

Edgar Filing: FAIRCHILD CORP - Form 10-Q

FAIRCHILD CORP
Form 10-Q
November 12, 2002
28

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 29, 2002 Commission File Number 1-6560

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

Delaware 34-0728587
(State 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, 2002
Class A Common Stock, \$0.10 Par Value	22,541,021
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 29, 2002

Edgar Filing: FAIRCHILD CORP - Form 10-Q

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Balance Sheets as of September 29, 2002 (Unaudited) and June 30, 2002	3
Condensed Consolidated Statements of Earnings (Unaudited) for the Three Months Ended September 29, 2002 and September 30, 2001	5
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended September 29, 2002 and September 30, 2001	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition	17
Item 3. Quantitative and Qualitative Disclosure About Market Risk .	23
Item 4. Controls and Procedures	24
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	25
Item 5. Other Information	25
Item 6. Exhibits and Reports on Form 8-K	25

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 29, 2002 (Unaudited) and June 30, 2002
(In thousands)

Edgar Filing: FAIRCHILD CORP - Form 10-Q

ASSETS

9/2

CURRENT ASSETS:

Cash and cash equivalents

Short-term investments

Accounts receivable-trade, less allowances of \$7,702 and \$7,635

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 \$192,054 and \$186,172

Net assets held for sale

Goodwill

Investments and advances, affiliated companies

Prepaid pension assets

Deferred loan costs

Real estate investment

Long-term investments

Notes receivable

Other assets

TOTAL ASSETS

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

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
September 29, 2002 (Unaudited) and June 30, 2002
(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

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 LIABILITIES:

Long-term debt, less current maturities

Fair value of interest rate contract

Other long-term liabilities

Retiree health care liabilities

Noncurrent deferred income taxes

Noncurrent income taxes

TOTAL LIABILITIES

STOCKHOLDERS' EQUITY:

Class A common stock, \$0.10 par value; 40,000 shares authorized,

30,348 (30,347 in June) shares issued and 22,541 (22,540 in June);

shares outstanding; entitled to one vote per share

Class B common stock, \$0.10 par value; 20,000 shares authorized,

2,622 shares issued and outstanding; entitled to ten votes per share

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 Condensed 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 29, 2002 and September 30, 2001
 (In thousands, except per share data)

REVENUE:

09/29/02

Edgar Filing: FAIRCHILD CORP - Form 10-Q

Net sales	\$ 137,228
Rental revenue	1,765
Other income (expense), net	849

	139,842
COSTS AND EXPENSES:	
Cost of goods sold	105,291
Cost of rental revenue	1,232
Selling, general & administrative	27,994

	134,517
OPERATING INCOME	5,325
Interest expense	11,784
Interest income	(786)

Net interest expense	10,998
Investment income (loss)	(52)
Decrease in fair market value of interest rate contract	(6,776)

Loss from continuing operations before taxes	(12,501)
Income tax benefit	5,210
Equity in earnings of affiliates, net	-

Loss from continuing operations	(7,291)
Cumulative effect of change in accounting for goodwill	-

NET LOSS	\$ (7,291)

Other comprehensive income (loss), net of tax:	
Foreign currency translation adjustments	(1,238)
Unrealized holding changes on derivatives	15
Unrealized periodic holding changes on securities	(210)

Other comprehensive loss	(1,433)

COMPREHENSIVE LOSS	\$ (8,724)

BASIC AND DILUTED EARNINGS (LOSS) PER SHARE:	
Loss from continuing operations	\$ (0.29)
Cumulative effect of change in accounting for goodwill	-

NET LOSS	\$ (0.29)

Other comprehensive income (loss), net of tax:	
Foreign currency translation adjustments	\$ (0.05)
Unrealized holding changes on derivatives	-
Unrealized periodic holding changes on securities	(0.01)

Other comprehensive loss	(0.06)

COMPREHENSIVE LOSS	\$ (0.35)

Weighted average shares outstanding:	
Basic	25,162

Diluted	25,162

The accompanying Notes to Condensed Consolidated Financial Statements are an

Edgar Filing: FAIRCHILD CORP - Form 10-Q

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 29, 2002 and September 30, 2001
 (In thousands)

	9/29/02
Cash flows from operating activities:	
Net loss	\$ (7,291)
Depreciation and amortization	7,873
Amortization of deferred loan fees	557
Unrealized holding loss on interest rate contract	6,776
Paid-in kind interest income	(338)
Cumulative effect of change in accounting for goodwill	-
Undistributed (earnings) loss of affiliates, net	-
Net change in operating assets and liabilities	5,781
Net cash provided by operating activities	13,358
Cash flows from investing activities:	
Purchase of property, plant and equipment	(1,655)
Net proceeds received from the sale of property, plant, and equipment	317
Changes in investment securities	15
Equity investment in affiliates	(95)
Changes in real estate investment	(1,526)
Changes in net assets held for sale	(73)
Changes in notes receivable	(510)
Net cash provided by (used for) investing activities	(3,527)
Cash flows from financing activities:	
Proceeds from issuance of debt	27,622
Debt repayments	(36,901)
Issuance of Class A common stock	2
Net cash used for financing activities	(9,277)
Effect of exchange rate changes on cash	(55)
Net change in cash and cash equivalents	499
Cash and cash equivalents, beginning of the year	15,283
Cash and cash equivalents, end of the period	\$ 15,782

