

FAIRCHILD CORP
Form 10-K
September 26, 2002
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act
of 1934

For the Year Ended June 30, 2002 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 (I.R.S. Employer Identification No.)
Incorporation or organization)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of exchange on which registered Class A Common
Stock, par value \$.10 per share New York and Pacific Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act: None

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 [X].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K [X].

On August 30, 2002, the aggregate market value of the common shares held by
nonaffiliates of the Registrant (based upon the closing price of these shares on
the New York Stock exchange) was approximately \$81.1 million (excluding shares
deemed beneficially owned by affiliates of the Registrant under Commission
Rules).

On August 30, 2002, the number of shares outstanding of each of the Registrant's
classes of common stock were as follows:

Class A Common Stock, \$0.10 Par Value	22,540,021
Class B Common Stock, \$0.10 Par Value	2,621,502

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DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement for the 2002 Annual Meeting of Stockholders' to be held on November 12, 2002, which the Registrant intends to file within 120 days after June 30, 2002, are incorporated by reference into Parts III and IV.

THE FAIRCHILD CORPORATION INDEX TO ANNUAL REPORT ON FORM 10-K FOR FISCAL YEAR ENDED JUNE 30, 2002

	Page
PART I	
Item 1. Business	3
Item 2. Properties	11
Item 3. Legal Proceedings	11
Item 4. Submission of Matters to a Vote of Stockholders	11
PART II	
Item 5. Market for Common Stock and Related Stockholder Matters	12
Item 6. Selected Financial Data	14
Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition	15
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	26
Item 8. Financial Statements and Supplementary Data	27
Item 9. Disagreements on Accounting and Financial Disclosure	71
PART III	
Item 5. Other Information	71
Item 10. Directors and Executive Officers of the Company	71
Item 11. Executive Compensation	71
Item 12. Security Ownership of Certain Beneficial Owners and Management	71
Item 13. Certain Relationships and Related Transactions	71
PART IV	

FORWARD-LOOKING STATEMENTS

Except for any historical information contained herein, the matters discussed in this Annual Report on Form 10-K 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 Annual Report on Form 10-K. 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; 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 Annual Report on Form 10-K, 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.

PART I

All references in this Annual Report on Form 10-K 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.

Item 1. BUSINESS

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

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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.

Our business strategy is as follows:

Maintain Quality Leadership. The aerospace market demands precision manufacturing, and OEMs must certify that all parts meet stringent Federal Aviation Administration's regulations and equivalent foreign regulations. All of our plants are ISO-9000 approved. We have won numerous industry and customer quality awards and are a preferred supplier for many major aerospace customers. In order to be named a preferred supplier, a company must qualify its products through a specified customer quality assurance program and strictly adhere to it. Approvals and awards we have obtained include: Boeing D1 9000 Rev A; Boeing (St. Louis) Silver Supplier; Boeing Source Approved; DaimlerChrysler Aerospace Source Approved; General Electric Source Approved; Pratt & Whitney Source Approved; Lockheed-Martin Star Supplier; and DISC Large Business Supplier of the Year.

Lower Manufacturing Costs. In recent years, we have invested significantly in state-of-the-art machinery, employee training and manufacturing techniques, to produce products at the lowest cost while maintaining high quality. This investment in process superiority has resulted in increased capacity, lower break-even levels and faster cycle times, while reducing defect levels and improving responsiveness to customer needs. For example, the customer rejection rate at our aerospace fasteners segment has remained at average levels below 2% over the past several years, which is a significant improvement from historical averages in the mid-1990s of over 15%. We view these continuous improvements as one of the keys to our business success that will allow us to better manage industry cycles.

Supply Chain Services. Our aerospace industry customers are increasingly requiring additional supply chain management services as they seek to manage inventory and lower their manufacturing costs. In response, we are developing a number of logistics and supply chain management services that we expect will contribute to our growth.

Capitalize on Global Presence. The aerospace industry is global and customers increasingly seek suppliers with the ability to provide reliable and timely service worldwide. Our acquisition of Kaynar Technologies in April 1999, resulted in our increased manufacturing capabilities in the United States, Europe, and Australia, and increased our sales presence worldwide. Our plants are equipped with cutting-edge manufacturing technology, which allows us to produce customer orders on a worldwide basis using, at each of our facilities, the same specification and quality assurance systems.

Growth through Acquisitions. Despite a trend toward consolidation, the aerospace fasteners industry remains fragmented. Consolidation has been driven, in part, by the combination of the OEMs as they seek to reduce their procurement

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costs. We have successfully integrated a number of acquisitions, achieving significant synergies in the process.

Our strategy is based on the following strengths:

Expanded Product Range. As a result of the acquisition of Kaynar Technologies, we greatly expanded the range of products we offer. This expansion permits us to provide our customers with more complete fastening solutions, by offering engineering and supply chain services across the breadth of our customers' needs. For example, our internally threaded fasteners, such as engine nuts, which were formerly manufactured by Kaynar Technologies, are now being sold in combination with our externally threaded fasteners, such as bolts and pins, to provide a single fastening system. This limits the inventory needs of the customer, minimizes handling costs and reduces waste.

Long-Term Customer Relationships. We work closely with our customers to provide high quality engineering solutions accompanied by our superior service levels. As a result, our customer relationships are generally long-term. We continue to benefit from the trend of efforts of OEMs to reduce the number of their suppliers in an effort to lower costs and ensure quality and availability. We have become or been retained as a key supplier to the OEMs and increased our overall share of OEM business. OEMs are increasingly demanding in terms of overall service level, including just-in-time delivery of components to the production line. We believe that our focus on quality and customer service will remain the cornerstone of our relationships with our customers.

Diverse End Markets. Although a significant proportion of our sales are to OEMs in the commercial aerospace industry, we have significant sales to the defense/aerospace aftermarket and industrial markets. In addition, our distribution business is well diversified with a very low OEM component. We believe this diversification will help mitigate the effects of the OEM cycle on our results.

Experienced Management Teams. We have management teams with many years of experience in the aerospace fasteners industry and a history of improving quality, lowering costs and raising the level of customer service, leading to higher overall profitability. In addition, our management teams have achieved growth by successfully integrating a number of acquisitions.

Recent Developments

On July 16, 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 additional cash proceeds up to \$50 million, in an earnout formula based on the number of Boeing and Airbus commercial aircraft deliveries during calendar 2003-2006. The sale, which is expected to close before November 30, 2002, is subject to customary conditions, including regulatory approvals and the approval of our shareholders. We will use a portion of the proceeds from the sale to repay our bank debt and commence a tender offer at par to acquire all of our outstanding \$225 million, 10.75% senior subordinated notes, due in April, 2009. 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.

Financial Information about Business Segments

Our business segment information is incorporated herein by reference from Note 20 of our Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data".

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Narrative Description of Business Segments

Aerospace Fasteners Segment

Through our aerospace fasteners segment, we are a leading worldwide manufacturer and distributor of precision fastening systems, components and latching devices used primarily in the construction and maintenance of commercial and military aircraft, as well as applications in other industries, including the automotive, electronic and other non-aerospace industries. Our product range provides our customers with complete fastening solutions by offering engineering and supply chain services across the breadth of our customers' needs. As such, we have created a unique capability that we believe enhances dramatically our status as the industry's premier fastening solutions provider. We also have a substantial position in the distribution/supply chain services segment of the aerospace fasteners industry. The aerospace fasteners segment accounted for 90% of our net sales in fiscal 2002.

Products (1) (see note below)

In general, the aerospace fasteners we produce are highly engineered, close tolerance, high strength fastening devices designed for use in harsh, demanding environments. Products range from standard aerospace screws and precision self-locking internally threaded nuts, to more complex systems that fasten airframe structures, and sophisticated latching or quick disconnect mechanisms that allow efficient access to internal parts which require regular servicing or monitoring. Our aerospace fasteners segment produces and sells products under various trade names and trademarks. The trademarks discussed below either belong to us or to third parties that have licensed us to use such trademarks. These trade names and trademarks include: Voi-Shan(R) (fasteners for aerospace structures), Screwcorp(TM) (standard externally threaded products for aerospace applications), K-FAST(TM) nuts (high-strength vibration resistant self-locking nuts that offer fast, reliable, and repetitive installations with K-FAST(TM) tooling), Keensert(TM) (inserts that include keys to lock the insert in place and prevent rotation), RAM(R) (custom designed mechanisms for aerospace applications), Perma-Thread(R) and Slimsert(TM) (inserts that create a thread inside a hole and provide a high degree of thread protection and fastening integrity), Camloc(R) (components for the industrial, electronic, automotive and aerospace markets), and Tridair(R) and Rosan(R) (fastening systems for highly-engineered aerospace, military and industrial applications). Our aerospace fasteners segment also manufactures and supplies fastening systems used in non-aerospace industrial, electronic and marine applications.

Principal product lines of the aerospace fasteners segment include:

Standard Aerospace Airframe Fasteners - These fasteners consist of standard externally threaded fasteners used in non-critical airframe applications on a wide variety of aircraft. These fasteners include Hi-Torque Speed Drive(R), Tri-Wing(R), Torq-Set(R) and Phillips(R). We offer a line of lightweight, non-metallic composite fasteners, used primarily for military aircraft as they are designed to reduce radar visibility, enhance resistance to lightning strikes and provide galvanic corrosion protection. We also offer a variety of coatings and finishes for our fasteners, including anodizing, cadmium plating, silver plating, aluminum plating, solid film lubricants and water-based cetyl and solvent free lubricants.

Commercial Aerospace Self-Locking Nuts - These precision, self-locking internally threaded nuts are used in the manufacture of commercial aircraft and

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aerospace/defense products and are designed principally for use in harsh, demanding environments. They include wrenchable nuts, K-Fast(TM) nuts, anchor nuts, gang channels, shank nuts, barrel nuts, clinch nuts and stake nuts.

Commercial Aerospace Structural and Engine Fasteners - These fasteners consist of more highly engineered, permanent or semi-permanent fasteners used in both airframe and engine applications, which could involve joining more than two materials. These fasteners are generally engineered to specific customer requirements or manufactured to specific customer specifications for special applications. We produce fasteners from a variety of materials, including lightweight nuts and pins made out of aluminum and titanium, to high-strength, high-temperature tolerant nuts and bolts manufactured from materials such as A-286, Waspaloy(R), Inconel(R), and Hastelloy(R). These fasteners are designed for aircraft engine and airframe applications. These fasteners include Hi-Lok(R), Veri-Lite(R), and Eddie-Bolt2(R).

Proprietary Products and Fastening Systems - These very highly engineered, proprietary fasteners are designed by us for specific customer applications and include high performance structural latches and hold down mechanisms. These fasteners are used primarily in either commercial aerospace or military applications. They include Livelok(R), Trimil(R), Keenserts(R), Mark IV(TM), Flatbeam(TM) and Ringlock(TM).

Threaded Inserts - These threaded inserts are used principally in the commercial aerospace and defense industries and are made of high-grade steel and other high-tensile metals which are intended to be installed into softer metals, plastics and composite materials to create bolt-ready holes.

Highly Engineered Fastening Systems for Industrial Applications - These highly engineered fasteners are designed by us for specific niche applications in the electronic, automotive and durable goods markets and are sold under the Camloc(R) trade name.

Precision Machined Structural Components and Assemblies - These precision machined structural components and assemblies are used for aircraft, including pylons, flap hinges, struts, wing fittings, landing gear parts, spares and many other items.

Fastener Tools - These tools are designed primarily to install the fasteners that we manufacture, but can also be used to attach other wrenchable nuts, bolts and inserts.

(1) - Note on the use of registered trademarks. The trademarks discussed herein either belong to the Company or to third parties that have licensed the Company to use such trademarks. Tri-Wing(R), Torq-set(R) and Phillips(R) are registered trademarks of Phillips Screw Company. Waspaloy(R) is a trademark of Carpenter Technologies Corporation. Hastelloy(R) is a registered trademark of Haynes International, Inc. Hi-Lok(R) is registered trademark of Hi-Shear Corporation.

Sales and Markets

The products of our aerospace fasteners segment are sold primarily to domestic and foreign OEMs of airframes and engines, as well as to subcontractors of OEMs, and to the maintenance repair and overhaul market through distributors. Approximately 62% of our aerospace fasteners segment sales are to customers located in the United States. Major customers include OEMs such as Boeing,

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European Aeronautic Defense and Space Company, and General Electric and their subcontractors, as well as distributors such as Honeywell. Many OEMs have implemented programs to reduce inventories and pursue just-in-time relationships. In response, we expanded our efforts to provide supply chain services through our global customer service units. Sales of \$75.6 million to Boeing accounted for approximately 12% of our consolidated sales in fiscal 2002. Also, a large portion of our revenues come from customers providing parts to Boeing, including defense sales, and the European Aeronautic Defense and Space Company, and their subcontractors. Accordingly, we are dependent on the business of those manufacturers.

Revenues in our aerospace fasteners segment are closely related to aircraft production, which, in turn, is related in part to air miles flown. As OEMs searched for cost cutting opportunities during the aerospace industry recession of 1993-1995, parts manufacturers, including us, accepted lower-priced orders and/or smaller quantity orders to maintain market share, at lower profit margins. However, during recent years, we have been able to provide our major customers with favorable pricing, while maintaining or increasing gross margins by negotiating for larger minimum lot sizes that are more economical to manufacture.

Fasteners also have applications in the automotive/industrial markets, where numerous special fasteners are required, such as engine bolts, wheel bolts and turbo charger tension bolts. We are actively targeting all markets where precision fasteners are used.

