FAIRCHILD CORP
Form 10-Q
November 13, 2001
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2001 Commission File Number 1-6560

THE FAIRCHILD CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	34-0728587
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

45025 Aviation Drive, Suite 400, Dulles, VA 20166
(Address of principal executive offices)

(703) 478-5800
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days.

YES X NO

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

Title of Class	Outstanding at September 30, 2001
Class A Common Stock, $0.10 Par Value	22,527,801
Class B Common Stock, $0.10 Par Value	2,621,502

THE FAIRCHILD CORPORATION INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2001

All references in this Quarterly Report on Form 10-Q to the terms "we," "our," "us," the "Company" and "Fairchild" refer to The Fairchild Corporation and its subsidiaries. All references to "fiscal" in connection with a year shall mean the 12 months ended June 30.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 2001 (Unaudited) and June 30, 2001
(In thousands)

ASSETS

	9/3
CURRENT ASSETS:	
Cash and cash equivalents, $1,146 and $1,184 restricted	
Short-term investments	
Accounts receivable-trade, less allowances of $7,453 and $6,951	
Inventories:	
Finished goods	
Work-in-process	
Raw materials	
Prepaid expenses and other current assets	
Total Current Assets	
Property, plant and equipment, net of accumulated depreciation of $166,035 and $156,914	
Net assets held for sale	
Goodwill	
Investments and advances, affiliated companies	
Prepaid pension assets	
Deferred loan costs	
Real estate investment	
Long-term investments	
Other assets	
TOTAL ASSETS	$

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 2001 (Unaudited) and June 30, 2001
(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	9/3
CURRENT LIABILITIES:	
Bank notes payable and current maturities of long-term debt	
Accounts payable	
Accrued liabilities:	
Salaries, wages and commissions	
Employee benefit plan costs	
Insurance	

Interest	
Other accrued liabilities	

Total Current Liabilities	
LONG-TERM LIABILITES:	
Long-term debt, less current maturities	
Fair value of interest rate contract	
Other long-term liabilities	
Retiree health care liabilities	
Noncurrent income taxes	

TOTAL LIABILITIES	
STOCKHOLDERS' EQUITY:	
Class A common stock, $0.10 par value; authorized 40,000 shares, 30,335 shares issued and 22,528 shares outstanding	
Class B common stock, $0.10 par value; authorized 20,000 shares, 2,622 shares issued and outstanding	
Paid-in capital	
Treasury stock, at cost, 7,807 shares of Class A common stock	
Retained earnings	
Notes due from stockholders	
Cumulative other comprehensive income	

TOTAL STOCKHOLDERS' EQUITY	

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF
EARNINGS (Unaudited) For The Three (3) Months
Ended September 30, 2001 and October 1, 2000
(In thousands, except per share data)

REVENUE:	09/3

Net sales	$
Rental revenue	
Other income, net	

COSTS AND EXPENSES:	
Cost of goods sold	
Cost of rental revenue	
Selling, general & administrative	
Amortization of intangibles	

OPERATING INCOME	
Interest expense	
Interest income	

Net interest expense	
Investment loss	
Change in fair market value of interest rate contract	

Loss from continuing operations before taxes	
Income tax benefit	
Equity in earnings (loss) of affiliates, net	

NET LOSS	$

Other comprehensive income (loss), net of tax:	
Foreign currency translation adjustments	
Derivative adjustments	
Unrealized periodic holding changes on securities	

Other comprehensive loss	

COMPREHENSIVE INCOME (LOSS)	$

BASIC AND DILUTED EARNINGS PER SHARE:	
NET LOSS	$
Other comprehensive income (loss), net of tax:	
Foreign currency translation adjustments	
Derivative adjustments	
Unrealized periodic holding changes on securities	

Other comprehensive loss	

COMPREHENSIVE INCOME (LOSS)	$

Weighted average shares outstanding:	
Basic	

Diluted	

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) For The Three (3) Months Ended September 30, 2001 and October 1, 2000
(In thousands)

Cash flows from operating activities:
Net earnings
Depreciation and amortization
Amortization of deferred loan fees
Unrealized holding loss on derivatives
Undistributed (earnings) loss of affiliates, net
Change in assets and liabilities
Net cash provided by (used for) operating activities
Cash flows from investing activities:
Purchase of property, plant and equipment
Net proceeds received from the sale of property, plant, and equipment
Net proceeds received from (used for) investment securities
Real estate investment
Equity investment in affiliates
Proceeds received from net assets held for sale
Net cash provided by investing activities
Cash flows from financing activities:
Proceeds from issuance of debt
Debt repayments
Issuance of Class A common stock
Net cash provided by (used for) financing activities
Effect of exchange rate changes on cash
Net change in cash and cash equivalents
Cash and cash equivalents, beginning of the year
Cash and cash equivalents, end of the period

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) (In thousands, except share data)

1. FINANCIAL STATEMENTS

The consolidated balance sheet as of September 30, 2001, and the consolidated statements of earnings and cash flows for the three months ended

September 30, 2001 and October 1, 2000 have been prepared by us, without audit. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at September 30, 2001, and for all periods presented, have been made. The balance sheet at June 30, 2001 was condensed from the audited financial statements as of that date.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our June 30, 2001 Annual Report on Form 10-K. The results of operations for the period ended September 30, 2001 are not necessarily indicative of the operating results for the full year. Certain amounts in the prior year's quarterly financial statements have been reclassified to conform to the current presentation.