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

Edgar Filing: FAIRCHILD CORP - Form 10-Q

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 29, 2002, and the consolidated statements of earnings and cash flows for the three months ended September 29, 2002 and September 30, 2001 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 29, 2002, and for all periods presented, have been made. The balance sheet at June 30, 2002 was condensed from the audited financial statements as of that date.

The condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and the Securities and Exchange Commission's instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in complete 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 2002 Annual Report on Form 10-K, as amended. The results of operations for the period ended September 29, 2002 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. PENDING SALE OF OUR AEROSPACE FASTENERS BUSINESS

On July 17, 2002 we announced that we signed a definitive agreement to sell our aerospace fasteners business for approximately \$657 million in cash to Alcoa Inc. The actual cash to be received from Alcoa is dependent upon a post-closing adjustment based on the change in net working capital between March 31, 2002 and the closing date. We may also receive from Alcoa additional cash proceeds up to \$12.5 million per year, in an earnout formula based on the number of Boeing and Airbus commercial aircraft deliveries during each of the calendar years 2003-2006, inclusive. The sale, which is expected to close before November 30, 2002, is subject to customary conditions, including the approval of our shareholders. We will use a portion of the proceeds from the sale to repay our bank debt and to acquire all of our outstanding \$225 million, 10.75% senior subordinated notes, due in April, 2009, which are tendered to us. The remaining proceeds from the sale will provide funds for new acquisitions.

3. EQUITY SECURITIES

We had 22,541,021 shares of Class A common stock and 2,621,502 shares of Class B common stock outstanding at September 29, 2002. 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. During the three months ended September 29, 2002, we issued 1,000 shares of Class A common stock as a result of the exercise of stock options.

4. RESTRICTED CASH

Edgar Filing: FAIRCHILD CORP - Form 10-Q

On September 29, 2002 and June 30, 2002, we had restricted cash of \$501 and \$472, respectively, all of which is maintained as collateral for certain debt facilities and escrow arrangements.

5. EARNINGS PER SHARE

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

	Three Months 9/29/02
Basic earnings per share:	
Loss from continuing operations	\$ (7,291)
Weighted average common shares outstanding	25,162
Basic loss from continuing operations per share	\$ (0.29)
Diluted earnings per share:	
Loss from continuing operations	\$ (7,291)
Weighted average common shares outstanding	25,162
Options	antidilutive
Warrants	N/A
Total shares outstanding	25,162
Diluted loss from continuing operations per share	\$ (0.29)

Stock options entitled to purchase 2,032,400 and 1,976,226 shares of Class A common stock were antidilutive and not included in the earnings per share calculation for the three months ended September 29, 2002 and September 30, 2001, respectively. Stock warrants entitled to purchase 400,000 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. The stock warrants expired during fiscal 2002. The stock options could be dilutive in future periods.

6. 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

Edgar Filing: FAIRCHILD CORP - Form 10-Q

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 29, 2002, 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 \$18.2 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.

7. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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 our fiscal year beginning on July 1, 2002. Accordingly, we will account for the sale of the fastener business as a discontinued operation as of the date of the sale.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002". SFAS No. 145 eliminates the requirement to report material gains or losses from debt extinguishments as an extraordinary item, net of tax, in an entity's statement of earnings. SFAS No. 145 instead requires that a gain or loss recognized from a debt extinguishment be classified as an extraordinary item only when the extinguishment meets the criteria of both "unusual in nature" and "infrequent in occurrence" as prescribed under Accounting Principles Bulletin No. 30, "Reporting the Result of Operations - Reporting the Effects of Disposal of a Segment of Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This statement is effective for our fiscal year

Edgar Filing: FAIRCHILD CORP - Form 10-Q

beginning on July 1, 2002.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This standard requires costs associated with exit or disposal activities to be recognized when they are incurred and applies prospectively to such activities initiated after December 31, 2002.

8. NOTES RECEIVABLE

At September 29, 2002, \$7.6 million of promissory notes were due to us from an unaffiliated third party and are recorded in notes receivable. The promissory notes earn \$1.5 million of annual cash interest and are being accreted to a face value of \$14.3 million through interest income. The promissory notes are secured by \$14.3 million face value of our outstanding 10.75% senior subordinated notes due 2009 acquired by the third party.