Manufacturing and Production

Our aerospace fasteners segment has manufacturing facilities located throughout the world. Each facility has complete production capability. Each plant is designed to produce a specified product or group of products, determined by the production process involved and certification requirements. Our aerospace fasteners segment's largest customers have recognized our quality and operational controls by conferring their advanced quality systems certifications at substantially all of our facilities (e.g. Boeing's D1-9000A). We have received all necessary quality and product approvals from OEMs.

We have information systems at all of our facilities. The systems perform detailed and timely cost analysis of production by product and facility. Updated IT systems also help us to better service our customers. OEMs require each product to be produced in an OEM-qualified/OEM-approved facility.

Competition

Despite intense competition in the industry, we remain the largest manufacturer of aerospace fasteners. Based on calendar 2001 information, the worldwide aerospace fastener market is estimated to be \$1.6 billion. We compete with SPS Technologies, LISI, the Huck International division of Alcoa, and multiple other vendors.

Quality, performance, service and price are generally the prime competitive factors in the aerospace fasteners segment. Our product array is diverse and offers customers a large selection to address various production needs. We seek to maintain our technological edge and competitive advantage over our competitors, and have demonstrated superior production methods, new product development and supply chain services to meet our customer demands. We seek to work closely with OEMs and involve ourselves early in the design process so that our fasteners may readily be incorporated into the design of their products.

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Aerospace Distribution Segment

Through our subsidiary Banner Aerospace, Inc., we offer a wide variety of aircraft parts and component repair and overhaul services. The aircraft parts, which we distribute are either purchased on the open market or acquired from OEMs as an authorized distributor. No single distributor arrangement is material to our financial condition. The aerospace distribution segment accounted for 10% of our total sales in fiscal 2002.

Products

Products of the aerospace distribution segment include rotatable parts such as flight data recorders, radar and navigation systems, instruments, hydraulic and electrical components, space components and certain defense related items.

Rotatable parts are sometimes purchased as new parts, but are generally purchased in the aftermarket and are then overhauled by us or for us by outside contractors, including OEMs or FAA-licensed facilities. Rotables are sold in a variety of conditions such as new, overhauled, serviceable and "as is". Rotables may also be exchanged instead of sold. An exchange occurs when an item in inventory is exchanged for a customer's part and the customer is charged an exchange fee.

An extensive inventory of products and a quick response time are essential in providing support to our customers. Another key factor in selling to our customers is our ability to maintain a system that traces a part back to the manufacturer or repair facility. We also offer immediate shipment of parts in aircraft-on-ground situations.

Through our FAA-licensed repair station we provide a number of services such as component repair and overhaul services. Component repair and overhaul capabilities include pressurization, instrumentation, avionics, aircraft accessories and airframe components.

Sales and Markets

Our aerospace distribution segment sells its products in the United States and abroad to commercial airlines and air cargo carriers, fixed-base operators, corporate aircraft operators, distributors and other aerospace companies. Approximately 75% of our sales are to domestic purchasers, some of which may represent offshore users.

Our aerospace distribution segment conducts marketing efforts through its direct sales force, outside representatives and, for some product lines, overseas sales offices. Sales in the aviation aftermarket depend on price, service, quality and reputation. Our aerospace distribution segment's business does not experience significant seasonal fluctuations nor depend on a single customer.

Competition

Our aerospace distribution segment competes with Air Ground Equipment Services, Duncan Aviation, Stevens Aviation; OEMs such as Honeywell, Rockwell Collins, Raytheon, and Litton; other repair and overhaul organizations; and many smaller companies.

Real Estate Operations Segment

Our real estate operations segment owns and operates a 456,000 square foot shopping center located in Farmingdale, New York. Tenants of our shopping center

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include: Home Depot; Staples; Modell's; Jillian's; Borders Books; Radio Shack; Hallmark; and others. Rental revenue from our real estate operations segment represents approximately 1% of our consolidated revenues. Our real estate operations segment represent approximately 11% of our total assets. As of June 30, 2002, we have leased approximately 92% of the developed shopping center.

Foreign Operations

Our operations are located throughout the world. Inter-area sales are not significant to the total revenue of any geographic area. Export sales are made by U.S. businesses to customers in non-U.S. countries, whereas foreign sales are made by our non-U.S. subsidiaries. For our sales results by geographic area and export sales, see Note 21 of our Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data".

Backlog of Orders

Backlog is important for all our operations, due to the long-term production requirements of our customers. Our backlog of orders as of June 30, 2002 in the aerospace fasteners segment amounted to approximately \$178 million. We anticipate that in excess of 85% of the aggregate backlog at June 30, 2002 will be delivered by June 30, 2003. Often we are awarded long-term agreements by our customers to provide significant quantities of aircraft fastening components over periods ranging generally from three-to-four years. However, amounts related to such agreements are not included in our backlog until our customers specify delivery dates for the fasteners ordered.

Suppliers

We are not materially dependent upon any one supplier, but we are dependent upon a wide range of subcontractors, vendors and suppliers of materials to meet our commitments to our customers. From time to time, we enter into exclusive supply contracts in return for logistics and price advantages. We do not believe that any one of these contracts would impair our operations if a supplier failed to perform.

Nevertheless, commercial deposits of certain metals, such as titanium and nickel, which are required for the manufacture of several of our products, are found only in certain parts of the world. The availability and prices of these metals may be influenced by private or governmental cartels, changes in world politics, unstable governments in exporting nations, or inflation. Similarly, supplies of steel and other less exotic metals used by us may also be subject to variation in availability. We purchase raw materials, which include metals, composites, and finishes used in production, from over twenty different suppliers. We have entered into several long-term contracts to supply titanium and alloy metals.

Research and Patents

We own patents relating to the design and manufacture of certain of our products and have licenses of technology covered by the patents of other companies. We do not believe that any of our business segments are dependent upon any single patent.

Personnel

As of June 30, 2002, we had approximately 4,600 employees. Of these,

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approximately 2,850 are based in the United States and 1,750 are based in Europe and elsewhere. Approximately 20% of our employees were covered by collective bargaining agreements. Although, in the past, we have had isolated work stoppages in France, these stoppages have not had a material impact on our business. Overall, we believe that relations with our employees are good.

Environmental Matters

A discussion of our environmental matters is included in Note 19, "Contingencies", to our Consolidated Financial Statements, included in Part II, Item 8, "Financial Statements and Supplementary Data" and is incorporated herein by reference.

ITEM 2. PROPERTIES

As of June 30, 2002, we owned or leased buildings totaling approximately 2,415,000 square feet, of which approximately 1,085,000 square feet were owned and 875,000 square feet were leased. Our aerospace fasteners segment's properties consisted of approximately 1,845,000 square feet, with principal operating facilities of approximately 1,745,000 square feet concentrated in Southern California, Massachusetts, France, Germany and Australia. The aerospace distribution segment's properties consisted of approximately 80,000 square feet, with principal operating facilities of approximately 30,000 square feet located in Georgia. Our real estate operations segment owns a shopping center consisting of approximately 456,000 square feet. We lease our corporate headquarters building at Washington-Dulles International Airport.

The following table sets forth the location of the larger properties used in our continuing operations, their square footage, the business segment or groups they serve and their primary use. Each of the properties owned or leased by us is, in our opinion, generally well maintained. All of our occupied properties are maintained and updated on a regular basis.

Location	Owned or Leased	Square Footage	Business Segment/Group	Pr
Farmingdale, New York	Owned	456,000	Real Estate Operations	Ren
Saint Cosme, France	Owned	304,000	Aerospace Fasteners	Man
Torrance, California	Owned	284,000	Aerospace Fasteners	Man
Fullerton, California	Leased	276,000	Aerospace Fasteners	Man
City of Industry, California	Owned	140,000	Aerospace Fasteners	Man
Stoughton, Massachusetts	Leased	110,000	Aerospace Fasteners	Man
Simi Valley, California	Leased	88,000	Aerospace Fasteners	Dis
Montbrison, France	Owned	63,000	Aerospace Fasteners	Man
Huntington Beach, California	Owned	58,000	Aerospace Fasteners	Man
Hildesheim, Germany	Owned	57,000	Aerospace Fasteners	Man
Kelkheim, Germany	Owned	55,000	Aerospace Fasteners	Man
Toulouse, France	Owned	52,000	Aerospace Fasteners	Man
Dulles, Virginia	Leased	34,000	Corporate	Off
Atlanta, Georgia	Leased	29,000	Aerospace Distribution	Dis
Oakleigh, Australia	Leased	24,000	Aerospace Fasteners	Man

We have several parcels of property located primarily throughout the United States, which we are attempting to market, lease and/or develop.

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Information concerning our long-term rental obligations at June 30, 2002, is set forth in Note 18 to our Consolidated Financial Statements, included in Item 8, "Financial Statements and Supplementary Data", and is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

A discussion of our legal proceedings is included in Note 19, "Contingencies", to our Consolidated Financial Statements, included in Part II, Item 8, "Financial Statements and Supplementary Data", of this annual report and is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Market Information

Our Class A common stock is traded on the New York Stock Exchange and Pacific Stock Exchange under the symbol FA. Our Class B common stock is not listed on any exchange and is not publicly traded. Class B common stock can be converted to Class A common stock at any time at the option of the holder.

Information regarding the quarterly price range of our Class A common stock is incorporated herein by reference from Note 23 of our Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data".

We are authorized to issue 5,141,000 shares of our Class A common stock under our 1986 non-qualified stock option plan, and 250,000 shares of our Class A common stock under our 1996 non-employee directors stock option plan. At the beginning of the fiscal year, we had 368,131 shares available to grant under the 1986 non-qualified stock option plan and 127,000 shares available to grant under the 1996 non-employee directors stock option plan. At the end of the fiscal year, we had 181,859 shares available to grant under the 1986 non-qualified stock option plan and 188,000 shares available to grant under the 1996 non-employee directors stock option plan. Information regarding our stock option plans is incorporated herein by referenced from Note 13 of our Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data".

Holder of Record

We had approximately 1,143 and 37 record holders of our Class A and Class B common stock, respectively, at August 30, 2002.

Dividends

Our current policy is to retain earnings to support the growth of our present operations and to reduce our outstanding debt. Any future payment of dividends will be determined by our Board of Directors and will depend on our financial condition and results of operations, and in any event are restricted by covenants in our credit agreement and 10 3/4% senior subordinated notes that

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limit the payment of dividends over their respective terms. See Note 8 of our Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data".

We have decided to sell our Fairchild Fasteners business for approximately \$657 million in cash to Alcoa Inc. In the event the transaction is consummated, the agreement between us and Alcoa provides that, for a period of five years after the closing, we will maintain our corporate existence, take no action to cause our own liquidation or dissolution and take no action to declare or pay any dividends on our common stock; provided, however, that we may engage in a merger or sale of substantially all of our assets to a third party that assumes our obligations under the acquisition agreement and that such provision of the agreement shall not prevent us from exercising our fiduciary duties to our stockholders.

Sale of Unregistered Securities

There were no sales or issuance of unregistered securities in the last fiscal quarter for the 2002 fiscal year. Sales or issuance of unregistered securities in previous fiscal quarters were reported on Form 10-Q for each such quarter.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of June 30, 2002, with respect to compensation plans under which our equity securities are authorized for issuance.

	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options
Equity compensation plans approved by shareholders	1,504,770	
Equity compensation plans not approved by shareholders (a)	612,652	
Total	2,117,422	

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ITEM 6. SELECTED FINANCIAL DATA

Five-Year Financial Summary

(In thousands, except per share data)

	For the years		
	2002	2001	2000
Summary of Operations:			
Net sales	\$ 624,093	\$ 622,812	\$ 622,812
Rental revenue	6,679	7,030	7,030
Gross profit	153,591	158,882	158,882
Operating income (loss)	26,835	21,303	21,303
Net interest expense	46,756	55,716	55,716
Earnings (loss) from continuing operations	(10,240)	(15,000)	(15,000)
Earnings (loss) per share from continuing operations:			
Basic	\$ (0.41)	\$ (0.60)	\$ (0.60)
Diluted	(0.41)	(0.60)	(0.60)
Other Data:			
Capital expenditures	11,922	16,384	16,384
Cash provided by (used for) operating activities	18,840	(39,537)	(39,537)
Cash provided by (used for) investing activities	(9,796)	4,093	4,093
Cash provided by (used for) financing activities	(9,654)	15,437	15,437
Balance Sheet Data:			
Total assets	970,646	1,161,616	1,161,616
Long-term debt, less current maturities	437,917	470,530	470,530
Stockholders' equity	228,016	361,853	361,853
per outstanding common share	\$ 9.06	\$ 14.39	\$ 14.39

Effective July 1, 2001, we adopted Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets." The comparable earnings (loss) from continuing operations, as adjusted for the effects to eliminate goodwill amortization in each of the four years prior to 2002 would be: \$(2,494), or \$(0.10) per share, in 2001; \$34,338, or \$1.37 per share, in 2000; \$(16,990), or \$(0.75) per share in 1999; and \$57,868, or \$2.94 per share, in 1998.

Fiscal 2000 includes a \$28.6 million pre-tax gain from the disposition of our equity investment in Nacanco Paketleme, our Camloc Gas Springs Division and a smaller equity investment. Fiscal 1999 includes a \$41.4 million pre-tax loss on the dispositions of Solair and Dallas Aerospace. Fiscal 1998 includes a \$124.0 million pre-tax gain from the disposition of Banner Aerospace's hardware group. The results of Solair are included until its disposition in December 1998. The results of Dallas Aerospace are included until its disposition in November 1999. These transactions materially affect the comparability of the information reflected in the selected financial data.

