>		<u>4,295</u>	
Total assets	<u>\$ 53,415</u>		<u>\$ 54,361</u>		<u>\$ 52,385</u>	
Average Liabilities and Stockholders' Equity						
Six-month floating rate notes	\$ 2,836	1.87%	\$ 3,084	1.94%	\$ 4,362	4.43%
Other short-term borrowings	27,180	2.14	29,635	2.22	34,978	4.54
Long-term notes	<u>19,477</u>	<u>3.15</u>	<u>17,294</u>	<u>3.27</u>	<u>9,583</u>	<u>5.16</u>
Total interest bearing liabilities	49,493	<u>2.52%</u>	50,013	<u>2.57%</u>	48,923	<u>4.65%</u>
Non-interest bearing liabilities	2,016		2,543		2,021	
Stockholders' equity	<u>1,906</u>		<u>1,805</u>		<u>1,441</u>	
Total liabilities and stockholders' equity	<u>\$ 53,415</u>		<u>\$ 54,361</u>		<u>\$ 52,385</u>	
Net interest margin		<u>2.42%</u>		<u>2.34%</u>		<u>1.95%</u>

	Six months ended			
	June 30, 2002		June 30, 2001	
	Amount	Rate	Amount	Rate
Average Assets				
Student loans	\$ 42,312	5.09%	\$ 39,195	7.14%
Warehousing advances/academic facilities financings	1,422	5.48	1,798	6.68
Investments	<u>5,355</u>	<u>3.73</u>	<u>7,634</u>	<u>6.05</u>
Total interest earning assets	49,089	<u>4.96%</u>	48,627	<u>6.95%</u>
Non-interest earning assets	<u>4,796</u>		<u>4,267</u>	
Total assets	<u>\$ 53,885</u>		<u>\$ 52,894</u>	
Average Liabilities and Stockholders' Equity				
Six-month floating rate notes	\$ 2,960	1.91%	\$ 4,578	5.01%
Other short-term borrowings	28,400	2.18	33,576	5.05
Long-term notes	<u>18,392</u>	<u>3.21</u>	<u>11,286</u>	<u>5.50</u>
Total interest bearing liabilities	49,752	<u>2.54%</u>	49,440	<u>5.15%</u>
Non-interest bearing liabilities	2,277		2,079	
Stockholders' equity	<u>1,856</u>		<u>1,375</u>	
Total liabilities and stockholders' Equity	<u>\$ 53,885</u>		<u>\$ 52,894</u>	
Net interest margin		<u>2.38%</u>		<u>1.72%</u>

Net Interest Margin and Income

The net interest margin for the second quarters of 2002 and 2001 and the first quarter of 2002 was 2.42 percent, 1.95 percent and 2.34 percent, respectively. The increase in the net interest margin for the second quarter of 2002 versus the second quarter of 2001 is principally due to the increase in the percentage of average student loans to total average earning assets, and is also due to the impact of floor income discussed previously in “Student Loan Spread Analysis.” The net interest margin for the second quarter 2002 increased by 8 basis points over the prior quarter. This was due to the increase in floor income quarter over quarter and an increase in spreads on the Company’s long-term investments.

Securitization Program

Because of a historically low interest rate environment, the Company is anticipating a potential increase in loan consolidation activity, which could affect the prepayment rate within the securitization trusts. As a result, in the second quarter of 2002, the Company made a change in the estimated constant prepayment rate (“CPR”) used to calculate the residual interest mark-to-market and the securitization gain on new transactions from 7 percent to 9 percent. While the Company cannot be assured that higher levels of consolidation activity will continue, management feels that it is probable and therefore has deemed certain trusts to have a reduction from their original values. As a result, the Company recorded a \$38 million pre-tax loss which was recognized through securitization revenue and a \$34 million after-tax unrealized loss which reduced unrealized gains previously recorded on the assets. The change in CPR assumption also impacted the gain on the loan portfolio securitized during the second quarter relative to previous transactions. It is important to remember that in situations where the Company consolidates a securitized loan, the loan is treated as a prepayment within the securitization trust. However, the resulting consolidation loan is recorded as an on-balance sheet asset.

During the second quarter of 2002, the Company securitized \$1.5 billion of student loans and recorded a pre-tax securitization gain of \$14 million, which was 0.90 percent of the portfolio securitized. In the second quarter of 2001, the Company securitized \$1.6 billion of student loans and recorded a pre-tax securitization gain of \$18 million or 1.17 percent of the portfolio securitized. In the first quarter of 2002, the Company securitized \$3.5 billion of student loans and recorded a pre-tax securitization gain of \$44 million, which was 1.25 percent of the portfolio securitized. The decrease in gain percentage in the current quarter’s transaction versus both the year-ago and prior quarters was primarily due to the change in CPR assumption described above, and reductions in the estimated floor value.

Servicing and securitization revenue, the ongoing revenue from securitized loan pools, includes both the revenue the Company receives for servicing loans in the securitization trusts and the income earned on the residual interest asset. Servicing and securitization revenue totaled \$180 million in the second quarter of 2002 versus \$194 million in the corresponding year-ago quarter, and \$195 million in the prior quarter. In the second quarter of 2002, servicing and securitization revenue was 2.24 percent of average securitized loans versus 2.55 percent in the year-ago quarter and 2.60 percent in the first quarter of 2002. The decrease in servicing and securitization revenue as a percentage of the average balance of securitized student loans in the second quarter of 2002 versus both the year-ago and prior quarters is due to the reduction in the carrying value of the residual interest asset recorded in securitization revenue as described above, partially offset by higher floor income.