2. EQUITY SECURITIES

We had 22,527,801 shares of Class A common stock and 2,621,502 shares of Class B common stock outstanding at September 30, 2001. Class A common stock is traded on both the New York and Pacific Stock Exchanges. There is no public market for the Class B common stock. The shares of Class A common stock are entitled to one vote per share and cannot be exchanged for shares of Class B common stock. The shares of Class B common stock are entitled to ten votes per share and can be exchanged, at any time, for shares of Class A common stock on a share-for-share basis.

3. RESTRICTED CASH

On September 30, 2001 and June 30, 2001, we had restricted cash of $1,146 and $1,184, respectively, all of which is maintained as collateral for certain debt facilities and escrow arrangements.

4.

EARNINGS PER SHARE

The following table illustrates the computation of basic and diluted earnings per share:

	Thr
	9/30
Basic earnings per share:	
Loss from continuing operations	$
Common shares outstanding	
Basic earnings from continuing operations per share	$
Diluted earnings per share:	
Earnings from continuing operations	$

Common shares outstanding	
Options	antidi
Warrants	antidi
Total shares outstanding	
Diluted earnings from continuing operations per share	$

Stock options entitled to purchase 1,976,226 and 2,283,011 shares of Class A common stock were antidilutive and not included in the earnings per share calculation for the three months ended September 30, 2001 and October 1, 2000, respectively. Stock warrants entitled to purchase 400,000 and 650,000 shares of Class A common stock were antidilutive and not included in the earnings per share calculation for the three months ended September 30, 2001 and October 1, 2000, respectively. These shares could be dilutive in subsequent periods.

5. CONTINGENCIES

Environmental Matters

Our operations are subject to stringent government imposed environmental laws and regulations concerning, among other things, the discharge of materials into the environment and the generation, handling, storage, transportation and disposal of waste and hazardous materials. To date, such laws and regulations have not had a material effect on our financial condition, results of operations, or net cash flows, although we have expended, and can be expected to expend in the future, significant amounts for the investigation of environmental conditions and installation of environmental control facilities, remediation of environmental conditions and other similar matters, particularly in our aerospace fasteners segment.

In connection with our plans to dispose of certain real estate, we must investigate environmental conditions and we may be required to take certain corrective action prior or pursuant to any such disposition. In addition, we have identified several areas of potential contamination related to other facilities owned, or previously owned, by us, that may require us either to take corrective action or to contribute to a clean-up. We are also a defendant in certain lawsuits and proceedings seeking to require us to pay for investigation or remediation of environmental matters and we have been alleged to be a potentially responsible party at various "superfund" sites. We believe that we have recorded adequate reserves in our financial statements to complete such investigation and take any necessary corrective actions or make any necessary contributions. No amounts have been recorded as due from third parties, including insurers, or set off against, any environmental liability, unless such parties are contractually obligated to contribute and are not disputing such liability.

As of September 30, 2001, the consolidated total of our recorded liabilities for environmental matters was approximately $13.9 million, which represented the estimated probable exposure for these matters. It is reasonably possible that our total exposure for these matters could be approximately $18.1 million.

Other Matters

We are involved in various other claims and lawsuits incidental to our business. We, either on our own or through our insurance carriers, are contesting these matters. In the opinion of management, the ultimate resolution of the legal proceedings, including those mentioned above, will not have a material adverse effect on our financial condition, future results of operations or net cash flows.

6.

BUSINESS SEGMENT INFORMATION

We currently report in three principal business segments: aerospace fasteners, aerospace distribution and real estate operations. The following table provides the historical results of our operations for the three months ended September 30, 2001 and October 1, 2000, respectively.

	9/3
SALES BY SEGMENT:	
Aerospace Fasteners Segment	
Aerospace Distribution Segment	
TOTAL SALES	
OPERATING RESULTS BY SEGMENT:	
Aerospace Fasteners Segment	
Aerospace Distribution Segment	
Real Estate Operations Segment (a)	
Corporate	
TOTAL OPERATING INCOME (b)	
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES:	
Aerospace Fasteners Segment	
Aerospace Distribution Segment	
Real Estate Operations Segment (a)	
Corporate	
Total loss from continuing operations before taxes (b)	
TOTAL ASSETS:	9/3
Aerospace Fasteners Segment	
Aerospace Distribution Segment	
Real Estate Operations Segment	
Corporate	
TOTAL ASSETS	$

7. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statement of

Financial Accounting Standards No. 141, "Accounting for Business Combinations." This statement requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and establishes specific criteria for the recognition of intangible assets separately from goodwill. We will follow the requirements of this statement for business acquisitions made after June 30, 2001. There were no acquisitions for the quarter ended September 30, 2001.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets." This statement requires that goodwill and intangible assets deemed to have an indefinite life not be amortized. Instead of amortizing goodwill and intangible assets deemed to have an indefinite life, the statement requires a test for impairment to be performed annually, or immediately if conditions indicate that such an impairment could exist. The amortization period of intangible assets with finite lives will no longer be limited to forty years. This statement is effective for fiscal years beginning after December 15, 2001, and permits early adoption for fiscal years beginning after March 15, 2001. We have adopted SFAS No. 142 on July 1, 2001. As a result of adopting SFAS No. 142, we will no longer amortize goodwill of approximately $12.5 million per year. Using the fair value measurement requirement, rather than the undiscounted cash flows approach, we expect to record an impairment from the implementation of SFAS No. 142. The initial evaluation of reporting units on a fair value basis, as required from the implementation of SFAS No. 142, indicates that an impairment exists at reporting units within our aerospace fasteners segment. Based upon the initial evaluation, the estimated range of impairment is between approximately $60 million to $65 million. However, once impairment is determined at a reporting unit, SFAS No. 142 requires that the amount of goodwill impairment be determined based on what the balance of goodwill would have been if purchase accounting were applied at the date of impairment. We have not completed that analysis, but we expect to complete this analysis prior to June 30, 2002. If the carrying amount of goodwill exceeds its fair value, an impairment loss must be recognized in an amount equal to that excess. Once an impairment loss is recognized, the adjusted carrying amount of goodwill will be its new accounting basis. The actual amount of impairment could be significantly different than the range provided above. We are currently measuring the amount of impairment of goodwill to be recorded from adopting this standard.

The following table provides the comparable effects of adoption of SFAS No. 142 for the three months ended September 30, 2001 and October 1, 2000, respectively:

	9/30/01	10/01/0
Reported net loss	$ (3,599)	$ (
Add back: Goodwill amortization	-	
Adjusted net loss	$ (3,599)	$ (
Basic and Diluted loss per share:		
Reported net loss	$ (0.14)	$
Add back: Goodwill amortization	-	
Adjusted net loss	$ (0.14)	$

In June 2001, the Financial Accounting Standards Board issued Statement of

Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations". This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and normal operation of a long-lived asset, except for certain lease obligations. This statement is effective for fiscal years beginning after June 15, 2002. We are currently evaluating the impact of adopting this standard.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," which supersedes SFAS No. 121. Though it retains the basic requirements of SFAS 121 regarding when and how to measure an impairment loss, SFAS 144 provides additional implementation guidance. SFAS 144 applies to long-lived assets to be held and used or to be disposed of, including assets under capital leases of lessees; assets subject to operating leases of lessors; and prepaid assets. SFAS 144 also expands the scope of a discontinued operation to include a component of an entity, and eliminates the current exemption to consolidation when control over a subsidiary is likely to be temporary. This statement is effective for fiscal years beginning after December 15, 2001. We are currently evaluating the impact of adopting this standard.

8. CONSOLIDATING FINANCIAL STATEMENTS

The following unaudited consolidating financial statements show separately The Fairchild Corporation and the subsidiaries of The Fairchild Corporation. These financial statements are provided to fulfill public reporting requirements, and present separately the guarantors of the 10 3/4% senior subordinated notes due 2009 issued by The Fairchild Corporation. The "parent company" provides the results of The Fairchild Corporation on an unconsolidated basis. The guarantors are composed primarily of our domestic subsidiaries, excluding our shopping center in Farmingdale New York, and certain other subsidiaries.

CONSOLIDATING BALANCE SHEET
FOR THE THREE MONTHS ENDING SEPTEMBER 30, 2001

	Parent Company	Guarantors	Non Guarant
Cash	$ 520	$ 6,490	$
Marketable securities	71	2,562	
Accounts Receivable (including intercompany), less allowances	3,229	731,847	9
Inventory, net	-	142,920	4
Prepaid and other current assets	288	22,295	
Total current assets	4,108	906,114	15
Investment in Subsidiaries	891,958	-	
Net fixed assets	502	108,445	3
Net assets held for sale	-	13,618	

Investments in affiliates	93	3,654	
Goodwill	-	386,037	3
Deferred loan costs	11,585	19	
Prepaid pension assets	-	65,156	
Real estate investment	-	-	11
Long-term investments	969	3,767	
Other assets	18,008	1,537	
Total assets	$ 927,223	$ 1,488,347	$ 33
Bank notes payable & current maturities of debt	$ 2,250	$ 1,651	$ 2
Accounts payable (including intercompany)	20	893,293	22
Other accrued expenses	(23,531)	57,476	3
Total current liabilities	(21,261)	952,420	28
Long-term debt, less current maturities	422,741	4,027	3
FMV of Interest Rate Contract	11,671	-	
Other long-term liabilities	407	20,995	
Noncurrent income taxes	111,335	(587)	
Retiree health care liabilities	-	38,135	
Total liabilities	524,893	1,014,990	32
Class A common stock	3,034	-	
Class B common stock	262	-	
Notes due from stockholders	(430)	(1,338)	
Paid-in-capital	232,820	478,206	8
Retained earnings	243,187	17,448	(61
Cumulative other comprehensive income	(468)	(20,959)	(8
Treasury stock, at cost	(76,075)	-	
Total stockholders' equity	402,330	473,357	1
Total liabilities & stockholders' equity	$ 927,223	$ 1,488,347	$ 33

CONSOLIDATING STATEMENTS OF EARNINGS
FOR THE THREE MONTHS ENDING SEPTEMBER 30, 2001

	Parent Company	Guarantors	Non Guaranto
Net Sales	$ -	128,954	4
Costs and expenses			
Cost of sales	-	99,620	3
Selling, general & administrative	1,996	22,761	
Amortization of intangibles	-	-	
	1,996	122,381	3