ITEM 7. 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. We own 100% of RHI Holdings, Inc. and Banner Aerospace, Inc. RHI is the owner of 100% of Fairchild Holding Corp.

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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 passenger miles flown as a result of the September 11, 2001 terrorist attacks on the United States; 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.

CRITICAL ACCOUNTING POLICIES

On December 12, 2001, the Securities and Exchange Commission issued Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies." Critical accounting policies are those that involve subjective or complex judgments, often as a result of the need to make estimates. In response to Release No. 33-8040, we reviewed our accounting policies. The following areas require the use of judgments and estimates: the valuation of long-lived assets, pension and postretirement benefits, deferred income taxes, environmental and litigation accruals and revenue recognition. Estimates in each of these areas are based on historical experience and a variety of assumptions that we believe are appropriate. Actual results may differ from these estimates.

Valuation of Long-Lived Assets: We review our long-lived assets for impairment, including property, plant and equipment, and identifiable intangibles with definite lives, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of our long-lived assets, we evaluate the probability that future undiscounted net cash flows will be greater than the carrying amount of our assets. Impairment is measured based on the difference between the carrying amount of our assets and their estimated fair value.

Pension and Postretirement Benefits: We have defined benefit pension plans covering most of our employees. Employees in our foreign subsidiaries may participate in local pension plans, for which our liability is in the aggregate insignificant. Our funding policy is to make the minimum annual contribution required by the Employee Retirement Income Security Act of 1974 or local statutory law. The accumulated benefit obligation for pensions and postretirement benefits was determined using a discount rate of 7.125% at June 30, 2002 and 7.25% at June 30, 2001. The effect of such change resulted in an increase to the accumulated benefit obligation in 2002. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. For measurement purposes, we assumed a 10.0% annual rate of increase in the per capita claims cost of covered health care benefits for 2002. The rate was assumed to decrease to 5.0% in 2003 and remain at that level thereafter.

Deferred Income Taxes: Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

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.

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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.

Legal 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 will not have a material adverse effect on our financial condition, future results of operations, or net cash flows.

Revenue Recognition: Sales and related costs are recognized upon shipment of products and/or performance of services, when collection is probable. Sales and related cost of sales on long-term contracts are recognized as products are delivered and services performed, as determined by the percentage of completion method. Lease and rental revenue are recognized on a straight-line basis over the life of the lease. Shipping and handling amounts billed to customers are classified as revenues.

RESULTS OF OPERATIONS

Business Transactions

The following summarizes certain business combinations and transactions we completed which significantly affect the comparability of the period to period results presented in this Management's Discussion and Analysis of Results of Operations and Financial Condition.

Fiscal 2000 Transactions

On July 29, 1999, we sold our 31.9% interest in Nacanco Paketleme to American National Can Group, Inc. for approximately \$48.2 million. Our investment in Nacanco began in November 1987, and throughout the years we invested approximately \$6.2 million in Nacanco. Since the inception of our investment, we recorded equity earnings of \$25.7 million and received cash dividends of \$12.5 million from Nacanco. We recognized a \$25.7 million nonrecurring gain from this divestiture in the nine months ended April 2, 2000. We also agreed to provide consulting services over a three-year period, at an annual fee of approximately \$1.5 million. We used the net proceeds from the disposition to reduce our indebtedness. As a result of this disposition, our interest expense was reduced. However, our equity earnings and dividend proceeds also significantly decreased. In accordance with our plan to dispose of non-core assets, the opportunity to dispose of our interest in Nacanco Paketleme presented us with an excellent opportunity to realize a substantial return on our investment and allowed us to reduce our then outstanding indebtedness by approximately 8.6%.

On September 3, 1999, we completed the disposal of our Camloc Gas Springs division to a subsidiary of Arvin Industries Inc. for approximately \$2.7

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million. In addition, we received \$2.4 million from Arvin Industries for a covenant not to compete. We recognized a \$2.0 million nonrecurring pre-tax gain from this disposition. We decided to dispose of the Camloc Gas Springs division in order to concentrate our focus on our operations in the aerospace industry.

On December 1, 1999, we disposed of substantially all of the assets and certain liabilities of our Dallas Aerospace subsidiary to United Technologies Inc. for approximately \$57.0 million. No gain or loss was recognized from this transaction, as the proceeds received approximated the net carrying value of these assets. Approximately \$37.0 million of the proceeds from this disposition were used to reduce our bank term indebtedness and our interest expense. As a result of this transaction, we reported a reduction in revenues of \$21.7 million and operating income of \$2.1 million for the nine months ended April 1, 2001, as compared to the nine months ended April 2, 2000. We estimated that the market base for the older-type of engines that we were selling was shrinking, and that we would be required to invest a substantial amount of cash to purchase newer-type of engines to maintain market share. The opportunity to exit this business presented us with an opportunity to improve cash flows by reducing our indebtedness by \$37.0 million, and by preserving our cash, which would otherwise have had to have been invested to upgrade our inventory.

On April 13, 2000, we completed a spin-off to our stockholders of the shares of Fairchild (Bermuda) Ltd. On April 14, 2000, Fairchild (Bermuda) sold to Convac Technologies Ltd. the Optical Disc Equipment Group business formerly owned by Fairchild Technologies. Subsequently, on April 14, 2000, Fairchild (Bermuda), renamed Global Sources Ltd., completed an exchange of approximately 95% of its shares for 100% of the shares of Trade Media Holdings Limited, an Asian based, business-to-business online and traditional marketplace services provider. Immediately after the share exchange, our stockholders owned 1,183,081 shares of the 26,152,308 issued shares of Global Sources. Global Sources shares are listed on the NASDAQ under the symbol "GSOL". This transaction allowed us to complete our formal plan to dispose of Fairchild Technologies and provided our shareholders with a unique opportunity to participate in a new public entity.

Consolidated Results

We currently report in three principal business segments: aerospace fasteners, aerospace distribution and real estate operations. The results of Camloc Gas Springs division, prior to its disposition, were included in the Corporate and Other classification. The following table provides the historical sales and operating income of our operations for fiscal 2002, 2001 and 2000. The following table also illustrates sales and operating income of our operations by segment, on an unaudited pro forma basis, for fiscal 2000, as if we had operated in a consistent manner in each of the reported periods. The pro forma results represent the impact of our dispositions of Dallas Aerospace in December 1999 and Camloc Gas Springs in September 1999, as if these transactions had occurred at the beginning of fiscal 2000. The pro forma information is based on the historical financial statements of these companies, giving effect to the aforementioned transactions. The pro forma information is not necessarily indicative of the results of operations, that would actually have occurred if these transactions had been in effect since the beginning of fiscal 2000, nor is it necessarily indicative of our future results.

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(In thousands)

	Actual		
	2002	2001	2000
Sales by Segment:			
Aerospace Fasteners Segment	\$ 560,796	\$ 536,904	\$ 533,620
Aerospace Distribution Segment	63,297	85,908	101,002
Corporate and Other	-	-	739
Total Sales	\$ 624,093	\$ 622,812	\$ 635,361
Operating Income (Loss) by Segment:			
Aerospace Fasteners Segment	\$ 41,581	\$ 37,008	\$ 33,909
Aerospace Distribution Segment	2,579	2,499	7,758
Real Estate Operations Segment (a)	1,076	(138)	1,033
Corporate and Other	(18,401)	(18,066)	(19,457)
Total Operating Income (Loss) (b) (c)	\$ 26,835	\$ 21,303	\$ 23,243

Net sales of \$624.1 million in 2002 increased by \$1.3 million, or 0.2%, compared to sales of \$622.8 million in 2001. Results for the 2001 included revenue of \$8.4 million from an operation in our aerospace distribution segment, which was shut down in June 2001. Excluding the results of the shut down operation, net sales would have increased by \$9.7 million, or 1.6%, in 2002, as compared to 2001. Sales in 2002 reflected growth at our aerospace fasteners segment due to strong order activity prior to September 11, 2001. Net sales of \$622.8 million in 2001 decreased by \$12.6 million, or 2.0%, compared to sales of \$635.4 million in 2000. The results for 2000, included revenue of \$22.4 million from Dallas Aerospace and the Camloc Gas Springs division prior to their respective dispositions. On a pro forma basis, adjusting for the 2000 dispositions, net sales increased by \$9.9 million for 2001, as compared to 2000.

Rental revenue was \$6.7 million in 2002, \$7.0 million in 2001, and \$3.6 million in 2000. Rental revenue decreased slightly in 2002, due to a decrease in the amount of space leased to tenants during the year. Rental revenue was higher in the 2001 and 2000 periods due to an increase in the amount of space leased to tenants.

Gross margin as a percentage of sales was 24.3%, 25.1%, and 25.7% in 2002, 2001, and 2000, respectively. The changes in gross margin in 2002 are attributable primarily to a higher volume of sales of lower margin products. The changes in gross margin in 2001 are attributable to a change in product mix as a result of dispositions.

Selling, general & administrative expense as a percentage of sales was 20.6%, 20.1%, and 20.6%, in 2002, 2001, and 2000, respectively.

Other income decreased \$0.9 million in 2002, as compared to 2001, and was offset partially by income recognized from the disposition of future royalty revenues to an unaffiliated third party in exchange for promissory notes secured by \$12.8 million face value of our outstanding 10 3/4% senior subordinated debentures due 2009 acquired by the third party. Other income decreased \$4.9 million in 2001, as compared to 2000. The decrease in 2001 was due primarily to \$5.1 million of income recognized from the disposition of non-core property in 2000, and a \$0.7 million loss recognized from the disposition of non-core property during 2001.

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An impairment charge of \$3.4 million and \$5.9 million was recorded in 2002 and 2001, respectively. The fiscal 2002 impairment charge included \$3.0 million to write down the long-lived assets of a small airframe component manufacturing operation at our aerospace fasteners segment that we are attempting to sell and \$0.4 million to write-off of former tenant improvements at our shopping center. The fiscal 2001 impairment charge included \$2.4 million due to the closing of a small subsidiary at our aerospace distribution segment, of which \$1.7 million represented the write-off of goodwill, and \$0.4 million represented severance payments. Additionally, the fiscal 2001 impairment charge also included a write-off of approximately \$2.4 million of improvements at our shopping center, and a \$1.1 million for the write-off of leasehold improvements from the relocation of our domestic distribution facility in our aerospace fasteners segment.

In fiscal 2000, we recorded \$8.6 million of restructuring charges as a result of the integration of Kaynar Technologies, acquired in April 1999, into our aerospace fasteners segment. All of the charges recorded were a direct result of product and plant integration costs incurred as of June 30, 2000. These costs were classified as restructuring and were the direct result of formal plans to move equipment, close plants and to terminate employees. Such costs are nonrecurring in nature. Other than a reduction in our existing cost structure, none of the restructuring charges resulted in future increases in earnings or represented an accrual of future costs.

Operating income of \$26.8 million in 2002 increased \$5.5 million, or 26.0%, compared to operating income of \$21.3 million in 2001. The 2001 results included goodwill amortization of \$12.5 million, prior to the implementation of a new accounting pronouncement that eliminates goodwill amortization in the 2002 period. Operating income of \$21.3 million in 2001 decreased by \$1.9 million as compared to operating income of \$23.2 million in 2000. The results in fiscal 2000 included \$2.1 million of operating income from Dallas Aerospace, prior to its disposition and \$5.1 million of income recognized from the disposition of non-core property, offset partially by restructuring charges of \$7.5 million. Operating income in fiscal 2001 was adversely affected by the impairment charge of \$5.9 million.

Net interest expense decreased by \$9.0 million, or 16.1%, and cash interest expense decreased by \$5.8 million in fiscal 2002, as compared to fiscal 2001, due primarily to lower interest rates on our variable rate debt. Net interest expense increased \$11.6 million in fiscal 2001 as compared to fiscal 2000. However, cash interest expense of \$50.5 million in 2001 actually decreased by \$4.1 million, as compared to cash interest expense of \$54.5 million in 2000. We recognized interest expense of \$3.5 million in 2001, as compared to \$1.0 million in 2000, resulting from \$30.8 million borrowed in March 2000, and we capitalized \$5.8 million of interest expense in fiscal 2000 from real estate development activities at our shopping center in Farmingdale, New York.

We recorded a net investment loss of \$1.0 million in 2002, and investment income of \$8.4 million in 2001 and \$9.9 million in 2000. The investment results in fiscal 2002 included a \$2.3 million write down for impaired investments and a \$0.8 million loss on investments sold, offset partially by \$1.6 million of dividend income and a \$0.5 million increase in the fair market value of trading securities. Investment income in 2001 and 2000 was due primarily to recognition of gains on investments liquidated.

The fair market value adjustment of our position in a ten-year \$100 million interest rate contract decreased by \$4.6 million in fiscal 2002 and \$5.6 million in 2001. The fair market value adjustment of this agreement 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

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value of the interest hedge contract will decrease, and we will record income.

Nonrecurring income of \$28.6 million in fiscal 2000 resulted from \$25.7 million, \$2.0 million, and \$0.9 million gains recognized on the disposition of our equity investment in Nacanco Paketleme, our Camloc Gas Springs division and a smaller equity investment, respectively.