9. 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 29, 2002 and September 30, 2001, respectively.

	Three Months Ended	
	9/29/02	9/30/01
SALES BY SEGMENT:		
Aerospace Fasteners Segment	\$ 122,251	\$ 147,
Aerospace Distribution Segment	14,977	17,
TOTAL SALES	\$ 137,228	\$ 165,
OPERATING RESULTS BY SEGMENT:		
Aerospace Fasteners Segment	\$ 8,795	\$ 14,
Aerospace Distribution Segment	648	
Real Estate Segment (a)	472	
Corporate and Other Segment	(4,590)	(5,0
TOTAL OPERATING INCOME	\$ 5,325	\$ 10,
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES:		
Aerospace Fasteners Segment	\$ 8,469	\$ 14,
Aerospace Distribution Segment	626	
Real Estate Segment	(41)	(2
Corporate and Other Segment	(21,555)	(21,9
Total loss from continuing operations before taxes	\$ (12,501)	\$ (7,3
ASSETS BY SEGMENT:		
	9/29/02	6/30/02

Edgar Filing: FAIRCHILD CORP - Form 10-Q

Aerospace Fasteners Segment	\$ 658,899	\$ 671,
Aerospace Distribution Segment	48,068	49,
Real Estate Segment	114,557	116,
Corporate and Other Segment	139,196	133,
	-----	-----
TOTAL ASSETS	\$ 960,720	\$ 970,
	-----	-----

10. 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
SEPTEMBER 29, 2002

	Parent Company	Guarantors	Non Guarant
	-----	-----	-----
Cash and cash equivalents	\$ 6,237	\$ 2,888	\$ 6,6
Short-term investments	54	362	
Accounts receivable (including intercompany), less allowances	986	650,439	110,0
Inventory, net	-	128,697	53,2
Prepaid expenses and other current assets	11,937	18,803	6,4
	-----	-----	-----
Total current assets	19,214	801,189	176,4
Investment in subsidiaries	722,272	-	
Net fixed assets	593	88,428	34,2
Net assets held for sale	-	19,116	
Investments and advances in affiliates	93	3,263	
Goodwill	-	241,560	32,9
Deferred loan costs	10,067	-	4
Prepaid pension assets	-	64,780	
Real estate investment	-	-	109,0
Long-term investments	60	2,033	3,4
Notes receivable and other assets	3,208	10,264	1,4
	-----	-----	-----
Total assets	\$ 755,822	\$1,230,633	\$ 358,0
	=====	=====	=====
Bank notes payable & current maturities of debt	\$ 2,280	\$ 1,467	\$ 48,5
Accounts payable (including intercompany)	-	876,882	203,2
Other accrued expenses	13,174	52,833	23,1
	-----	-----	-----
Total current liabilities	15,454	931,182	274,8
Long-term debt, less current maturities	424,490	2,966	2,5
Fair market value of interest rate contract	17,764	-	

Edgar Filing: FAIRCHILD CORP - Form 10-Q

Other long-term liabilities	405	12,464	3,9
Noncurrent deferred income taxes	4,277	-	
Noncurrent income taxes	48,867	(736)	1
Retiree health care liabilities	-	37,429	5,0

Total liabilities	511,257	983,305	286,5
Class A common stock	3,035	-	
Class B common stock	262	-	
Notes due from stockholders	(446)	(1,385)	
Paid-in capital	232,799	478,501	126,4
Retained earnings	84,656	(211,334)	(50,27
Cumulative other comprehensive loss	(11)	(18,454)	(4,63
Treasury stock, at cost	(76,045)	-	

Total stockholders' equity	244,250	247,328	71,5

Total liabilities & stockholders' equity	\$ 755,507	\$1,230,633	\$ 358,0
	=====		

CONSOLIDATING STATEMENTS OF EARNINGS
FOR THE THREE MONTHS ENDED SEPTEMBER 29, 2002

	Parent Company	Guarantors	Non Guarant

Revenue:			
Net sales	\$ -	\$ 104,586	\$ 37,8
Rental revenue	-	-	1,7
Other income, net	-	447	4

	-	105,033	40,0
Costs and expenses:			
Cost of goods sold	-	81,981	28,5
Cost of rental revenue	-	-	1,2
Selling, general & administrative	1,605	19,877	6,5

	1,605	101,858	36,2

Operating income (loss)	(1,605)	3,175	3,7
Net interest expense (including intercompany)	(2,564)	11,991	1,5
Investment (income) loss, net	-	52	
Intercompany dividends	-	2,315	
Decrease in market value of interest rate contract	6,776	-	

Earnings (loss) from continuing operations before taxes	(5,817)	(11,183)	2,1
Income tax (provision) benefit	2,046	3,932	(76
Equity in earnings of affiliates and subsidiaries, net	(3,520)	-	