Operating income (loss)	(1,996)	6,573	
Net interest expense (including intercompany)	(4,390)	15,441	
Investment (income) loss, net	-	386	
Intercompany dividends	-	27	
FMV Adj of Interest Rate Contract	5,249	-	
Earnings (loss) before taxes	(2,855)	(9,281)	
Income tax (provision) benefit	1,432	4,653	(2
Equity in earnings of affiliates and subsidiaries	(2,177)	51	
Net earnings (loss)	$ (3,600)	(4,577)	

CONSOLIDATING CASH FLOWS
FOR THE THREE MONTHS ENDING SEPTEMBER 30, 2001

	Parent Company	Guarantors	Non Guarant
Cash Flows from Operating Activities:			
Net earnings (loss)	$ (3,600)	(4,577)	
Depreciation & amortization	12	4,955	
Amortization of deferred loan fees	377	1	
Unrealized holding (gain) loss on derivatives	5,249	-	
Undistributed (distributed) earnings of affiliates	18	(51)	
Change in assets and liabilities	6,610	(4,456)	(2
Net cash (used for) provided by operating activities	8,666	(4,128)	
Cash Flows from Investing Activities:			
Proceeds received from (used for):			
Purchase of PP&E	(14)	(3,029)	(1
Investment securities, net	-	(53)	
Sale of PP&E	-	3,693	
Equity investment in affiliates	(394)		
Change in real estate investment	-	-	
Change in net assets held for sale	-	4,358	
Net cash (used for) provided by investing activities	(408)	4,969	(1
Cash Flows from Financing Activities:			
Proceeds from issuance of debt	22,700	12,299	
Debt repayments, net	(31,000)	(13,196)	(3
Net cash (used for) provided by financing activities	(8,300)	(897)	(2
Effect of exchange rate changes on cash	-	-	
Net change in cash	(42)	(56)	
Cash, beginning of the year	562	6,546	
Cash, end of the year	$ 520	$ 6,490	$

CONSOLIDATING BALANCE SHEET
JUNE 30, 2001

	Parent Company	Guarantors	Non Guarant
Cash	$ 562	$ 6,546	$
Marketable securities	71	3,034	
Accounts Receivable (including intercompany), less allowances	2,336	628,104	8
Inventory, net	-	144,157	4
Prepaid and other current assets	287	22,134	
Total current assets	3,256	803,975	14
Investment in Subsidiaries	880,945	-	
Net fixed assets	501	112,969	3
Net assets held for sale	-	17,999	
Net noncurrent assets of discontinued operations	-	-	
Investments in affiliates	93	2,720	
Goodwill	15,720	370,440	3
Deferred loan costs	11,944	20	
Prepaid pension assets	-	65,249	
Real estate investment	-	-	11
Long-term investments	1,205	3,626	
Other assets	2,607	1,335	
Total assets	$ 916,271	$ 1,378,333	$ 32
Bank notes payable & current maturities of debt	$ 2,250	$ 1,632	$ 2
Accounts payable (including intercompany)	20	778,541	23
Other accrued expenses	(54,398)	57,839	3
Net current liabilities of discontinued operations	-	-	
Total current liabilities	(52,128)	838,012	28
Long-term debt, less current maturities	431,041	5,918	3
Fair market value of interest rate contract	6,422	-	
Other long-term liabilities	405	21,672	
Noncurrent income taxes	124,466	(587)	
Retiree health care liabilities	-	37,335	
Total liabilities	510,206	902,350	32
Class A common stock	3,034	-	
Class B common stock	262	-	
Notes due from stockholders	(430)	(1,338)	
Paid-in-capital	232,820	478,207	8

Retained earnings	246,788	25,623	(64
Cumulative other comprehensive income	(334)	(26,509)	(15
Treasury stock, at cost	(76,075)	-	
Total stockholders' equity	406,065	475,983	
Total liabilities & stockholders' equity	$ 916,271	$ 1,378,333	$ 32

CONSOLIDATING STATEMENTS OF EARNINGS

FOR THE THREE MONTHS ENDED OCTOBER 1, 2000

	Parent Company	Guarantors	Non Guarant
Net Sales	$ -	$ 116,058	$ 3
Cost of sales	-	90,824	2
Selling, general & administrative	1,363	22,250	
Amortization of goodwill	202	2,683	
	1,565	115,757	2
Operating income (loss)	(1,565)	301	
Net interest expense (including intercompany)	(2,460)	12,388	
Investment (income) loss, net	-	380	
Fair market value adjustment of Interest Rate Contract	470	-	
Earnings (loss) before taxes	425	(12,467)	
Income tax (provision) benefit	(169)	4,944	(1
Equity in earnings of affiliates and subsidiaries	(5,701)	(6)	
Net earnings (loss)	$ (5,445)	$ (7,529)	$

CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED OCTOBER 1, 2000

	Parent Company	Guarantors	Non Guaran
Cash Flows from Operating Activities:			
Net earnings (loss)	$ (5,445)	$ (7,529)	$
Depreciation & amortization	232	8,124	