We recorded an income tax benefit of \$15.4 million in fiscal 2002, representing a 60.3% effective tax rate benefit on pre-tax losses from continuing operations. The tax benefit was higher than the statutory rate due primarily to the reversal of \$14.0 million of tax accruals no longer required. We recorded an income tax benefit of \$16.5 million in fiscal 2001, representing a 52.3% effective tax rate on pre-tax losses from continuing operations. The tax benefit was higher than the statutory rate due primarily to the reversal of \$3.5 million of tax accruals no longer required. We recorded an income tax benefit of \$4.4 million in fiscal 2000 on earnings from continuing operations of \$17.7 million. A tax benefit was recorded due primarily to a change in the estimate of required tax accruals.

Equity in earnings of affiliates decreased by \$0.2 million in 2002, compared to 2001 and improved by \$0.5 million in 2001 compared to 2000. The decrease in 2002 reflected \$0.1 million of equity losses in 2002 as compared to equity income of \$0.1 million in 2001. The improvement in 2001 was attributable primarily to \$0.1 million of income in 2001, as compared to \$0.3 million of losses from small start-up ventures in 2000.

In 1998, we adopted a formal plan to discontinue Fairchild Technologies. In connection with the adoption of such plan, we recorded an after-tax charge of \$12.0 million and \$31.3 million, in discontinued operations, in fiscal 2000 and 1999, respectively. The fiscal 1999 after-tax operating loss from Fairchild Technologies exceeded the June 1998 estimate recorded for expected losses by \$28.6 million, net of an income tax benefit of \$8.1 million, through June 1999. An additional after-tax charge of \$2.8 million, net of an income tax benefit of \$2.4 million, was recorded in fiscal 1999, for estimated remaining losses in connection with the disposition of Fairchild Technologies. The fiscal 2000 after-tax loss in connection with the final disposition of the remaining operations of Fairchild Technologies exceeded anticipated losses by \$20.0 million, net of an income tax benefit of \$8.0 million.

In 2002, we recorded a goodwill impairment charge of \$144.6 million from the implementation of SFAS No. 142, presented as a cumulative effect of change in accounting, as of the beginning of our fiscal year. All of the impairment charge relates to the three operating units within our aerospace fasteners segment. No tax effect was recognized on the change in accounting for goodwill. Instead of amortizing goodwill and intangible assets deemed to have an indefinite life, goodwill will be tested for impairment annually, or immediately if conditions indicate that such an impairment could exist. All of our goodwill has been deemed to have an indefinite life, and as a result of adopting SFAS No. 142, we ceased amortizing goodwill. Prior to the implementation of SFAS No. 142, we recognized amortization expense for goodwill of \$12.5 million and \$12.6 million, in 2001 and 2000, respectively.

Comprehensive income (loss) includes foreign currency translation adjustments and unrealized holding changes in the fair market value of available-for-sale investment securities. The fair market value of available-for-sale securities, on an after-tax basis, declined by \$0.6 million, \$1.0 million, and \$4.0 million, in 2002, 2001 and 2000, respectively. The changes in 2001 and 2000 reflect primarily gains realized from the liquidation of investments. Foreign currency translation adjustments improved by \$21.6 million in 2002, which reflected the strengthening of the EURO to the U.S. Dollar. Foreign currency translation adjustments decreased by \$24.5 million, and \$10.1 million in 2001 and 2000, respectively, due to the strengthening of the

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U.S. Dollar against the EURO.

We are currently evaluating a change in our method of accounting for our inventory costing at two of our domestic aerospace fasteners manufacturing operations from the last-in, first-out ("LIFO") method, to the first-in, first-out ("FIFO") method. Inventories accounted for using the LIFO method represented only 15.6% of our total inventory. If we were to implement this change in method of inventory costing we will be required to retroactively restate our financial statements for the years ended June 30, 2000 and June 30, 2001, which were audited by Arthur Andersen LLP. Since Arthur Andersen is no longer issuing audit opinions, our current auditors would be required to reaudit our financial statements for the periods ended June 30, 2000 and June 30, 2001.

We adopted SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" on July 1, 2000. At adoption, we recorded within other comprehensive income, a decrease of \$0.5 million in the fair market value of our \$100 million interest rate swap agreement. The \$0.5 million decrease will be amortized over the remaining life of the interest rate swap agreement using the effective interest method. The offsetting interest rate swap liability is separately being reported as a "fair market value of interest rate contract" within other long-term liabilities. In the statement of earnings we have recorded the net swap interest accrual as part of interest expense. Unrealized changes in the fair value of the swap are recorded net of the current interest accrual on a separate line entitled "decrease in fair market value of interest rate derivatives."

Segment Results

Aerospace Fasteners Segment

Sales in our Aerospace Fasteners segment increased by \$23.9 million, or 4.4%, in 2002, as compared 2001. The improvement reflected internal growth, which was partially offset by a reduction in deliveries in the third and fourth quarters due to retrenchment in the aerospace industry following the September 11, 2001 terrorist attacks. Our backlog decreased by \$42.1 million in 2002, to \$177.9 million at June 30, 2002. Our book-to-bill ratio was 91.6% in fiscal 2002, reflecting the softening of new orders following September 11, 2001. Sales in our Aerospace Fasteners segment increased by \$3.3 million, or 0.6%, in 2001, as compared to 2000. Sales by our European operations were adversely affected by approximately \$24.4 million in 2001, compared to 2000, due to the foreign currency impact from the U.S. dollar strengthening against the Euro.

Operating income increased by \$4.6 million, or 12.4%, in 2002, as compared to 2001. The improvement in 2002 was due primarily to the increase in sales and related economies of scale and the adoption, as of July 1, 2001, of a new accounting pronouncement that does not require us to amortize goodwill. Goodwill amortization of \$11.3 million was recorded in 2001. We also recorded an impairment charge of \$3.0 million to write down the long-lived assets of a small airframe manufacturing operation at our aerospace fasteners segment, that we are attempting to sell. Operating income increased by \$3.1 million in 2001, compared to 2000. The increase was due primarily to productivity improvements from cost reduction efforts, offset partially by reduced gross margins resulting from pricing pressures. Operating income in 2001 was adversely affected by approximately \$3.2 million due to the foreign currency impact on our European operations.

Announcements by our major customers have reinforced our view that projected aircraft build rates will 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 the

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supply chain service programs we entered into during the past several years and by the 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 regulatory approvals, the tendering of over 50% of our 10 3/4% senior subordinated debentures due April 2009, and the approval of our shareholders (See Item 8, Note 24 to the Consolidated Financial Statements).

Aerospace Distribution Segment

Sales in our aerospace distribution segment decreased by \$22.6 million in 2002, compared to 2001. Results in 2001, included revenue of \$8.4 million from an operation which was shut down in June 2001. Sales in 2002 were also adversely affected due to the terrorist attacks on September 11, 2001. Sales in our aerospace distribution segment decreased by \$15.1 million, or 14.9%, in fiscal 2001, compared to fiscal 2000. Results from fiscal 2000 included revenue of \$21.7 million from Dallas Aerospace, prior to its disposition. On a pro forma basis, sales increased \$6.6 million, or 8.3%, in 2001 compared to 2000, which reflected an overall improvement in demand for our products prior to September 11, 2001.

Operating income increased by \$0.1 million in 2002, as compared to 2001. The results in 2002 were affected by the reduction in revenue. Operating income in 2001 included asset impairment charges of \$3.1 million due to the closing of Banner Aircraft Services, which also had operating losses of \$3.9 million in 2001. Operating income in our aerospace distribution segment decreased by \$5.3 million in 2001, compared to 2000. The results for 2000, included operating income of \$2.1 million from Dallas Aerospace, prior to its disposition.

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 was \$6.7 million in 2002, \$7.0 million in 2001, and \$3.6 million in 2000. Rental revenue decreased slightly in 2002, due to a decrease in the average per square foot amount charged to tenants, as compared to 2001. Rental revenue was higher in the 2001, as compared to 2000, due to an increase in the amount of space leased to tenants. The weighted average occupancy rate of the shopping center was 76.9%, 74.4% and 48.9% in 2002, 2001, and 2000, respectively. The average effective annual rental rate per square foot was \$19.22, \$20.91, and \$16.23 in 2002, 2001, and 2000, respectively. As of June 30, 2002, approximately 92% of the shopping center was leased. We anticipate that rental income will increase during 2003, as a result of us entering to new agreements, to lease approximately 54,000 square feet, shortly before the end of 2002.

Operating income increased by \$1.2 million in 2002, as compared to 2001. In 2002, depreciation expense and real estate taxes increased by \$0.5 million and \$0.2 million, respectively, as a result of an increased weighted-average portion of the shopping center being placed into service in 2002. The results for 2001 were adversely affected by one-time charge of \$2.5 million to write-off improvements at our shopping center. We reported an operating loss of \$0.1 million for 2001, compared to operating income of \$1.0 million in 2000. The results of 2001 were also affected by an increase in administrative and

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depreciation expenses as a result of the increase in rental revenue as compared to 2000.

Corporate Segment

The corporate segment reported that operating results decreased by \$0.3 million, or 1.9%, in 2002, as compared to 2001 and improved by \$1.4 million, or 7.1% in 2001, as compared to 2000. Results from 2001 and 2000 included \$3.1 million and \$5.1 million, respectively, of gains recognized on the disposition of non-core assets. Results in each of the three years ended June 30, 2002, included consulting income of \$1.5 million. The consulting agreement expired on June 30, 2002 and no additional proceeds from this agreement will be received in future years. The corporate segment included sales from the Gas Springs division prior to its disposition in September 1999.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Total capitalization as of June 30, 2002 and 2001 amounted to \$719.8 million and \$858.9 million, respectively. The changes in capitalization in 2002 included a decrease of \$5.3 million in debt and \$133.8 million in equity. The decrease in debt reflected a \$6.4 million decrease in short-term borrowings and other debt, partially offset by a \$1.2 million net increase in borrowings with our primary lenders. The decrease in equity reflects the \$144.6 million cumulative effect of change in accounting for goodwill, and a \$10.2 million loss from continuing operations, offset partially by a \$21.1 million increase in cumulative other comprehensive income, which was due primarily to a \$21.6 million favorable effect in foreign currency fluctuations.

We maintain a portfolio of investments classified primarily as available-for-sale securities, which had a fair market value of \$5.9 million at June 30, 2002. The market value of these investments decreased by \$0.6 million in 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 2002 was \$18.8 million. The working capital uses of cash in 2002 included a \$29.4 million decrease in accounts payable and other accrued liabilities and a \$10.4 million increase in other non-current assets, offset partially by a \$10.6 million decrease in accounts receivable, a \$10.6 million decrease in other current assets and a \$5.1 million decrease in inventory. The working capital uses of cash were offset by \$30.4 million of earnings after deducting non-cash expenses of \$30.5 million for depreciation, \$2.1 million from the amortization of deferred loan fees, \$144.6 million for the cumulative effect of change in accounting for goodwill, \$3.4 million loss from impairments, and \$4.6 million from the reduction in the fair market value of an interest rate contract. Net cash used for operating activities for fiscal 2001 was \$39.5 million. The primary use of cash for operating activities in 2001 was a \$9.1 million increase in inventories, a \$117.7 million decrease in accounts payable and other accrued liabilities, offset partially by a \$5.5 million decrease in accounts receivable and a \$31.6 million increase in other current assets. Net cash used for operating activities for 2000 was \$67.1 million. In 2000, the primary use of cash for operating activities was a \$23.2 million increase in inventories, a \$12.0 million decrease in accounts payable, and a \$25.2 million increase in other current assets.

Net cash used for investing activities was \$9.8 million in 2002. The primary source of cash in 2002 was \$8.0 million provided from the dispositions of non-core real estate and net assets held for sale, offset by \$11.9 million of capital expenditures and a \$5.6 increase in notes receivable. Net cash provided from investing activities for 2001 was \$4.1 million, and included \$16.4 million in proceeds received from the dispositions of investments, and \$4.6 million in

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proceeds received from the disposition of property, offset by capital expenditures of \$16.4 million. Net cash provided from investing activities for 2000 was \$90.4 million, and included \$108.8 million in proceeds received from the dispositions of Dallas Aerospace, our Gas Springs division and our investment in Nacanco Paketleme, and \$12.0 million in proceeds received from the condemnation of property. This was slightly offset by cash of \$27.3 million used for capital expenditures and \$27.7 million for real estate investments.

Net cash used for financing activities in 2002 included a \$9.6 million decrease in debt. Net cash provided by financing activities in 2001 was \$15.4 million, and included a \$14.7 million net issuance of additional debt used to fund operations. Net cash used for financing activities in 2000 was \$41.4 million. The primary use of cash for financing activities in 2000 was \$39.4 million used to reduce debt.

At June 30, 2002, \$5.6 million of promissory notes were due to us from an unaffiliated third party, which are included in notes receivable. The promissory notes earn \$1.4 million of annual cash interest and are being accreted to a face value of \$12.8 million through May 2006. The promissory notes are secured by \$12.8 million face value of our outstanding 10.75% senior subordinated debentures due 2009 acquired by the third party. The third party may sell these debentures for cash provided that it satisfies its obligation under its promissory notes.

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 June 30, 2002, the interest coverage ratio was 2.32, which exceeded the minimum requirement of 2.0. Our interest rates vary based upon the consolidated indebtedness to EBITDA covenant, which represents the ratio of total debt to EBITDA, as defined in the credit agreement. On March 31, 2002 our indebtedness to EBITDA ratio exceeded 5.0, and resulted in a 1/4% increase in our interest rates under the credit agreement during the fourth quarter of fiscal 2002. On June 30, 2002 our indebtedness to EBITDA ratio was 5.62, 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 year ended June 30, 2002, capital expenditures were \$11.9 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 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 June 30, 2002, we were in compliance with the covenants under the credit agreement.