Net earnings (loss)	\$ (7,291)	\$ (7,251)	\$ 1,4

Edgar Filing: FAIRCHILD CORP - Form 10-Q

CONSOLIDATING CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 29, 2002

	Parent Company	Guarantors	Non Guarantors
Cash Flows from Operating Activities:			
Net earnings (loss)	\$ (7,291)	\$ (7,251)	\$ 1,4
Depreciation & amortization	14	5,073	2,7
Amortization of deferred loan fees	545	-	
Unrealized holding loss on interest rate contract	6,776	-	
Paid-in kind interest income	-	(338)	
Change in assets and liabilities	14,135	3,528	(6,04)
Net cash provided by (used for) operating activities	14,179	1,012	(1,83)
Cash Flows from Investing Activities:			
Proceeds received from (used for):			
Capital expenditures	(66)	(1,197)	(39)
Sale of property, plant and equipment	-	293	
Unrealized holding loss on available-for-sale securities	-	15	
Equity investment in affiliates	(95)	-	
Real estate investment	-	-	(1,52)
Changes in net assets held for sale	-	(73)	
Changes in notes receivable	14	(524)	
Net cash used for investing activities	(147)	(1,486)	(1,89)
Cash Flows from Financing Activities:			
Proceeds from issuance of debt	12,800	14,822	
Debt repayments	(20,607)	(16,294)	
Proceeds from exercised options	2	-	
Net cash used for financing activities	(7,805)	(1,472)	
Effect of exchange rate changes on cash	-	-	(5)
Net change in cash	6,227	(1,946)	(3,78)
Cash and cash equivalents, beginning of the year	10	4,834	10,4
Cash and cash equivalents, end of the period	\$ 6,237	\$ 2,888	\$ 6,6

Edgar Filing: FAIRCHILD CORP - Form 10-Q

CONSOLIDATING BALANCE SHEET
JUNE 30, 2002

	Parent Company	Guarantors	Non Guarant
Cash and cash equivalents	\$ 10	\$ 4,834	\$ 10,4
Short-term investments	55	439	
Accounts receivable (including intercompany), less allowances	940	654,638	107,2
Inventory, net	-	126,874	54,1
Prepaid expenses and other current assets	12,229	17,334	5,4
Total current assets	13,234	804,119	177,3
Investment in subsidiaries	735,342	-	
Net fixed assets	541	92,240	36,4
Net assets held for sale	-	19,406	
Investments and advances in affiliates	93	3,168	
Goodwill	-	241,560	32,9
Deferred loan costs	10,475	-	4
Prepaid pension assets	-	64,693	
Real estate investment	-	-	108,1
Long-term investments	60	2,352	3,4
Notes receivable and other assets	3,223	9,367	1,0
Total assets	\$ 762,968	\$1,236,905	\$ 359,9
Bank notes payable & current maturities of debt	\$ 2,279	\$ 1,607	\$ 49,9
Accounts payable (including intercompany)	27	874,413	202,9
Other accrued expenses	6,845	52,402	23,3
Total current liabilities	9,151	928,422	276,3
Long-term debt, less current maturities	432,297	3,211	2,4
Fair market value of interest rate contract	10,989	-	
Other long-term liabilities	407	13,263	4,1
Noncurrent income taxes	54,310	(669)	1
Noncurrent deferred income taxes	4,277	-	
Retiree health care liabilities	-	37,619	5,0
Total liabilities	511,431	981,846	288,0
Class A common stock	3,035	-	
Class B common stock	262	-	
Notes due from stockholders	(446)	(1,385)	
Paid-in capital	232,797	478,500	127,1
Retained earnings	91,947	(204,758)	(50,88
Cumulative other comprehensive loss	(14)	(17,298)	(4,35
Treasury stock, at cost	(76,044)	-	
Total stockholders' equity	251,537	255,059	71,9
Total liabilities & stockholders' equity	\$ 762,968	\$1,236,905	\$ 359,9

Edgar Filing: FAIRCHILD CORP - Form 10-Q

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

	Parent Company	Guarantors	Non Guarantors
Net sales	\$ -	\$ 128,954	\$ 40,6
Rental revenue	-	-	1,7
Other income, net	(5)	1,057	2
	(5)	130,011	42,6
Costs and expenses:			
Cost of goods sold	-	99,619	29,2
Cost of rental revenue	-	-	1,2
Selling, general & administrative	1,992	23,818	5,9
	1,992	123,437	36,4
Operating income (loss)	(1,997)	6,574	6,1
Net interest expense (including intercompany)	(4,390)	15,441	1,3
Investment (income) loss, net	-	386	
Intercompany dividends	-	27	
Decrease in market value of interest rate contract	5,249	-	
Earnings (loss) before taxes	(2,856)	(9,280)	4,7
Income tax (provision) benefit	1,431	4,654	(2,40)
Equity in earnings of affiliates and subsidiaries, net	(146,774)	51	
Minority interest	-	-	
Earnings (loss) from continuing operations	(148,199)	(4,575)	2,3
Cumulative effect in change in accounting for goodwill	-	(144,600)	
Net earnings (loss)	\$ (148,199)	\$ (149,175)	\$ 2,3

CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001

Parent Company	Guarantors	Non Guarantors
-------------------	------------	-------------------

Edgar Filing: FAIRCHILD CORP - Form 10-Q

Cash Flows from Operating Activities:			
Net earnings (loss)	\$ (148,199)	\$ (149,175)	\$ 2,3
Depreciation & amortization	12	4,955	2,5
Amortization of deferred loan fees	377	1	1
Change in Accounting	-	144,600	
Unrealized holding (gain) loss on derivatives	5,249	-	
Undistributed (distributed) earnings of affiliates	18	(51)	
Change in assets and liabilities	151,209	(4,458)	(2,33
Net cash (used for) provided by operating activities	8,666	(4,128)	2,7
Cash Flows from Investing Activities:			
Proceeds received from (used for):			
Purchase of property, plant and equipment	(14)	(3,029)	(1,19
Investment securities, net	-	(53)	
Sale of property, plant and equipment	-	3,693	
Equity investment in affiliates	(394)	-	
Changes in real estate investment	-	-	(21
Changes in net assets held for sale	-	4,358	
Net cash (used for) provided by investing activities	(408)	4,969	(1,38
Proceeds from issuance of debt	22,700	12,299	8
Debt repayments, net	(31,000)	(13,196)	(3,19
Net cash used for financing activities	(8,300)	(897)	(2,30
Effect of exchange rate changes on cash	-	-	4
Net change in cash	(42)	(56)	(51
Cash, beginning of the year	562	6,546	7,8
Cash, end of the period	\$ 520	\$ 6,490	\$ 7,3

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

Edgar Filing: FAIRCHILD CORP - Form 10-Q

and 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 "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; 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; 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 Quarterly 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 29, 2002 and September 30, 2001, respectively.

Edgar Filing: FAIRCHILD CORP - Form 10-Q

	Three Months Ended	
	9/29/02	9/30/01
SALES BY SEGMENT:		
Aerospace Fasteners Segment	\$ 122,251	\$ 147,251
Aerospace Distribution Segment	14,977	17,850
TOTAL SALES	\$ 137,228	\$ 165,101
OPERATING RESULTS BY SEGMENT:		
Aerospace Fasteners Segment	\$ 8,795	\$ 14,795
Aerospace Distribution Segment	648	1,000
Real Estate Segment (a)	472	—
Corporate and Other Segment	(4,590)	(5,000)
TOTAL OPERATING INCOME	\$ 5,325	\$ 10,795

Net sales of \$137.2 million in the first quarter of fiscal 2003 decreased by \$27.8 million, or 16.9%, compared to sales of \$165.1 million in the first quarter of fiscal 2002. Sales in the first quarter of fiscal 2003 were adversely affected by the overall conditions in the aerospace industry, resulting primarily from the events of September 11, 2001.

Gross margin as a percentage of sales was 23.3% and 24.6% in the first quarter of fiscal 2003 and fiscal 2002, respectively. The higher gross margin in the fiscal 2002 period is attributable primarily to a higher volume of sales and a higher margin product mix.

Selling, general & administrative expense as a percentage of sales was 20.4% and 19.2% in the first three months of fiscal 2003 and 2002, respectively. The change in the fiscal 2003 period was attributable primarily to the volume of sales and the related economies of scale.

Rental revenue remained stable in the first three months of fiscal 2003, compared to the first three months of fiscal 2002.

Other income decreased \$0.5 million in the first three months of fiscal 2003, compared to the first three months of fiscal 2002. Other income for the three months ended September 30, 2001, included \$0.5 million of royalty income prior to the royalty contracts being sold in the second quarter of fiscal 2002.

Operating income for the three months ended September 29, 2002, decreased by \$5.4 million, as compared to the same period of the prior year. The decrease reflects the downturn in the aerospace industry, resulting from a significant reduction in air travel following September 11, 2001.

Net interest expense decreased by \$1.4 million, or 11.5%, and cash interest expense decreased by \$0.8 million in the first three months of fiscal 2003, as compared to the first three months of fiscal 2002, due primarily to lower interest rates.

We recognized a \$0.1 million and \$0.4 million of investment loss in three months ended September 29, 2002 and September 30, 2001, respectively, due to the decrease in the fair market value of trading securities.