Amortization of deferred loan fees	343	2	
Undistributed (distributed) earnings of affiliates	-	9	
Change in assets and liabilities	(16,244)	(714)	(8
Net cash (used for) provided by operating activities	(21,114)	(108)	(3
Cash Flows from Investing Activities:			
Proceeds received from (used for):			
Purchase of PP&E	(30)	(3,034)	
Investment securities, net	-	4,759	
Change in real estate investment	-	-	(1
Change in net assets held for sale	-	2,211	
Net cash (used for) provided by investing activities	(30)	3,936	(2
Cash Flows from Financing Activities:			
Proceeds from issuance of debt	21,082	14	
Debt repayments, net	-	(594)	(2
Issuance of Class A common stock	194	-	
Net cash (used for) provided by financing activities	21,276	(580)	
Effect of exchange rate changes on cash	-	-	
Net change in cash	132	3,248	(6
Cash, beginning of the year	35	23,06 3	1
Cash, end of the year	$ 167	$ 26,311	$

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

The Fairchild Corporation was incorporated in October 1969, under the laws of the State of Delaware, under the name of Banner Industries, Inc. On November 15, 1990, we changed our name from Banner Industries, Inc. to The Fairchild Corporation. We own 100% of RHI Holdings, Inc. and Banner Aerospace, Inc. RHI is the owner of 100% of Fairchild Holding Corp. Our principal operations are conducted through Fairchild Holding Corp. and Banner Aerospace.

The following discussion and analysis provide information which management believes is relevant to the assessment and understanding of our consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and notes thereto.

GENERAL

We are a leading worldwide aerospace and industrial fastener manufacturer and distribution supply chain services provider and, through Banner Aerospace, an international supplier to airlines and general aviation businesses, distributing a wide range of aircraft parts and related support services. Through internal growth and strategic acquisitions, we have become one of the leading suppliers of fasteners to aircraft OEMs, such as Boeing, European Aeronautic Defense and Space Company, General Electric, Lockheed Martin, and Northrop Grumman.

Our business consists of three segments: aerospace fasteners, aerospace distribution and real estate operations. The aerospace fasteners segment manufactures and markets high performance fastening systems used in the manufacture and maintenance of commercial and military aircraft. Our aerospace distribution segment stocks and distributes a wide variety of aircraft parts to commercial airlines and air cargo carriers, fixed-base operators, corporate aircraft operators and other aerospace companies. Our real estate operations segment owns and operates a shopping center located in Farmingdale, New York.

CAUTIONARY STATEMENT

Certain statements in this financial discussion and analysis by management contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operation and business. These statements relate to analyses and other information, which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and similar terms and phrases, including references to assumptions. These forward-looking statements involve risks and uncertainties, including current trend information, projections for deliveries, backlog and other trend estimates, that may cause our actual future activities and results of operations to be materially different from those suggested or described in this financial discussion and analysis by management. These risks include: product demand; our dependence on the aerospace industry; reliance on Boeing and European Aeronautic Defense and Space Company; customer satisfaction and quality issues; labor disputes; competition, including recent intense price competition; our ability to achieve and execute internal business plans; worldwide political instability and economic growth; reduced airline revenues as a result of the September 11, 2001 terrorist attacks on the United States, and their aftermath; military actions in Afghanistan; the cost and availability of electric power to operate our plants; and the impact of any economic downturns and inflation.

If one or more of these risks or uncertainties materializes, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. Given these uncertainties, users of the information included in this financial discussion and analysis by management, including investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements. We do not intend to update the forward-looking statements included in this Annual Report, even if new information, future events or other circumstances have made them incorrect or misleading.

RESULTS OF OPERATIONS

Consolidated Results

We currently report in three principal business segments: aerospace fasteners, aerospace distribution and real estate operations. The following table provides the historical sales and operating income of our segments for the three months ended September 30, 2001 and October 1, 2000, respectively.

	9/30/
SALES BY SEGMENT:	
Aerospace Fasteners Segment	$ 14

Aerospace Distribution Segment	1
TOTAL SALES	$ 16
OPERATING RESULTS BY SEGMENT:	
Aerospace Fasteners Segment	$ 1
Aerospace Distribution Segment	
Real Estate Operations Segment (a)	
Corporate	(5
TOTAL OPERATING INCOME (b)	$ 1

Net sales of $165.1 million in the first quarter of fiscal 2002 increased by $16.7 million, or 11.3%, compared to sales of $148.4 million in the first quarter of fiscal 2001. Sales in the first quarter of fiscal 2002 reflected strong growth at our aerospace fasteners segment and were offset partially by approximately $1.3 million due to the negative foreign currency impact on our European operations from the U.S. dollar strengthening against the Euro on a period-to-period basis. Results for the three months ended October 1, 2000, included revenue of $3.2 million from an aerospace distribution segment operation which was shut down in June 2001.

Gross margin as a percentage of sales was 24.6% and 23.4% in the first quarter of fiscal 2002 and fiscal 2001, respectively. The gross margin improvement in the fiscal 2002 three-month period was attributable primarily to the increase in sales and the related economies of scale.

Selling, general & administrative expense as a percentage of sales was 19.2% and 19.4% in the first quarter of fiscal 2002 and 2001, respectively. The improvement in the fiscal 2002 three-month period was attributable primarily to the increase in sales and the related economies of scale.

Rental revenue remained stable in the first three months of fiscal 2002, compared to the first three months of fiscal 2001.