At June 30, 2002, we had contractual commitments to repay debt (including capital lease obligations), and to make payments under operating leases. Our

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long-term debt obligations are restricted by certain covenants that limit our ability to encumber our assets. Payments due under these long-term obligations are as follows:

	2003	2004	2005	2006	20
Long-term debt and capital lease obligations	34,905	3,130	71,544	134,255	1,
Operating lease commitments	9,383	7,801	6,424	4,420	2,
Total contractual cash obligations	44,288	10,931	77,968	138,675	4,

We have entered into standby letter of credit arrangements with insurance companies and others, primarily relating to the guarantee of future performance on certain contracts. At June 30, 2002, we had contingent liabilities of \$18.0 million on commitments related to outstanding letters of credit.

Recent Developments

On July 16, 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 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 regulatory approvals and the approval of our shareholders. We will use a portion of the proceeds from the sale to repay our bank debt and commence a tender offer at par to acquire all of our outstanding \$225 million, 10.75% senior subordinated notes, due in April, 2009. 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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 obligations of leases. This statement is effective for fiscal years beginning after June 15, 2002.

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

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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 in fiscal 2003.

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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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% from 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 \$4.6 million and \$5.6 million in 2002 and 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 to 8.125%, the 1-month LIBOR interest rate that we must pay on the note. 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.

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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	1.95%	
Fair Market Value at June 30, 2002	\$5	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the Company and the report of our independent auditors, are set forth below.

	Page
Report of Ernst & Young LLP, Independent Auditors (Fiscal 2002)	28
Consolidated Balance Sheets as of June 30, 2002 and 2001	29
Consolidated Statements of Earnings for each of the Three Years Ended June 30, 2002, 2001, and 2000	31
Consolidated Statements of Stockholders' Equity for each of the Three Years Ended June 30, 2002, 2001, and 2000	33
Consolidated Statements of Cash Flows for each of the Three Years Ended June 30, 2002, 2001, and 2000	34
Notes to Consolidated Financial Statements	35

Supplementary information regarding "Quarterly Financial Data (Unaudited)" is set forth under Item 8 in Note 22 to Consolidated Financial Statements.

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Report of Ernst & Young LLP, Independent Auditors

To the Board of Directors of The Fairchild Corporation:

We have audited the accompanying consolidated balance sheet of The Fairchild Corporation and subsidiaries (the "Company") as of June 30, 2002, and the related consolidated statements of earnings, stockholders' equity and cash flows for the year then ended. Our audit also included the financial statement schedule, as of and for the year ended June 30, 2002, listed in the Index at Item 14(a). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audit. The consolidated balance sheet of the Company as of June 30, 2001, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the two years in the period ended June 30, 2001 were audited by other auditors whose report dated September 7, 2001 expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Fairchild Corporation and subsidiaries at June 30, 2002, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, effective July 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets."

/s/ Ernst & Young LLP

McLean, Virginia
August 29, 2002

THE FAIRCHILD CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

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ASSETS

CURRENT ASSETS:

Cash and cash equivalents

Short-term investments

Accounts receivable, less allowance of \$7,635 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 \$186,172 and \$156,914

Net assets held for sale

Goodwill, less accumulated amortization of \$209,932 and \$65,332

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 Consolidated Financial Statements are
an integral part of these statements.

THE FAIRCHILD CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

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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 income taxes

TOTAL LIABILITIES

STOCKHOLDERS' EQUITY:

Class A common stock, \$0.10 par value; entitled to one vote per share; 40,000 shares authorized, 30,354 (30,342 in 2001) shares issued and 22,540 (22,528 in 2001) shares outstanding

Class B common stock, \$0.10 par value; entitled to ten votes per share; 20,000 shares authorized, 2,622 shares issued and outstanding

Paid-in capital

Treasury stock, at cost, 7,814 shares of Class A common stock

Retained earnings

Notes due from stockholders

Cumulative other comprehensive loss

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 SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)

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	For the years	

	2002	

REVENUE:		
Net sales	\$	624,093
Rental revenue		6,679
Other income, net		5,021

		635,793
COSTS AND EXPENSES:		
Cost of goods sold		472,270
Cost of rental revenue		4,911
Selling, general & administrative		128,342
Amortization of intangibles		-
Impairment charges		3,435
Restructuring		-

		608,958
OPERATING INCOME		26,835
Interest expense		51,124
Interest income		(4,368)

Net interest expense		46,756
Investment income (loss)		(992)
Decrease in fair market value of interest rate contract		(4,567)
Nonrecurring gain		-

Earnings (loss) from continuing operations before taxes		(25,480)
Income tax benefit		15,377
Equity in earnings (loss) of affiliates, net		(137)

Earnings (loss) from continuing operations		(10,240)
Loss on disposal of discontinued operations, net		-
Cumulative effect of change in accounting for goodwill		(144,600)

NET EARNINGS (LOSS)	\$	(154,840)

Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	\$	21,621
Unrealized holding changes on derivatives		63
Unrealized periodic holding changes on securities, net of tax benefit of \$337 in 2002, \$554 in 2001, and \$2,133 in 2000		(626)

Other comprehensive income (loss)		21,058

COMPREHENSIVE LOSS	\$	(133,782)

The accompanying Notes to Consolidated Financial Statements are

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an integral part of these statements.

THE FAIRCHILD CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF EARNINGS
 (In thousands, except per share data)

	For the years

	2002

BASIC AND DILUTED EARNINGS (LOSS) PER SHARE:	
Earnings (loss) from continuing operations	\$ (0.41)
Loss on disposal of discontinued operations, net	-
Cumulative effect of change in accounting for goodwill	(5.75)

NET EARNINGS (LOSS)	\$ (6.16)

Other comprehensive income (loss), net of tax:	
Foreign currency translation adjustments	\$ 0.86
Unrealized holding changes on derivatives	-
Unrealized periodic holding changes on securities	(0.02)

Other comprehensive loss	0.84

COMPREHENSIVE LOSS	\$ (5.32)

Weighted average shares outstanding:	
Basic	25,155

Diluted	25,155

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

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THE FAIRCHILD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Class A Common Stock	Class B Common Stock	Paid-in Capital	Treasury Stock	Retained Earnings	D Sto
Balance, July 1, 1999	\$2,975	\$ 262	\$229,038	\$(74,102)	\$252,029	
Net earnings	-	-	-	-	9,758	
Cumulative translation adjustment	-	-	-	-	-	
Stock issued for Special-T Fasteners acquisition (44,079 shares)	4	-	530	-	-	
Proceeds received from stock options exercised (314,126 shares)	22	-	1,321	(916)	-	
Stock issued for Special-T restricted stock plan (14,969 shares)	1	-	(1)	-	-	
Cashless exercise of warrants	6	-	(6)	-	-	
Purchase of treasury shares	-	-	-	(488)	-	
Compensation expense-stock options	-	-	308	-	-	
Loans to stockholders'	-	-	-	-	-	
Net unrealized holding gain on available-for-sale securities	-	-	-	-	-	
Balance, June 30, 2000	3,008	262	231,190	(75,506)	261,787	
Net loss	-	-	-	-	(15,000)	
Cumulative translation adjustment	-	-	-	-	-	
Proceeds received from stock options exercised (374,016 shares)	26	-	1,403	(1,057)	-	
Compensation expense-stock options	-	-	227	-	-	
Net change in stockholders' loans	-	-	-	-	-	
Change in fair market value of interest rate contract	-	-	-	-	-	
Net unrealized holding changes on available-for-sale securities	-	-	-	-	-	
Balance, June 30, 2001	3,034	262	232,820	(76,563)	246,787	
Net loss	-	-	-	-	(154,840)	
Cumulative translation adjustment	-	-	-	-	-	
Issuance of deferred Compensation units	1	-	(32)	31	-	
Compensation expense-stock options	-	-	9	-	-	
Net change in stockholders' loans	-	-	-	-	-	
Change in fair market value of interest rate contract	-	-	-	-	-	
Net unrealized holding changes on available-for-sale securities	-	-	-	-	-	
Balance, June 30, 2002	\$ 3,035	\$ 262	\$232,797	\$(76,532)	\$91,947	\$

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

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THE FAIRCHILD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

For the years ended June 30,

Cash flows from operating activities:

Net earnings (loss)	\$ (154)
Depreciation and amortization	3
Deferred loan fee amortization	
Cumulative effect of change in accounting for goodwill	14
Net gain on the disposition of subsidiaries	
Loss from impairments	
(Gain) loss on sale of property, plant, and equipment	
Earnings (loss) of affiliates, net	
Paid-in kind interest income	
Unrealized holding (gain) loss on derivatives	
Realized (gain) loss from sale and impairment of investments	
Change in trading securities	
Change in accounts receivable	1
Change in inventories	
Change in prepaid expenses and other current assets	1
Change in other non-current assets	(10)
Change in accounts payable, accrued liabilities and other long-term liabilities	(29)
Non-cash charges and working capital changes of discontinued operations	

Net cash provided by (used for) operating activities 1

Cash flows from investing activities:

Purchase of property, plant and equipment	(11)
Proceeds from sale of property, plant and equipment	
Proceeds received from available-for-sale securities, net	
Equity investment in affiliates	
Net proceeds received from divestiture of investment in affiliate	
Net proceeds received from the sale of subsidiaries	
Net proceeds received from the sale of discontinued operations	
Change in real estate investment	
Changes in net assets held for sale	
Changes in notes receivable	(5)

Net cash provided by (used for) investing activities (9)

Cash flows from financing activities:

Proceeds from issuance of debt	13
Debt repayments	(140)
Issuance of Class A common stock	
Purchase of treasury stock	
Notes due from stockholders	

Net cash provided by (used for) financing activities (9)

Effect of exchange rate changes on cash

Net change in cash and cash equivalents 1

Cash and cash equivalents, beginning of the year 1

Cash and cash equivalents, end of the year \$ 1

The accompanying Notes to Consolidated Financial Statements are

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an integral part of these statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General: All references in the notes to the consolidated financial statements to the terms "we," "our," "us," the "Company" and "Fairchild" refer to The Fairchild Corporation and its subsidiaries.

Corporate Structure: The Fairchild Corporation was incorporated in October 1969, under the laws of the State of Delaware. Effective April 8, 1999, we became the sole owner of Banner Aerospace, Inc. RHI Holdings, Inc. is our direct subsidiary. RHI is the owner of 100% of Fairchild Holding Corp. Our principal operations are conducted through Fairchild Holding Corp. and Banner Aerospace. Our financial statements present the results of our former Technologies segment as discontinued operations.

Nature of Business Operations: 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.

Recent Developments: On July 16, 2002 we announced that we signed a definitive agreement to sell our Fairchild Fasteners business for approximately \$657 million in cash to Alcoa Inc. (See Note 24 for additional details).

Fiscal Year: Our fiscal year ends June 30. All references herein to "2002", "2001", and "2000" mean the fiscal years ended June 30, 2002, 2001 and 2000, respectively.

Consolidation Policy: The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and include our accounts and all of the accounts of our subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in companies in which ownership interests range from 20 to 50 percent are accounted for using the equity method.

Revenue Recognition: Sales and related costs are recognized upon shipment of products and/or performance of services, when collection is probable. Sales and related cost of sales on long-term contracts are recognized as products are delivered and services performed, as determined by the percentage of completion method. Lease and rental revenue are recognized on a straight-line basis over

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the life of the lease. Shipping and handling amounts billed to customers are classified as revenues.

Shipping and Handling Costs: Shipping and handling costs are expensed as incurred and included in cost of goods sold.

Concentration of Credit Risk: Financial instruments that potentially subject us to a concentration of credit risk principally consist of cash, cash equivalents and trade receivables. We sell our products throughout the world to a large number of customers, primarily in the aerospace industry. To reduce credit risk, we perform ongoing credit evaluations of our customers' financial condition. We generally do not require collateral. We invest available cash in money market securities of financial institutions with high credit ratings.

Cash Equivalents/Statements of Cash Flows: For purposes of the Statements of Cash Flows, we consider all highly liquid investments with original maturity dates of three months or less as cash equivalents. Cash is invested in short-term treasury bills and certificates of deposit. Total net cash disbursements (receipts) made by us for income taxes and interest were as follows:

	2002	2001	2000
Interest	\$45,755	\$50,471	\$54,535
Income taxes	571	388	(15,076)

Restricted Cash: On June 30, 2002 and 2001, we had restricted cash of \$472 and \$1,184, respectively, all of which is maintained as collateral for certain debt facilities and tenant deposits.

Investments: Management determines the appropriate classification of our investments at the time of acquisition and reevaluates such determination at each balance sheet date. Trading securities are carried at fair value, with unrealized holding gains and losses included in earnings. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses, net of tax, reported as a separate component of stockholders' equity. Investments in equity securities and limited partnerships that do not have readily determinable fair values are stated at cost and are categorized as other investments. Realized gains and losses are determined using the specific identification method based on the trade date of a transaction. Interest on corporate obligations, as well as dividends on preferred stock, are accrued at the balance sheet date.