We recognized an expense of \$6.8 million and \$5.2 million in the first

Edgar Filing: FAIRCHILD CORP - Form 10-Q

quarter of 2003 and 2002, respectively, from the fair market value adjustment of a ten-year \$100 million interest rate contract. Declining interest rates over the remaining period of the interest rate contract has caused the change in fair market value of the contract.

An income tax benefit of \$5.2 million and \$3.7 million in the first three months of fiscal 2003 and fiscal 2002, respectively, was higher than the statutory rate, due primarily to the reversal of tax accruals, net of valuation allowances, which are no longer required.

Comprehensive income includes foreign currency translation adjustments and unrealized holding changes in the fair market value of available-for-sale investment securities. For the three months ended September 29, 2002, the foreign currency translation adjustment decreased by \$1.2 million and the fair market value of unrealized holding gains on investment securities decreased by a \$0.2 million. 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 decreased by \$24.8 million, or 16.9%, in the first three months of fiscal 2003, as compared to the same periods of fiscal 2002. The change reflected a reduction in shipments in the current period due to an overall lower level of demand in the aerospace industry resulting from the September 11, 2001 terrorist attacks. Our backlog decreased by \$2.7 million in the first quarter of fiscal 2003, to \$175.1 million at September 29, 2002. Our book-to-bill ratio was 98.8% for the first three months of fiscal 2003, which was a substantial improvement from the book-to-bill ratio in the previous two quarters.

Operating income decreased by \$6.1 million, or 40.8%, in the first three months of fiscal 2003, as compared to the same periods of fiscal 2002. The change primarily reflects the marginal decrease in sales as a result of the downturn in the aerospace industry. Operating expenses are continually monitored as management attempts to balance the production requirements of short-term customer demand with its ongoing operating costs.

Announcements by our major customers have reinforced our view that projected aircraft build rates will continue to be adversely affected by decreased worldwide demand for travel following September 11, 2001. Accordingly, we believe overall demand for aerospace fasteners will decrease during the remainder of calendar 2002, and our business will be affected by this decreased demand. Nevertheless, we also believe the impact on our business will be partially offset by certain supply chain service programs we entered into during the past several years and by the overall decrease in fastener inventory available to OEMs and distributors.

We have decided to sell our Fairchild Fasteners business for approximately \$657 million in cash to Alcoa Inc. The sale, which is expected to close before November 30, 2002, is subject to customary conditions, including the approval of our shareholders. (See Note 2 to the Consolidated Financial Statements).

Aerospace Distribution Segment

Our aerospace distribution segment is an international supplier to airlines and general aviation businesses, distributing a wide range of aircraft parts and related support services and has five operations in the United States. The aerospace distribution segment specializes in the distribution of flight data

Edgar Filing: FAIRCHILD CORP - Form 10-Q

recorder, radar and navigation systems, instruments, and other components to commercial airlines, commuter and regional airlines, fixed-base operators, air cargo carriers, general aviation customers and the military. Sales in our aerospace distribution segment decreased by \$3.0 million, in the first quarter of fiscal 2003, compared to the first quarter of fiscal 2002. Sales in the three months ended September 29, 2002, were adversely affected due to the terrorist attacks on September 11, 2001 and have been sluggish since then.

Operating income increased by \$0.2 million in the first three months of fiscal 2003, as compared to the same period in fiscal 2002. The results for the three months ended September 29, 2002, reflect an increase in gross margin as a percentage of sales.

Real Estate Operations Segment

Our real estate operations segment owns and operates a 456,000 square foot shopping center located in Farmingdale, New York. We have two tenants that each occupy more than 10% of the rentable space of the shopping center. Rental revenue increased slightly in the three months ended September 29, 2002, due to a slight increase in the amount of space leased to tenants, as compared to the three months ended September 30, 2001. The weighted average occupancy rate of the shopping center was 78.3% and 77.1% in the first quarter of 2003 and 2002, respectively. The average effective annual rental rate per square foot was \$19.96 and \$19.91 the first quarter of 2003 and 2002, respectively. As of September 29, 2002, approximately 92% of the shopping center was leased. We anticipate that rental income will increase during the remainder of fiscal 2003, as a result of us entering agreements, to lease approximately 66,000 square feet.

Operating income increased slightly in the first quarter of fiscal 2003, as compared to the first quarter of 2002. The improvement in the first quarter of fiscal 2003 reflected an increase in the weighted-average portion of the shopping center occupied during fiscal 2003.

Corporate

The operating loss at corporate was reduced by \$0.4 million in the first three months of fiscal 2003, compared to the first three months of fiscal 2002. This improvement was due primarily to a reduction of legal expenses in the first three months of fiscal 2003.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Total capitalization as of September 29, 2002 and June 30, 2002 amounted to \$701.5 million and \$719.8 million, respectively. The three-month change in capitalization included a \$9.5 million decrease in debt reflecting cash provided by our operations, and a decrease in equity of \$8.7 million which was due primarily to our reported net loss and a \$1.4 million unfavorable decrease in other comprehensive income.