Other income increased $0.5 million in the first three months of fiscal 2002, compared to the first three months of fiscal 2001. The increase was due primarily to $0.7 million of income recognized from the disposition of non-core property during the three months ended September 30, 2001.

Operating income for the three months ended September 30, 2001, increased by $6.5 million, or 150.2%, as compared to the same period of the prior year. The results for the three months ended October 1, 2000, included $3.1 million of goodwill amortization, prior to the implementation of a new accounting pronouncement that eliminates goodwill amortization in the current quarter. Changes in foreign currency resulted in a unfavorable effect of approximately $0.2 million on operating income at our European operations in the first quarter of fiscal 2002, as compared to the first quarter of fiscal 2001.

Net interest expense was $12.4 million in the first quarter of fiscal 2002 and first quarter of fiscal 2001. However, cash interest expense decreased by $1.1 million in the first quarter of fiscal 2002, as compared to the first quarter of fiscal 2001, due primarily to lower interest rates.

We recognized an investment loss of $0.4 million in the first three months of fiscal 2002, due primarily to the fair market value change of trading securities, and $0.4 million in the first three months of fiscal 2001, due primarily to recognizing realized losses from investments we liquidated.

The fair market value of a ten-year $100 million interest rate contract decreased by $5.2 million in the first quarter of fiscal 2002 and $0.5 million in the first quarter of 2001.

An income tax benefit of $3.7 million in the first three months of fiscal 2002 represented a 50.3% effective tax rate on pre-tax losses from operations. The tax benefit was higher than the statutory rate due primarily to lower tax rates on $4.4 million of earnings generated by our foreign operations that utilize net operating loss carry forwards. An income tax benefit of $3.6 million in the first three months of fiscal 2001 represented a 39.7% effective tax rate on pre-tax losses from continuing operations. The tax benefit approximated the statutory rate.

Comprehensive income includes foreign currency translation adjustments, unrealized holding changes in the fair market value of available-for-sale investment securities, and the cumulative effect of adoption of SFAS 133, Accounting for Derivatives. For the three months ended September 30, 2001, the foreign currency translation adjustment resulted in a $12.7 million increase, and was offset partially by a $0.2 million decrease in the fair market value of unrealized holding gains on investment securities.

Segment Results

Aerospace Fasteners Segment

Sales in our Aerospace Fasteners segment increased by $21.6 million, or 17.3%, in the first quarter of fiscal 2002, as compared to the first quarter of fiscal 2001. The improvement in the current quarter reflected approximately $22.9 million from strong internal growth. Current quarter sales at our European operations were negatively affected by approximately $1.3 million due to the strengthening of the U.S. Dollar against the Euro. Backlog increased by $3.9 million in the first quarter to $222.3 million at September 30, 2001, and included approximately $3.9 from the strengthening of the Euro against the U.S. dollar during the three-month period ended September 30, 2001. Our book-to-bill ratio for the first quarter was 98.7%, reflecting the stronger level of sales.

Operating income was $14.9 million in the first quarter of fiscal 2002, an increase of $7.9 million as compared to the first quarter of fiscal 2001. The improvement in the first three months of fiscal 2002 was due primarily to the increase in sales and higher gross margins, and $0.7 million from the gain recognized on the sale of non-core property. On July 1, 2001, we adopted a new accounting pronouncement that does not require us to amortize goodwill. Goodwill amortization of $2.8 million was recorded in the first three months of fiscal 2001. Operating expenses continue to be monitored as management attempts to efficiently reduce operating costs.

We are cautiously optimistic that the overall demand for aerospace fasteners in fiscal 2002 will not decrease significantly despite the recently announced reductions in commercial aircraft build rates. Projected aircraft build rates have been adversely affected by decreased worldwide demand for travel following the September 11, 2001, terrorist attacks that temporarily halted domestic travel and hampered worldwide travel. The tragic terrorists' attacks may continue to have a significant impact on the commercial aviation industry, raising concerns about our ability to maintain a strong order backlog and level of new orders. A significant amount of cancellations of orders for aircraft from original equipment manufacturers or reductions in future orders could adversely impact our results. We continue to monitor events closely and any significant decline in future bookings will require us to pursue additional cost reduction initiatives to protect our businesses.

Aerospace Distribution Segment

Sales in our aerospace distribution segment decreased by $4.9 million, in the first quarter of fiscal 2002, compared to the first quarter of fiscal 2001. Results from the prior three months ended October 1, 2000, included revenue of $3.2 million from an operation which was shut down in June 2001. Sales in the three months ended September 30, 2001, were adversely affected due to the terrorist attacks on September 11, 2001 and have been sluggish since then.

Operating income decreased by $0.8 million in the first quarter of fiscal 2002, compared to the first quarter in fiscal 2001. The results for the three months ended September 30, 2001, were hampered by the reduction in revenue and the related economies of scale.

Real Estate Operations Segment

Our real estate operations segment owns and operates a shopping center located in Farmingdale, New York. Included in operating income was rental revenue of $1.7 million for both the three months ended September 30, 2001 and October 1, 2000. Operating income decreased slightly in the three months ended September 30, 2001, as compared to the three months ended October 1, 2000. As of September 30, 2001, we have leased approximately 74% of the developed shopping center.