Accounts Receivable: We provide an allowance for doubtful accounts equal to the estimated uncollectible amounts. Our estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that our estimate of allowance for doubtful accounts will change in the future. Changes in the allowance for doubtful accounts are as follows:

	For the years ended June 30,	
	2002	2001
Beginning balance	\$ 6,951	\$ 9,598
Charges to cost and expenses	4,660	3,184

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Charges to other accounts (a)	24	(477)
Amounts written off	(4,000)	(5,354)
Ending Balance	\$ 7,635	\$ 6,951

Inventories: Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out ("LIFO") method at two of our domestic aerospace fastener manufacturing operations, and using the first-in, first-out ("FIFO") method elsewhere. If the FIFO inventory valuation method had been used exclusively, inventories would have been approximately \$3,675 and \$3,188 higher at June 30, 2002 and 2001, respectively. Allowances for excess and obsolete inventory were \$53,616 and \$50,915 at June 30, 2002 and 2001, respectively. Inventories from continuing operations are valued as follows:

	June 30, 2002	June 30, 2001
First-in, first-out (FIFO)	\$ 152,789	\$ 156,375
Last-in, first-out (LIFO)	28,242	32,612
Total inventories	\$ 181,031	\$ 188,987

Properties and Depreciation: The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. The cost of leasehold improvements is depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets. Our machinery and equipment is depreciated over 10 years. Depreciation is computed using the straight-line method for financial reporting purposes and accelerated depreciation methods for Federal income tax purposes. Depreciation expense was \$30,529, \$31,226 and \$29,247 in 2002, 2001, and 2000, respectively. Property, plant and equipment consisted of the following:

	June 30, 2002	Jun 2
Land	\$ 10,334	\$
Building and improvements	45,837	
Machinery and equipment	231,889	2
Transportation vehicles	1,048	
Furniture and fixtures	21,017	
Construction in progress	5,265	
Property, plant and equipment, at cost	315,390	3

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Less: Accumulated depreciation	186,172	1
Net property, plant and equipment	\$ 129,218	\$ 1

Net Assets Held for Sale: Net assets held for sale are stated at the lower of cost or at estimated net realizable value, which considers anticipated sales proceeds. Interest is not allocated to net assets held for sale. Net assets held for sale at June 30, 2002 includes a small airframe manufacturing operation in our aerospace fasteners segment and several parcels of real estate in our corporate segment. The real estate is located primarily throughout the continental United States, which we plan to sell, lease or develop, subject to the resolution of certain environmental matters and market conditions. Also included in net assets held for sale is a limited partnership interest in a landfill development partnership.

Real Estate Investment: We own and operate a shopping center located in Farmingdale, New York, which is classified as a "real estate investment" on our consolidated balance sheets. Our real estate investment is recorded at cost and includes financing costs, interest costs, and real estate taxes incurred during the original construction period. Ordinary repairs and maintenance are expensed as incurred and major replacements and improvements are capitalized. Building and improvements are depreciated on a straight-line basis over an estimated useful life of 30 years. Tenant improvements and costs incurred to prepare tenant space for occupancy are depreciated on a straight-line basis over the terms of the respective leases or the assets' remaining useful lives, whichever is shorter.

Amortization of Goodwill: On July 1, 2001, we adopted Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets." Since the adoption of SFAS No. 142, goodwill and intangible assets deemed to have an indefinite life are not amortized. Instead of amortizing goodwill and intangible assets deemed to have an indefinite life, goodwill is tested for impairment annually, or immediately if conditions indicate that such an impairment could exist. All of our goodwill has been deemed to have an indefinite life and as a result of adopting SFAS No. 142, we ceased amortizing goodwill. Prior to the implementation of SFAS No. 142, we recognized amortization expense for goodwill of \$12,506 and \$12,574 in 2001 and 2000, respectively. (See Note 3).

Deferred Loan Costs: Costs incurred in connection with the issuance of debentures and credit facilities are deferred and amortized, using the effective interest method over the term of the agreements. Amortization expense of these loan costs was \$2,082, \$1,871, and \$1,200, in 2002, 2001, and 2000, respectively.

Valuation of Long-Lived Assets: We review our long-lived assets for impairment, including property, plant and equipment, and identifiable intangibles with definite lives, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of our long-lived assets, we evaluate the probability that future undiscounted net cash flows will be greater than the carrying amount of our assets. Impairment is measured based on the difference between the carrying amount of our assets and their estimated fair value. An impairment charge of \$3.4 million, and \$5.9 million, was recorded in 2002 and 2001, respectively. The fiscal 2002 impairment charge included \$3.0 million to write down the long-lived assets of a small airframe manufacturing operation at our aerospace fasteners segment, that we are attempting to sell, and \$0.4 million to write-off tenant improvements at our shopping center. The fiscal 2001 impairment charge included \$2.4 million due to the closing of a small subsidiary at our aerospace distribution segment, of which \$1.7 million represented the write-off

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of goodwill, and \$0.4 million represented severance payments. Additionally, the fiscal 2001 impairment charge also included a write-off of approximately \$2.3 million of improvements at our shopping center, and a \$1.1 million for the write-off of leasehold improvements from the relocation of our domestic distribution facility in our aerospace fasteners segment.

Foreign Currency Translation: The financial position and operating results of our foreign operations are consolidated using the local currencies of the countries in which they are located as the functional currency. The balance sheet accounts are translated at exchange rates in effect at the end of the period, and income statement accounts are translated at average exchange rates during the period. The resulting translation gains and losses are included as a separate component of stockholders' equity. Foreign currency transaction gains and losses are included in our income statement in the period in which they occur.

Research and Development: Company-sponsored research and development expenditures are expensed as incurred and were insignificant in 2002, 2001 and 2000.

Capitalization of Interest and Taxes: We capitalize interest expense and property taxes relating to certain real estate property being developed in Farmingdale, New York. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. Interest of \$386 and \$5,792 was capitalized in 2001 and 2000, respectively.

Nonrecurring Gain: Nonrecurring gain of \$28,625 in 2000 resulted from the disposition of two of our equity investments including Nacanco Paketleme, and the disposition of our Camloc Gas Springs division.

Stock-Based Compensation: As permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", we use the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, for our stock-based employee compensation plans. The fair market disclosures that are required by SFAS No. 123 are included in Note 13.

Fair Value of Financial Instruments: The carrying amount reported in the consolidated balance sheets approximates the fair value for our cash and cash equivalents, investments, specified hedging agreements, short-term borrowings, current maturities of long-term debt, and all other variable rate debt (including borrowings under our credit agreements). The fair value for our other fixed rate long-term debt is determined by the market value of recent trades or estimated using discounted cash flow analyses, based on our current incremental borrowing rates for similar types of borrowing arrangements. Fair values of our other off-balance-sheet instruments (letters of credit, commitments to extend credit, and lease guarantees) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counter parties' credit standing. These instruments are described in Note 9.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain amounts in our prior years' consolidated financial statements have been reclassified to conform to the 2002 presentation. Such reclassifications had no effect on previously reported net income (loss) or stockholders' equity.

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Recently Issued Accounting Pronouncements: 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 obligations of leases. This statement is effective for fiscal years beginning after June 15, 2002.

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 No. 121 regarding when and how to measure an impairment loss, SFAS No. 144 provides additional implementation guidance. SFAS No. 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 No. 144 also expands the scope of a discontinued operation to include a component of an entity, and eliminates the current exemption of 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 in fiscal 2003.

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.

2. BUSINESS COMBINATIONS

Divestitures

On December 1, 1999, we disposed of substantially all of the assets and certain liabilities of our Dallas Aerospace subsidiary, to United Technologies Inc. for approximately \$57.0 million. No gain or loss was recognized from this transaction, as the proceeds received approximated the net carrying value of the assets. Approximately \$37.0 million of the proceeds from this disposition were used to reduce our term indebtedness.

On September 3, 1999, we completed the disposal of our Camloc Gas Springs division to a subsidiary of Arvin Industries Inc. for approximately \$2.7 million. In addition, we received \$2.4 million from Arvin Industries for a covenant not to compete. We recognized a \$2.0 million nonrecurring gain from this disposition. We used the net proceeds from the disposition to reduce our indebtedness.

On July 29, 1999, we sold our 31.9% interest in Nacanco Paketleme to American National Can Group, Inc. for approximately \$48.2 million. In fiscal 2000, we recognized a \$25.7 million nonrecurring gain from this divestiture. We also agreed to provide consulting services over a three-year period, at an annual fee of approximately \$1.5 million. We used the net proceeds from the disposition to reduce our indebtedness.

3.

GOODWILL

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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 during 2002.

Effective July 1, 2001, we adopted Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets." This statement changes the accounting for goodwill by requiring that goodwill and intangible assets deemed to have an indefinite life not be amortized and that the amortization period of intangible assets with finite lives will no longer be limited to forty years. 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 determination of impairment required by SFAS No. 142 is a two-step process. The first step compares the carrying value of a reporting unit to the fair value of a reporting unit with goodwill. If the fair value of the reporting unit is less than the carrying value, a second step is performed to determine the amount of goodwill impairment. The second step allocates the fair value of the reporting unit to the reporting unit's net assets other than goodwill. The excess of the fair value of the reporting unit over the amounts assigned to its net assets other than goodwill is considered the implied fair value of the reporting unit's goodwill. The implied fair value of the reporting unit's goodwill is then compared to the carrying value of its goodwill and any shortfall represents the amount of goodwill impairment. The fair market value of a reporting unit is determined by considering the market prices of comparable businesses and the present value of cash flow projections.

In 2002, we recorded a goodwill impairment charge of \$144.6 million from the implementation of SFAS No. 142, which is being presented as cumulative effect of change in accounting, as of the beginning of our fiscal year. All of the impairment charge relates to the three operating units within our aerospace fasteners segment. No tax effect was recognized on the change in accounting for goodwill. As a result of adopting SFAS No. 142, we will no longer amortize goodwill of approximately \$12.5 million per year. We have selected first day of our fourth quarter as our annual impairment test date.

The following table provides the comparable effects of adoption of SFAS No. 142 for 2002, 2001 and 2000, respectively:

	2002	2001
Reported net income (loss)	\$ (154,840)	\$ (15,000)
Add back: Goodwill amortization	-	12,506
Adjusted net income (loss)	\$ (154,840)	\$ (2,494)
Basic and Diluted income (loss) per share:		
Reported net income (loss)	\$ (6.16)	\$ (0.60)
Add back: Goodwill amortization	-	0.50
Adjusted net income (loss)	\$ (6.16)	\$ (0.10)

The changes in the carrying amount of goodwill for the year ended June 30, 2002, are as follows:

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	Aerospace Fasteners	Aerospace Distribution
Balance as of June 30, 2001	\$ 135,999	\$ 5,513
Allocation/pushdown of goodwill	265,712	11,925
Goodwill written off on adoption of SFAS No. 142	(144,600)	-
Balance as of June 30, 2002	\$257,111	\$ 17,438

4. PRO FORMA FINANCIAL STATEMENTS (UNAUDITED)

The following table sets forth the derivation of the unaudited pro forma results, representing the impact of our dispositions of Dallas Aerospace (December 1999), Camloc Gas Springs (September 1999), and the investment in Nacanco Paketleme (July 1999), as if these transactions had occurred on July 1, 1999. The pro forma information is based on the historical financial statements of these companies, giving effect to the aforementioned transactions. In preparing the pro forma data, certain assumptions and adjustments have been made which affect interest expense and investment income from our revised debt structures. The pro forma financial information does not reflect nonrecurring income and gains from the disposal of discontinued operations that have occurred from these transactions. The unaudited pro forma information is not intended to be indicative of the future results of our operations or results that might have been achieved if these transactions had been in effect since July 1, 1999.

	2000
Sales	\$612,928
Operating income (a)	21,179
Earnings from continuing operations (a)	2,358
Basic earnings from continuing operations per share	0.09
Diluted earnings from continuing operations per share	0.09
Net loss	(9,648)
Basic loss per share	(0.39)
Diluted loss per share	(0.38)

5. INVESTMENTS

Investments at June 30, 2002 consist primarily of common stock investments in public corporations, which are recorded at fair market value and classified as trading securities or available-for-sale securities. Other short-term investments and long-term investments do not have readily determinable fair values and consist primarily of investments in preferred and common shares of private companies and limited partnerships. A summary of investments held by us follows:

June 30, 2002

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	Aggregate Fair Value	Cost Basis
Short-term investments:		
Trading securities - equity	\$ 356	\$ 574
Available-for-sale equity securities	84	200
Other investments	141	141
	\$ 581	\$ 915
Long-term investments:		
Available-for-sale equity securities	\$ 1,074	\$ 3,329
Other investments	4,286	4,286
	\$ 5,360	\$ 7,615

On June 30, 2002, we had gross unrealized holding losses from available-for-sale securities of \$2,372. We use the specific identification method to determine the gross realized gains (losses) from sales of available-for-sale securities. Investment income is summarized as follows:

	2002
Gross realized gain from sales of available-for-sale securities	\$ 30
Gross realized loss from sales of trading securities	(811)
Change in unrealized holding gain (loss) from trading securities	486
Gross realized loss from impairments	(2,296)
Dividend income	1,599
	\$ (992)

6. INVESTMENTS AND ADVANCES, AFFILIATED COMPANIES

Our share of equity in earnings (loss), net of tax, of unconsolidated affiliates for 2002, 2001 and 2000 was \$(137), \$110, and \$(346), respectively. The carrying value of investments and advances, affiliated companies was \$3,261 and \$2,813 at June 30, 2002 and 2001, respectively.

On June 30, 2002, approximately \$(142) of our \$91,947 consolidated retained earnings were from undistributed losses of 50 percent or less currently owned affiliates accounted for using the equity method.

7. NOTES RECEIVABLE

At June 30, 2002, \$5.6 million of promissory notes were due to us from an unaffiliated third party, which are included in notes receivable. The promissory notes earn \$1.4 million of annual cash interest and are being accreted to a face value of \$12.8 million through May 2006. The promissory notes are secured by \$12.8 million face value of our outstanding 10.75% senior subordinated debentures due 2009 acquired by the third party. The third party may sell these debentures for cash provided that it satisfies its obligation under its promissory notes.