We maintain a portfolio of investments classified primarily as available-for-sale securities, which had a fair market value of \$5.5 million at September 29, 2002. The market value of these investments decreased by \$0.4 million in the three months ended September 29, 2002. There is risk associated with market fluctuations inherent in stock investments, and because our portfolio is not diversified, changes in its value may occur.

Net cash provided by operating activities for the three months ended September 29, 2002, was \$13.4 million. The working capital sources of cash in the first three months of fiscal 2002 included an \$8.2 million increase in accounts payable and other accrued liabilities and an \$8.7 million decrease in accounts receivable, offset partially by a \$0.9 million increase in inventory

Edgar Filing: FAIRCHILD CORP - Form 10-Q

and a \$2.2 million increase in prepaid and other current assets. Net cash provided by operating activities for the three months ended September 30, 2001, was \$7.3 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 \$144.6 million for the cumulative effect of change in accounting for goodwill, \$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.

Net cash used for investing activities was \$3.5 million for the three months ended September 29, 2002. In the first three months of fiscal 2003, the primary use of cash was capital expenditures of \$1.7 million at our aerospace businesses and \$1.5 million for our real estate investment. Net cash provided by investing activities was \$3.2 million for the three months ended September 30, 2001. 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.

Net cash used by financing activities was \$9.3 million and \$11.5 million for the three months ended September 29, 2002 and September 30, 2001, respectively. Cash provided by operations was used to reduce debt in the both periods.

At September 29, 2002, \$7.6 million of promissory notes were due to us from an unaffiliated third party and are recorded in notes receivable. The promissory notes earn \$1.5 million of annual cash interest and are being accreted to a face value of \$14.3 million through interest income. The promissory notes are secured by \$14.3 million face value of our outstanding 10.75% senior subordinated notes due 2009 acquired by the third party. The third party has tendered the notes to us and we intend to acquire them in conjunction with the anticipated sale of our aerospace fasteners business. This will satisfy the obligation of the third party to us under its promissory notes due to us.

Our principal cash requirements include debt service, capital expenditures, and the 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 proceeds received from dispositions of assets will be adequate to satisfy our cash requirements during the next twelve months.

We are required under the credit agreement with our senior lenders, 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. One restrictive covenant is the interest coverage ratio, which represents the ratio of EBITDA to interest expense, as defined in the credit agreement. At September 29, 2002, the interest coverage ratio was 2.33, which exceeded the minimum requirement of 2.0. Our interest rates vary in part based upon the consolidated indebtedness to EBITDA covenant, which represents the ratio of total debt to EBITDA, as defined in the credit agreement. On September 29, 2002, our indebtedness to EBITDA ratio was 5.55, which was below the maximum permitted ratio of 5.7. Additionally, the credit agreement restricts annual capital expenditures to \$40 million during the life of the facility. For the three months ended September 29, 2002, capital expenditures were \$1.7 million. Except for assets of our subsidiaries that are not guarantors of the credit agreement, 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

Edgar Filing: FAIRCHILD CORP - Form 10-Q

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 29, 2002, we were in compliance with the covenants under the credit agreement.

Recent Developments

On July 17, 2002 we announced that we signed a definitive agreement to sell our aerospace fasteners business to Alcoa Inc., for approximately \$657 million in cash. The actual cash to be received from Alcoa is dependent upon a post-closing adjustment based on the difference in net working capital between March 31, 2002 and the closing date. We may also receive from Alcoa additional cash proceeds up to \$12.5 million per year, in an earnout formula based on the number of Boeing and Airbus commercial aircraft deliveries during each of the calendar years 2003-2006, inclusive. The sale, which is expected to close before November 30, 2002, is subject to customary conditions, including the approval of our shareholders. We will use a portion of the proceeds from the sale to repay our bank debt and to acquire all of our outstanding \$225 million, 10.75% senior subordinated notes, due in April, 2009, which are tendered to us. This tender offer will close concurrently with the closing of the sale to Alcoa. The remaining proceeds from the sale will provide funds for new acquisitions.