Corporate

The operating loss increased by $0.5 million in the first three months of fiscal 2002, compared to the first three months of fiscal 2001 due primarily to an increase in legal expenses in the first three months of fiscal 2002.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Total capitalization as of September 30, 2001 and June 30, 2001 amounted to $856.4 million and $858.9 million, respectively. The three-month changes in capitalization included a $11.5 million reduction in debt reflecting cash provided by our operations and the sale of non-core assets, offset by an increase in equity of $8.9 million which was due primarily to a $12.5 million favorable increase in foreign currency translation adjustments and our reported net loss.

We maintain a portfolio of investments classified primarily as available-for-sale securities, which had a fair market value of $10.3 million at September 30, 2001. The market value of these investments decreased by $0.3 million in the three months ended September 30, 2001. There is risk associated with market fluctuations inherent in stock investments, and because our portfolio is not diversified, large swings in its value may occur.

Net cash provided by operating activities for the three months ended September 30, 2001 was $7.3 million and net cash used for operating activities for the three months ended October 1, 2000 was $25.1 million. The primary source of cash from operating activities in the first three months of fiscal 2002 included $9.7 million of earnings after deducting non-cash expenses of $7.5 million for depreciation, $5.2 million from the reduction in the fair market value of an interest rate contract, and $0.5 million from the amortization of deferred loan fees. The primary use of cash for operating activities in the first three months of fiscal 2001 was a $22.9 million decrease in accounts payable and other accrued liabilities, offset partially by a $14.3 million decrease in accounts receivable.

Net cash provided by investing activities was $3.1 million and $1.5 for the three months ended September 30, 2001 and October 1, 2000, respectively. In the first three months of fiscal 2002, the primary source of cash was $8.1 million provided from the dispositions of non-core real estate and net assets held for sale, partially offset by $4.2 million of capital expenditures. The primary source of cash from investing activities in the first three months of fiscal 2001 was $7.0 million of net proceeds received from the sale of investments and dispositions of non-core real estate, offset partially by capital expenditures of $4.2 million and investments of $1.0 million in our shopping center.

Net cash used for financing activities for the three months ended September 30, 2001, was $11.5 million. Net cash provided by financing activities for the three months ended October 1, 2000, was $21.0 million. Cash used for financing activities in the first three months of fiscal 2002 included a net debt reduction of $11.5 million. Cash provided by financing activities in the first quarter of fiscal 2001, included $20.8 million of net proceeds from the issuance of additional debt.

Our principal cash requirements include debt service, capital expenditures, and payment of other liabilities including postretirement benefits, environmental investigation and remediation obligations, and litigation settlements and related costs. We expect that cash on hand, cash generated from operations, cash available from borrowings and additional financing and asset sales will be adequate to satisfy our cash requirements during the next twelve months.

We are required under the credit agreement to comply with certain financial and non-financial loan covenants, including maintaining certain interest and fixed charge coverage ratios and maintaining certain indebtedness to EBITDA ratios at the end of each fiscal quarter. Our most restrictive covenant is the interest coverage ratio, which represents the ratio of EBITDA to interest expense, as defined in the credit agreement. At September 30, 2001, the interest coverage ratio was 2.11, which exceeded the minimum requirement of 2.0. Additionally, the credit agreement restricts annual capital expenditures to $40 million during the life of the facility. For the three months ended September 30, 2001, capital expenditures were $4.2 million. Except for non-guarantor assets, substantially all of our assets are pledged as collateral under the credit agreement. The credit agreement restricts the payment of dividends to our shareholders to an aggregate of the lesser of $0.01 per share or $0.4 million over the life of the agreement. Noncompliance with any of the financial covenants without cure or waiver would constitute an event of default under the credit agreement. An event of default resulting from a breach of a financial covenant may result, at the option of lenders holding a majority of the loans, in an acceleration of the principal and interest outstanding, and a termination of the revolving credit line. At September 30, 2001, we were in compliance with the covenants under the credit agreement.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Accounting for Business Combinations." This statement requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and establishes specific criteria for the recognition of intangible assets separately from goodwill. We will follow the requirements of this statement for business acquisitions made after June 30, 2001. There were no acquisitions for the quarter ended September 30, 2001.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets." This statement requires that goodwill and intangible assets deemed to have an indefinite life not be amortized. Instead of amortizing goodwill and intangible assets deemed to have an indefinite life, the statement requires a test for impairment to be performed annually, or immediately if conditions indicate that such an impairment could exist. The amortization period of intangible assets with finite lives will no longer be limited to forty years. This statement is effective for fiscal years beginning after December 15, 2001, and permits early adoption for fiscal years beginning after March 15, 2001. We have adopted SFAS No. 142 on July 1, 2001. As a result of adopting SFAS No. 142, we will no longer amortize goodwill of approximately $12.5 million per year. Using the fair value measurement requirement, rather than the undiscounted cash flows approach, we expect to record an impairment from the implementation of SFAS No. 142. The initial evaluation of reporting units on a fair value basis, as required from the implementation of SFAS No. 142, indicates that an impairment exists at reporting units within our aerospace fasteners segment. Based upon the initial evaluation, the estimated range of impairment is between approximately $60 million to $65 million. However, once impairment is determined at a reporting unit, SFAS No. 142 requires that the amount of goodwill impairment be determined based on what the balance of goodwill would have been if purchase accounting were applied at the date of impairment. We have not completed that analysis, but we expect to complete this analysis prior to June 30, 2002. If the carrying amount of goodwill exceeds its fair value, an impairment loss must be recognized in an amount equal to that excess. Once an impairment loss is recognized, the adjusted carrying amount of goodwill will be its new accounting basis. The actual amount of impairment could be significantly different than the range provided above. We are currently measuring the amount of impairment of goodwill to be recorded from adopting this standard.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations". This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and normal operation of a long-lived asset, except for certain lease obligations. This statement is effective for fiscal years beginning after June 15, 2002. We are currently evaluating the impact of adopting this standard.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," which supersedes SFAS No. 121. Though it retains the basic requirements of SFAS 121 regarding when and how to measure an impairment loss, SFAS 144 provides additional implementation guidance. SFAS 144 applies to long-lived assets to be held and used or to be disposed of, including assets under capital leases of lessees; assets subject to operating leases of lessors; and prepaid assets. SFAS 144 also expands the scope of a discontinued operation to include a component of an entity, and eliminates the current exemption to consolidation when control over a subsidiary is likely to be temporary. This statement is effective for fiscal years beginning after December 15, 2001. We are currently evaluating the impact of adopting this standard.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