8. NOTES PAYABLE AND LONG-TERM DEBT

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At June 30, 2002 and 2001, notes payable and long-term debt consisted of the following:

	June 30,
Short-term notes payable (weighted average interest rates of 3.79% and 4.75% in 2002 and 2001, respectively)	\$ 18,
Bank credit agreements	\$ 240,
103/4% Senior subordinated notes due 2009	225
Industrial revenue bonds, variable rate interest from 7.2% to 8.5%	
Capital lease obligations, interest from 4.7% to 13.9%	
Other notes payable, collateralized by property, plant and equipment, interest from 3.0% to 9.6%	7,
	472,
Less: Current maturities	(34,9
Net long-term debt	\$ 437,

Credit Agreements

We maintain credit facilities with a consortium of banks, providing us with a term loan and revolving credit facilities. On June 30, 2002, the credit facilities with our senior lenders consisted of a \$140,650 term loan and a \$100,000 revolving loan with a \$40,000 letter of credit sub-facility and a \$15,000 swing loan sub-facility. Borrowings under the term loan generally bear interest at a rate of, at our option, either 2 1/4% over the Citibank N.A. base rate, or 3 1/4% over the LIBOR rate. Advances made under the revolving credit facilities generally bear interest at a rate of, at our option, either (i) 1 3/4% over the Citibank N.A. base rate, or (ii) 2 3/4% over the LIBOR rate. These interest rates are subject to change quarterly based upon our financial performance. The credit facilities are subject to a non-use commitment fee on the aggregate unused availability, of 1/2% if greater than half of the revolving loan is being utilized or 3/4% if less than half of the revolving loan is being utilized. Outstanding letters of credit are subject to fees equivalent to the revolving LIBOR rate margin. The revolving credit facilities and the term loan will mature on April 30, 2005 and April 30, 2006, respectively. The term loan is subject to mandatory prepayment requirements and optional prepayments. The revolving loan is subject to mandatory prepayment requirements and optional commitment reductions.

We are required under the credit agreement with our lending institutions, 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 covenant is the interest coverage ratio, which represents the ratio of EBITDA to interest expense, as defined in the credit agreement. At June 30, 2002, the interest coverage ratio was 2.32, which exceeded the minimum requirement of 2.0. Our interest rates vary based upon the consolidated indebtedness to EBITDA covenant, which represents the ratio of total debt to EBITDA, as defined in the credit agreement. On March 31, 2002 our indebtedness to EBITDA ratio exceeded 5.0 and resulted in a 1/4% increase in our interest rates under the credit agreement during the fourth quarter of fiscal 2002. On June 30, 2002 our indebtedness to EBITDA ratio was 5.62, 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 year ended June 30, 2002, capital expenditures were \$11.9 million. Except for assets of our

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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 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 June 30, 2002, we were in compliance with the covenants under the credit agreement.

At June 30, 2002, we had borrowings outstanding of \$68,800 under the revolving credit facilities and we had letters of credit outstanding of \$17,959, which were supported by a sub-facility under the revolving credit facilities. At June 30, 2002, we had unused bank lines of credit aggregating \$13,241, at interest rates slightly higher than the prime rate. We also had short-term lines of credit relating to foreign operations, aggregating \$32,834, against which we owed \$18,221 at June 30, 2002.

On March 23, 2000, we entered into a \$30,750 term loan agreement with Morgan Guaranty Trust Company of New York. The loan is secured by all of the developed rental property of the Fairchild Airport Plaza shopping center located in Farmingdale, New York, including tenant leases and mortgage escrows. Borrowings under this agreement will mature on April 1, 2003, and bear interest at the rate of LIBOR plus 3.1%.

Senior Subordinated Notes

On April 20, 1999, we issued, at par value, \$225,000 of 10 3/4% senior subordinated notes that mature on April 15, 2009. We pay interest on these notes semi-annually on April 15th and October 15th of each year. Except in the case of certain equity offerings by us, we cannot choose to redeem these notes until five years have passed from the issue date of the notes. At any one or more times after that date, we may choose to redeem some or all of the notes at certain specified prices, plus accrued and unpaid interest. Upon the occurrence of certain change of control events, each holder may require us to repurchase all or a portion of the notes at 101% of their principal amount, plus accrued and unpaid interest.

The notes are our senior subordinated unsecured obligations. They rank senior to or equal in right of payment with any of our future subordinated indebtedness, and subordinated in right of payment to any of our existing and future senior indebtedness. The notes are effectively subordinated to indebtedness and other liabilities of our subsidiaries, which are not guarantors. Substantially all of our domestic subsidiaries guarantee the notes with unconditional guaranties of payment that will effectively rank below their senior debt, but will rank equal to their other subordinated debt, in right of payment.

The indenture under which the notes were issued contains covenants that limit what we (and most or all of our subsidiaries) may do. The indenture contains covenants that limit our ability to: incur additional indebtedness; pay dividends on, redeem or repurchase our capital stock; make investments; sell assets; create certain liens; engage in certain transactions with affiliates; and consolidate, merge or sell all or substantially all of our assets or the assets of certain of our subsidiaries. In addition, we will be obligated to offer to repurchase the notes at 100% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase, in the event of certain asset sales. These restrictions and prohibitions are subject to a number of important qualifications and exceptions.

On June 30, 2002, the \$225,000 face value of our outstanding 10 3/4% senior

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subordinated notes had a fair market value of \$130,500.

Debt Maturity Information

The annual maturity of our bank notes payable and long-term debt obligations (exclusive of capital lease obligations) for each of the five years following June 30, 2002, are as follows: \$53,529 for 2003; \$2,948 for 2004; \$71,501 for 2005; \$134,234 for 2006; and \$1,343 for 2007.

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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 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 adopted SFAS No. 133 on July 1, 2000. At adoption, we recorded, within other comprehensive income, a decrease of \$0.5 million in the fair market value of our \$100 million interest rate swap agreement. The \$0.5 million decrease will be amortized over the remaining life of the interest rate swap agreement using the effective interest method. The offsetting interest rate swap liability is separately being reported as a "fair market value of interest rate contract" within other long-term liabilities. In the statement of earnings, we have recorded the net swap interest accrual as part of interest expense. Unrealized changes in the fair value of the swap are recorded on a separate line entitled "decrease in fair market value of interest rate contract."

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 \$4.6 million and \$5.6 million in 2002 and 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 the 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, we issued a floating rate note with a principal amount of \$30,750. Embedded within the promissory note agreement is an interest rate cap. The embedded interest rate cap limits to 8.125%, the 1-month LIBOR interest rate that we must pay on the note. 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

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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.

We recognize interest expense under the provisions of the hedge agreements based on the fixed rate. We are exposed to credit loss in the event of non-performance by the lenders; however, such non-performance is not anticipated.

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.

Expected Fiscal Year Maturity Date	2003	Vari
Type of Interest Rate Contracts	Interest Rate Cap	
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	1.95%	
Fair Market Value at June 30, 2002	\$5	

10. PENSIONS AND POSTRETIREMENT BENEFITS

Pensions

We have defined benefit pension plans covering most of our employees. Employees in our foreign subsidiaries may participate in local pension plans, for which our liability is in the aggregate insignificant. Our funding policy is to make the minimum annual contribution required by the Employee Retirement Income Security Act of 1974 or local statutory law.

The changes in the pension plans' benefit obligations were as follows:

	2002	2001
Projected benefit obligation at beginning of year	\$ 209,559	\$ 199,020
Service cost	6,869	5,720
Interest cost	15,182	15,400
Actuarial loss	414	7,240
Benefit payments	(20,156)	(17,376)
Curtailments	(180)	

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Special termination benefits	162	
Plan amendment	486	7
Plan wind-up	-	(537)
	<hr/>	
Projected benefit obligation at end of year	\$ 212,336	\$ 209,55
	<hr/>	

The changes in the fair values of the pension plans' assets were as follows:

	2002	2001
	<hr/>	
Plan assets at beginning of year	\$ 242,321	\$ 247,76
Actual return on plan assets	3,245	14,47
Administrative expenses	(1,565)	(1,201)
Benefit payments	(20,156)	(17,376)
Plan wind-up	-	(1,341)
	<hr/>	
Plan assets at end of year	\$ 223,845	\$ 242,32
	<hr/>	

At June 30, 2002, one pension plan had an aggregate projected benefit obligation of \$168,979. The aggregate fair value of this plan was \$168,279, which exceeded the accumulated benefit obligation at June 30, 2002.

The following table sets forth the funded status and amounts recognized in our consolidated balance sheets at June 30, 2002 and 2001, for the plans:

	June 30, 200
	<hr/>
Plan assets in excess of projected benefit obligations	\$ 11,50
Unrecognized net loss	50,15
Unrecognized prior service cost	3,03
	<hr/>
Prepaid pension expense recognized in the balance sheet	\$ 64,69
	<hr/>

A summary of the components of total pension expense is as follows:

	2002
	<hr/>
Service cost - benefits earned during the period	\$6,869
Interest cost on projected benefit obligation	15,182
Expected return on plan assets	(22,716)

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Amortization of net loss	1,242
Amortization of prior service cost	549
Amortization of transition asset	-

Net periodic pension (income) expense	\$ 1,126

FAS 88 Charges:	
Special termination benefit charge	162

Total net periodic pension cost	\$ 1,288

Weighted average assumptions used in accounting for the defined benefit pension plans as of June 30, 2002, 2001, and 2000 were as follows:

	2002	2001
	-----	-----
Discount rate	7.125%	7.25%
Expected rate of increase in salaries	3.75%	4.0%
Expected long-term rate of return on plan assets	9.0%	9.0%

Plan assets include an investment in 641,420 shares of our Class A common stock, valued at a fair market value of \$2,020 and \$4,496 at June 30, 2002 and 2001, respectively. Substantially all of the other plan assets are invested in listed stocks and bonds.

Postretirement Health Care Benefits

We provide health care benefits for most of our retired employees. Postretirement health care benefit expense from continuing operations totaled \$1,570, \$1,262, and \$1,065 for 2002, 2001, and 2000, respectively. Our accrual was approximately \$31,018 and \$31,302 as of June 30, 2002 and 2001, respectively, for postretirement health care benefits related to discontinued operations. These amounts represent the cumulative discounted value of the long-term obligation and includes benefit expense of \$3,953, \$3,612, and \$3,484 for the years ended June 30, 2002, 2001 and 2000, respectively.

The changes in the accumulated postretirement benefit obligation of the plans were as follows:

	2002

Accumulated postretirement benefit obligation at beginning of year	\$ 58,
Service cost	4,
Interest cost	1,
Plan participants' contributions	(2,9
Plan amendments	6,
Actuarial gains	(2
Curtailments	(6,5
Benefit payments	

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Accumulated postretirement benefit obligation end of year

\$ 60,

The following table sets forth the funded status and amounts recognized in the Company's consolidated balance sheets at June 30, 2002 and 2001, for the plans:

	2002
Accumulated postretirement benefit obligation	\$ 60,497
Unrecognized prior service credit	3,596
Unrecognized net loss	(22,294)
Accrued postretirement benefit liability	\$ 41,799

The accumulated postretirement benefit obligation was determined using a discount rate of 7.125% at June 30, 2002 and 7.25% at June 30, 2001. The effect of such change resulted in an increase to the accumulated postretirement benefit obligation in fiscal 2002. For measurement purposes, we assumed a 10.0% annual rate of increase in the per capita claims cost of covered health care benefits for fiscal 2002. The rate was assumed to decrease to 5.00% in fiscal 2003 and remain at that level thereafter.

A summary of the components of total postretirement expense is as follows:

	2002
Service cost - benefits earned during the period	\$ 499
Interest cost on accumulated postretirement benefit obligation	4,067
Amortization of prior service credit	(69)
Amortization of net loss	971
Net periodic postretirement benefit cost	\$ 5,468

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects as of and for the fiscal year ended June 30, 2002:

	One Pe Increase
Effect on service and interest components of net periodic cost	\$ 112
Effect on accumulated postretirement benefit obligation	1,597

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Significant components of the provision (benefit) for income taxes attributable to our continuing operations are as follows:

	2002	2001	2000
Current:			
Federal	\$ (14,768)	\$ (16,671)	\$ (11,638)
State	1,048	(792)	(2,496)
Foreign	866	(513)	2,893
Total current	\$ (12,854)	\$ (17,976)	\$ (11,241)
Deferred:			
Federal	\$ (1,917)	\$ 1,049	\$ 5,912
State	(606)	381	930
Total deferred	\$ (2,523)	\$ 1,430	\$ 6,842
Total tax provision (benefit)	\$ (15,377)	\$ (16,546)	\$ (4,399)

The reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rate of 35% to the actual provision for income taxes in fiscal 2002, 2001, and 2000, is as follows:

	2002	2001
Tax at United States statutory rates	\$ (8,918)	\$ (11,080)
State income taxes, net of federal tax benefit	(424)	2,329
Nondeductible acquisition valuation items	-	3,374
Tax on foreign earnings	(4,737)	(7,149)
Difference between book and tax basis of assets acquired and liabilities assumed	-	-
Revision of estimate for tax accruals, net of deferred tax asset valuation allowance	1,094	(3,500)
Extraterritorial income exclusion	(1,645)	-
Other, net	(747)	(520)
Net tax provision (benefit)	\$ (15,377)	\$ (16,546)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of our deferred tax assets and liabilities as of June 30, 2002 and June 30, 2001 are as follows:

	June 30, 2002	June 30, 2001
--	------------------	------------------

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Deferred tax assets:		
Accrued expenses	\$ 5,484	\$ 6,160
Asset basis differences	215	-
Inventory	11,437	10,924
Employee compensation and benefits	7,449	13,449
Environmental reserves	3,386	4,765
Postretirement benefits	16,269	12,286
Net Operating loss, capital loss and credit carryforwards	98,893	83,799
Other	9,888	3,713

Total deferred tax assets	\$ 153,021	\$135,096
Less: Valuation allowance	(98,893)	(83,798)

Net deferred tax assets	\$ 54,128	\$ 51,298

Deferred tax liabilities:		
Asset basis differences	\$(27,364)	\$(67,160)
Pensions	(18,923)	(19,819)

Total deferred tax liabilities	\$(46,287)	\$(86,979)

Net deferred tax assets (liabilities)	\$ 7,841	\$(35,681)

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not, that some portion or all of the deferred tax assets will not be realized. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

At June 30, 2002, we have \$282,552 of federal operating loss carryforwards expiring 2008 through 2022, and \$3,196 unused alternative minimum tax credit carryforward that does not expire.