The Pension Benefit Guaranty Corporation has contacted us to understand the impact of the sale of our aerospace fasteners business on our ability to fund our long-term pension obligations. The PBGC has expressed concern that our retirement plan will be underfunded by \$86 million after the sale of our aerospace fasteners business. We have provided the PBGC with information which represented the underfunding to be \$42 million, using the PBGC plan termination assumptions. We currently anticipate that we will be required to make \$17 million of plan contributions over the next five years, in the aggregate. We have ongoing discussions with the PBGC and believe we will be able to resolve this matter without any significant impact on our financial condition, although we cannot make any assurances to you of that.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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 our fiscal year beginning on July 1, 2002. Accordingly, we will account for the sale of the fastener business as a discontinued operation as of the date of the sale.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002". SFAS No. 145 eliminates the requirement to report material gains or losses from debt extinguishments as an extraordinary item, net of tax, in an entity's statement of earnings. SFAS No. 145 instead requires that a gain or loss recognized from a debt extinguishment be classified as an extraordinary item only when the extinguishment meets the criteria of both "unusual in nature" and "infrequent in occurrence" as prescribed under Accounting Principles Bulletin No. 30, "Reporting the Result of Operations - Reporting the Effects of Disposal of a Segment of Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This statement is effective for our fiscal year

Edgar Filing: FAIRCHILD CORP - Form 10-Q

beginning on July 1, 2002.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This standard requires costs associated with exit or disposal activities to be recognized when they are incurred and applies prospectively to such activities initiated after December 31, 2002.

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 \$6.8 million and \$5.2 million, in the three months ended September 29, 2002 and September 30, 2001, 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. We are accounting 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

Edgar Filing: FAIRCHILD CORP - Form 10-Q

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	1.69%	
Fair Market Value at September 29, 2002	\$0	

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934. These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of a date within 90 days before the filing of this quarterly report, which we refer to as the Evaluation Date. They have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that the required information was disclosed on a timely basis in our reports filed under the Exchange Act.

Changes in Internal Controls

We maintain a system of internal accounting controls that are designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. For the quarter ended September 29, 2002, there were no significant changes to our internal controls or in other factors that could significantly affect our internal controls.

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. The Pension Benefit Guaranty Corporation has contacted us to understand the impact of the sale of our aerospace fasteners business on our ability to fund our long-term pension obligations. Please see discussion

Edgar Filing: FAIRCHILD CORP - Form 10-Q

above under "Recent Developments." We are not aware of any legal proceedings commenced by the PBGC at this point.

Item 5. Other Information

Beginning in the mid-1990's, articles have appeared in the French press reporting an inquiry by a French magistrate into allegedly improper business transactions involving Elf Aquitaine, 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, approximately \$1.5 million at the time. The magistrate's principal allegations are that, in 1990, Mr. Steiner improperly received or dealt with others with respect to funds of Elf Aquitaine paid pursuant to a written consulting agreement with Elf Aquitaine, and paid in connection with the sale of a real estate company. The examining magistrate has notified Mr. Steiner that he intends to transmit the dossier to the Republic prosecutor (procureur de la Republique) for his evaluation. However, Mr. Steiner has not been charged; and as of the date of this filing, the Company is not aware of any developments involving Mr. Steiner and these matters, which are adverse to him. We have provided the surety for Mr. Steiner and paid his legal expenses (\$4.7 million) in connection with these matters, and will continue to do so, in accordance with Delaware law. Mr. Steiner has undertaken to repay us the surety and expenses paid by us on his behalf if it is ultimately determined that Mr. Steiner was not entitled to indemnification under Delaware law. Delaware law provides that Mr. Steiner would be entitled to indemnification if it is determined that he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and had no reasonable cause to believe his conduct was unlawful.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

*12. Certifications required by Section 906 of the Sarbanes-Oxley Act.

* Filed herewith.

(b) Reports on Form 8-K:

On July 18, 2002, we filed a Form 8-K to report the Acquisition Agreement, dated as of July 16, 2002, between Fairchild and Alcoa Inc., pursuant to which Alcoa will acquire Fairchild's fasteners business for approximately \$657 million in cash and the assumption of certain liabilities.

SIGNATURES

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

Edgar Filing: FAIRCHILD CORP - Form 10-Q

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

By: /s/ JOHN L. FLYNN

John L. Flynn

Chief Financial Officer and
Senior Vice President, Tax

Date: November 12, 2002

CERTIFICATION ACCOMPANYING PERIODIC REPORT
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Jeffrey J. Steiner, Chief Executive Officer of The Fairchild Corporation ("Company"), hereby certifies that:

1. I have reviewed this quarterly report on Form 10-Q of the Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

Edgar Filing: FAIRCHILD CORP - Form 10-Q

- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and
6. The Company's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ JEFFREY J. STEINER

Jeffrey J. Steiner
Chairman of the Board and
Chief Executive Officer

CERTIFICATION ACCOMPANYING PERIODIC REPORT PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, John L. Flynn, Chief Financial Officer of The Fairchild Corporation ("Company"), hereby certifies that:

1. I have reviewed this quarterly report on Form 10-Q of the Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and we have:

Edgar Filing: FAIRCHILD CORP - Form 10-Q

- a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and
6. The Company's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ JOHN L. FLYNN

John L. Flynn
Chief Financial Officer and
Senior Vice President, Tax