Other Income

“Core cash” other income excludes gains on student loan securitizations, servicing and securitization revenue, and certain gains and losses on sales of securities. In addition, the effects of SFAS 133 are excluded and the economic hedge effects of derivative instruments are recognized. “Core cash” other income was \$124 million for the second quarter 2002 versus \$101 million in the year-ago quarter and \$121 million for the first quarter 2002. “Core cash” other income mainly includes guarantor servicing and collection fees, late fees earned on student loans, fees received from servicing third party portfolios of student loans, and commitment fees for letters of credit. The increase in second quarter 2002 “core cash” other income versus the year-ago quarter is principally due to growth in the guarantor servicing and collection businesses, including \$17 million generated from the acquisitions of Pioneer and GRC. The increase over the prior quarter is mainly due to the growth in the guarantor servicing and collections businesses.

Operating Expenses

In the second quarter of 2002, “core cash” operating expenses were \$162 million versus \$158 million in the corresponding year-ago quarter and \$161 million in the first quarter of 2002. The increase in operating expenses for the second quarter of 2002 versus the year-ago quarter is due to the acquisitions of Pioneer and GRC in the first quarter of 2002, which accounted for additional operating expenses of \$14 million, offset by the elimination of Sallie Mae Solutions expenses due to the sale of this business in the first quarter of 2002, and by productivity improvements in the Company’s operations. The increase in operating expenses for the second quarter of 2002 versus the prior quarter is primarily due to a full quarter of expenses for GRC (purchased at the end of January 2002) and slight increases in other areas of the Company.

Capital

The Company repurchased 1.5 million shares during the second quarter of 2002 through equity forward settlements and issued a net 0.9 million shares as a result of benefit plans. At June 30, 2002, the total common shares that could potentially be acquired over the next three years under outstanding equity forward contracts was 8.2 million shares at an average price of \$76.46 per share. The Company has remaining authority to enter into additional share repurchases and equity forward contracts for 12.3 million shares.

Student Loan Purchases

The following table summarizes the components of the Company’s student loan purchase activity:

	Quarters ended			Six months ended	
	June 30, 2002	March 31, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Preferred channel.....	\$ 3,126	\$ 3,288	\$ 2,746	\$ 6,414	\$ 5,573
Other commitment clients	288	174	298	462	507
Spot purchases	342	159	222	501	349
Consolidations	310	417	313	727	482
Other.....	<u>248</u>	<u>288</u>	<u>284</u>	<u>536</u>	<u>580</u>
Subtotal.....	4,314	4,326	3,863	8,640	7,491
Managed loans acquired.....	<u>148</u>	<u>193</u>	<u>206</u>	<u>341</u>	<u>403</u>
Total	<u>\$ 4,462</u>	<u>\$ 4,519</u>	<u>\$ 4,069</u>	<u>\$ 8,981</u>	<u>\$ 7,894</u>

The Company acquired \$4.5 billion of student loans in the second quarter of 2002 compared with \$4.1 billion in the year-ago quarter and \$4.5 billion in the prior quarter.

In the second quarter of 2002, the Company’s preferred channel originations totaled \$1.5 billion versus \$1.3 billion in the year-ago quarter and \$3.8 billion in the prior quarter. The pipeline of loans currently serviced and committed for purchase by the Company was \$4.0 billion at June 30, 2002 versus \$3.8 billion at June 30, 2001 and \$5.6 billion at March 31, 2002.

Leveraged Leases

The Company has investments in leveraged leases totaling \$284 million, of which \$273 million represent general obligations of major U.S. commercial airlines. The airline industry has been in a state of uncertainty since the events of September 11, 2001. All payment obligations remain current and the Company has not been notified of any counterparty’s intention to default on any payment obligations. In the event of default, any potential loss would be partially mitigated by recoveries on the sale of the aircraft collateral and elimination of expected tax liabilities reflected in the balance sheet of \$250 million. Any potential loss would be increased by incremental tax obligations related to forgiveness of debt obligations. The Company’s expected residual values of the aircraft have been based upon appraisals performed during the second quarter of 2002.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (“SFAS 141”), “Business Combinations,” and Statement of Financial Accounting Standards No. 142 (“SFAS 142”), “Goodwill and Other Intangible Assets.” SFAS 141 requires companies to use the purchase method of accounting for all business combinations initiated after June 30, 2001, and broadens the criteria for recording identifiable intangible assets separate from goodwill. SFAS 142 requires companies to cease systematically amortizing goodwill (and other intangible assets with indefinite lives), and perform an assessment for impairment by applying a fair-value-based test on an annual basis (or an interim basis if circumstances indicate a possible impairment). Future impairment losses are to be recorded as an operating expense, except at the transition date, when any impairment write-off of existing goodwill is to be recorded as a “cumulative effect of change in accounting principle.” In accordance with SFAS 142, any goodwill and indefinite-life intangibles resulting from acquisitions completed after June 30, 2001 will not be amortized. Effective January 1, 2002, the Company ceased the amortization of goodwill and indefinite-life intangibles in accordance with SFAS 142. During the second quarter of 2002, the Company performed the goodwill impairment tests for the year ended December 31, 2001. As of December 31, 2001, there was no impairment of goodwill.