In fiscal 1998, we entered into a ten-year interest rate swap agreement to reduce our cash flow exposure to increases in interest rates on variable rate debt. The ten-year interest rate swap agreement provides us with interest rate protection on $100 million of variable rate debt, with interest being calculated based on a fixed LIBOR rate of 6.24% to February 17, 2003. On February 17, 2003, the bank with which we entered into the interest rate swap agreement, will have a one-time option to elect to cancel the agreement or to do nothing and proceed with the transaction, using a fixed LIBOR rate of 6.715% for the period February 17, 2003 to February 19, 2008.

We did not elect to pursue hedge accounting for the interest rate swap agreement, which was executed to provide an economic hedge against cash flow variability on the floating rate note. When evaluating the impact of SFAS No. 133 on this hedge relationship, we assessed the key characteristics of the interest rate swap agreement and the note. Based on this assessment, we determined that the hedging relationship would not be highly effective. The ineffectiveness is caused by the existence of the embedded written call option in the interest rate swap agreement, and the absence of a mirror option in the hedged item. As such, pursuant to SFAS No. 133, we designated the interest rate swap agreement in the no hedging designation category. Accordingly, we have recognized a non-cash decrease in fair market value of interest rate derivatives of $5.2 million and $0.5 million, in the three months ended September 30, 2001 and October 1, 2000, respectively, as a result of the fair market value adjustment for our interest rate swap agreement.

The fair market value adjustment of these agreements will generally fluctuate based on the implied forward interest rate curve for 3-month LIBOR. If the implied forward interest rate curve decreases, the fair market value of the interest hedge contract will increase and we will record an additional charge. If the implied forward interest rate curve increases, the fair market value of the interest hedge contract will decrease, and we will record income.

In March 2000, the Company issued a floating rate note with a principal amount of $30,750,000. Embedded within the promissory note agreement is an interest rate cap. The embedded interest rate cap limits the 1-month LIBOR interest rate that we must pay on the note to 8.125%. At execution of the promissory note, the strike rate of the embedded interest rate cap of 8.125% was above the 1-month LIBOR rate of 6.61%. Under SFAS 133, the embedded interest rate cap is considered to be clearly and closely related to the debt of the host contract and is not required to be separated and accounted for separately from the host contract. In fiscal 2001, we accounted for the hybrid contract, comprised of the variable rate note and the embedded interest rate cap, as a single debt instrument.

The table below provides information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, which include interest rate swaps. For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on implied forward rates in the yield curve at the reporting date.

(In thousands) Expected Fiscal Year Maturity Date	2003	
Type of Interest Rate Contracts	Interest Rate Cap	Vari
Variable to Fixed	$30,750	
Fixed LIBOR rate	N/A	
LIBOR cap rate	8.125%	
Average floor rate	N/A	
Weighted average forward LIBOR rate	2.64%	
Fair Market Value at September 30, 2001	$4	

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information required to be disclosed under this Item is set forth in Footnote 6 (Contingencies) of the Consolidated Financial Statements (Unaudited) included in this Report.

Item 5. Other Information

Articles have appeared in the French press reporting an inquiry by a French magistrate into allegedly improper business transactions involving Elf Acquitaine, a French petroleum company, its former chairman and various third parties, including Maurice Bidermann. In connection with this inquiry, the magistrate has made inquiry into allegedly improper transactions between Mr. Jeffrey Steiner and that petroleum company. In response to the magistrate's request, Mr. Steiner has submitted written statements concerning the transactions and appeared in person, in France, before the magistrate and others. The magistrate put Mr. Steiner under examination (mis en examen) with respect to this matter and imposed a surety (caution) of ten million French Francs which has been paid. Mr. Steiner has not been charged.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

None

(b) Reports on Form 8-K:

There were no reports filed on Form 8-K during the quarter ended September 30, 2001 for which this report is filed.

SIGNATURES

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

For THE FAIRCHILD CORPORATION
(Registrant) and as its Chief
Financial Officer:

By: /s/ MICHAEL T. ALCOX

Michael T. Alcox
Senior Vice President and
Chief Financial Officer

Date: November 14, 2001