The amounts included in the balance sheet are as follows:

	June 30, 2002	June 30, 2001

Prepaid expenses and other current assets:		
Current deferred	\$ 12,118	\$ 13,005

Noncurrent income tax liabilities:		
Noncurrent deferred	\$ 4,277	\$ 48,686
Other noncurrent	53,791	27,072

	\$58,068	\$75,758

We maintain a very complex structure in the United States and overseas, particularly due to the large number of acquisitions and dispositions that have occurred along with other tax planning strategies. The noncurrent income tax liability is after utilization of available net operating losses and is attributable to permanent differences between the financial statement carrying amounts of assets and liabilities which we have sold in prior years and their

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respective tax bases. Our management performs a comprehensive review of its worldwide tax positions on an annual basis. Based on outcomes in recent years, as a result of discussions and resolutions of matters with the tax authorities and the closure of tax years subject to tax audit, we have revised our tax accruals, net of valuation allowances, by \$(1,094), \$3,500, and \$7,800, in 2002, 2001, and 2000, respectively.

Domestic income taxes, less available credits, are provided on the unremitted income of foreign subsidiaries and affiliated companies, to the extent we intend to repatriate such earnings. No domestic income taxes or foreign withholding taxes are provided on the undistributed earnings of foreign subsidiaries and affiliates, which are considered permanently invested, or which would be offset by allowable foreign tax credits. At June 30, 2002, the amount of domestic taxes payable upon distribution of such earnings was not significant.

In the opinion of our management, adequate provision has been made for all income taxes and interest; and any liability that may arise for prior periods will not have a material effect on our financial condition or our results of operations.

12. EQUITY SECURITIES

We had 22,540,021 shares of Class A common stock and 2,621,502 shares of Class B common stock outstanding at June 30, 2002. Class A common stock is listed on the New York Stock Exchange under the ticker symbol of "FA". 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. For the year ended June 30, 2002, we issued 12,220 shares of Class A common stock as a result of the pay out of 12,220 deferred compensation units pursuant to our stock option deferral plan. During fiscal 2002, stock warrants entitled to purchase 400,000 shares of our common stock expired.

13. STOCK OPTIONS

Stock Options

We are authorized to issue 5,141,000 shares of our Class A common stock upon the exercise of stock options issued under our 1986 non-qualified and incentive stock option plan. The purpose of the 1986 stock option plan is to encourage continued employment and ownership of Class A common stock by our officers and key employees, and to provide additional incentive to promote success. The 1986 stock option plan authorizes the granting of options at not less than the market value of the common stock at the time of the grant. The option price is payable in cash or, with the approval of our compensation and stock option committee of the Board of Directors, in "mature" shares of common stock, valued at fair market value at the time of exercise. The options normally vest by twenty-five percent at the end of each of the first four years and terminate five years from the date of grant, or for a stipulated period of time after an employee's death or termination of employment. The 1986 plan expires on April 9, 2006; however, all stock options outstanding as of April 9, 2006 shall continue to be exercisable pursuant to their terms.

We are authorized to issue 250,000 shares of our Class A common stock upon the exercise of stock options issued under the ten-year 1996 non-employee directors stock option plan. The 1996 non-employee directors stock option plan authorizes the granting of options at the market value of the common stock on the date of grant. An initial stock option grant for 30,000 shares of Class A common stock is made to each person who becomes a new non-employee Director,

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with the options vesting 25% each year from the date of grant. On the date of each annual meeting, each person elected as a non-employee Director will be granted an option for 1,000 shares of Class A common stock that vest immediately. The exercise price is payable in cash or, with the approval of our compensation and stock option committee, in shares of Class A or Class B common stock, valued at fair market value at the date of exercise. All options issued under the 1996 non-employee directors stock option plan will terminate five years from the date of grant or a stipulated period of time after a non-employee Director ceases to be a member of the Board. The 1996 non-employee directors stock option plan is designed to maintain our ability to attract and retain highly qualified and competent persons to serve as our outside directors.

At the Annual Shareholders meeting held in November 2001, the shareholders approved the 2001 non-employee directors stock option plan, pursuant to which non-employee directors were issued stock options for 86,942 shares, in the aggregate, immediately after the 2001 Annual Meeting.

At the Annual Shareholders meeting held in November 2000, the shareholders approved the 2000 non-employee directors stock option plan, pursuant to which each non-employee director was issued stock options for 7,500 shares (52,500 shares in the aggregate) immediately after the 2000 Annual Meeting.

Upon our April 8, 1999 merger with Banner Aerospace, all of Banner Aerospace's stock options then issued and outstanding were converted into the right to receive 870,315 shares of our common stock.

A summary of stock option transactions under our stock option plans is presented in the following tables:

	Shares	Weighted Average Exercise Price
Outstanding at June 30, 1999	2,786,563	\$ 11.05
Granted	200,500	8.89
Exercised	(329,126)	3.98
Expired	(88,216)	6.79
Forfeited	(103,150)	14.53
Outstanding at June 30, 2000	2,466,571	11.82
Granted	353,906	6.38
Exercised	(374,016)	3.67
Expired	(222,719)	8.06
Forfeited	(300,400)	17.53
Outstanding at June 30, 2001	1,923,342	11.92
Granted	563,764	2.98
Expired	(350,119)	14.50
Forfeited	(19,565)	7.79
Outstanding at June 30, 2002	2,117,422	\$ 9.18
Exercisable at June 30, 2000	1,793,459	\$ 10.57
Exercisable at June 30, 2001	1,291,911	\$ 12.97
Exercisable at June 30, 2002	1,174,329	\$ 12.46

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A summary of options outstanding at June 30, 2002 is presented as follows:

Options Outstanding			
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Average Remaining Contract Life
\$2.35 - \$3.10	561,764	\$2.97	4.3 years
\$6.00 - \$8.63	576,260	6.39	2.2 years
\$8.72 - \$13.48	434,853	9.45	1.7 years
\$13.62 - \$16.25	344,545	14.61	1.8 years
\$18.56 - \$25.07	200,000	24.70	0.2 years
\$2.35 - \$25.07	2,117,422	\$9.18	2.4 years

The weighted average grant date fair value of options granted during 2002, 2001, and 2000 was \$1.62, \$3.13, and \$4.16, respectively. The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model. The following significant assumptions were made in estimating fair value:

	2002	2001
Risk-free interest rate	3.6% - 4.7%	5.3% - 6.3%
Expected life in years	4.75	4.31
Expected volatility	53% - 65%	52% - 53%
Expected dividends	None	None

We recognized compensation expense of \$9 and \$13 from stock options issued to consultants in 2002 and 2001, respectively. We are applying APB Opinion No. 25 in accounting for our stock option plans. Accordingly, no compensation cost has been recognized for the granting of stock options to our employees in 2002, 2001 or 2000. If stock options granted in 2002, 2001 and 2000 were accounted for based on their fair value as determined under SFAS 123, pro forma earnings would be as follows:

	2002	2001
Net earnings (loss):		
As reported	\$ (154,840)	\$ (15,000)
Pro forma	(156,776)	(16,923)
Basic and diluted earnings (loss) per share:		
As reported	\$ (6.16)	\$ (0.60)
Pro forma	(6.23)	(0.67)

The pro forma effects of applying SFAS 123 are not representative of the effects on reported net earnings for future years. The effect of SFAS 123 is not applicable to awards made prior to 1996. Additional awards are expected in

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future years.

Stock Option Deferral Plan

On November 17, 1998, our shareholders approved a stock option deferral plan. Pursuant to the stock option deferral plan, certain officers may, at their election, defer payment of the "compensation" they receive in a particular year or years from the exercise of stock options. "Compensation" means the excess value of a stock option, determined by the difference between the fair market value of shares issueable upon exercise of a stock option, and the option price payable upon exercise of the stock option. An officer's deferred compensation is payable in the form of "deferred compensation units," representing the number of shares of common stock that the officer is entitled to receive upon expiration of the deferral period. The number of deferred compensation units issueable to an officer is determined by dividing the amount of the deferred compensation by the fair market value of our stock as of the date of deferral.

Shares Available for Future Issuance

The following table reflects a summary of the shares that could be issued under our stock option and stock deferral plans at June 30, 2002:

	1986	1996	2000	2001
Securities to be issued upon:	Plan	Directors Plan	Directors Plan	Directors Plan
Exercise of outstanding options	1,303,328	62,000	52,500	86,942
Weighted average option exercise price	\$ 9.66	\$ 9.19	\$ 6.00	\$ 2.35
Options available for future grants	181,859	188,000	-	-
Issuance of deferred compensation units	-	-	-	-
Shares available for future issuance	1,485,187	250,000	52,500	86,942

14. EARNINGS PER SHARE

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

	2002	2001
Basic earnings per share:		
Earnings (loss) from continuing operations	\$ (10,240)	\$ (15,000)
Weighted average common shares outstanding	25,155	25,155
Basic earnings per share:		
Basic earnings (loss) from continuing operations per share	\$ (0.41)	\$ (0.59)
Diluted earnings per share:		
Earnings (loss) from continuing operations	\$ (10,240)	\$ (15,000)

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Weighted average common shares outstanding	25,155	2
Diluted effect of options	antidilutive	antidil
Diluted effect of warrants	antidilutive	antidil
Total shares outstanding	25,155	2
Diluted earnings (loss) from continuing operations per share	\$ (0.41)	\$ (

The computation of diluted loss from continuing operations per share for 2002 and 2001 excluded the effect of incremental common shares attributable to the potential exercise of common stock options outstanding and warrants outstanding, because their effect was antidilutive. No adjustments were made to share information in the calculation of earnings per share for the change in accounting for goodwill and discontinued operations in 2002 and 2000, respectively.

15. RESTRUCTURING CHARGES

In fiscal 2000, we recorded \$8,578 of restructuring charges as a result of the continued integration of Kaynar Technologies into our aerospace fasteners segment. All of the charges recorded during 2000 were a direct result of product and plant integration costs incurred as of June 30, 2000. These costs were classified as restructuring and were the direct result of formal plans to move equipment, close plants and to terminate employees. Such costs are nonrecurring in nature. Other than a reduction in our existing cost structure, none of the restructuring charges resulted in future increases in earnings or represented an accrual of future costs.

16. DISCONTINUED OPERATIONS

Based on our formal plan, we have disposed of the Fairchild Technologies' businesses, including its intellectual property, through a series of transactions. Because of Fairchild Technologies' significant utilization of cash, in February 1998, our Board of Directors adopted a formal plan to discontinue Fairchild Technologies, under which, Fairchild Technologies would either be sold or liquidated. In connection with the adoption of that plan, we recorded an after-tax charge of \$36.2 million in discontinued operations in fiscal 1998. Included in the fiscal 1998 charge, was \$28.2 million, net of an income tax benefit of \$11.8 million, for the net losses of Fairchild Technologies through June 30, 1998. This charge included the write down of assets to estimated net realizable value and \$8.0 million, net of an income tax benefit of \$4.8 million, for the estimated remaining operating losses of Fairchild Technologies through February 1999, the originally anticipated disposal date. The dispositions of the Fairchild Technologies semiconductor equipment group, the major portion of the Fairchild Technologies business, took place by June 1999, approximately 15 months after the adoption of the disposition plan. We also completed a spin-off of the Fairchild Technologies optical disc equipment group business in April 2000, approximately 25 months after the original disposition plan. We received proceeds from the dispositions of Fairchild Technologies of less than we originally projected, and the operating losses of Fairchild Technologies, since the adoption date, exceeded our original estimates. At each quarter end, we continued to reevaluate our conclusions on discontinued operations and update the estimates of losses as circumstances changed. At no point did we consider retaining any portion of the Fairchild Technology business. As a result, we adjusted the net loss on disposal of discontinued operations by \$31.3 million and \$12.0 million in fiscal 1999 and 2000, respectively. The following schedule provides a summary of the net loss on disposal of discontinued operations for Fairchild Technologies:

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	1998	1999 (a)	20
Accrual for future operating losses, net	\$ 8,000	\$ (5,203)	\$ (
Operating losses, net	12,644	21,313	
Loss on dispositions, net	15,599	15,239	
Loss on disposal of discontinued operations, net	\$ 36,243	\$ 31,349	\$

At the measurement date in February 1998, management's reasonable expectation was that Fairchild Technologies would be disposed of within one year. Management felt confident that this could be accomplished for the following reasons:

- o We retained an investment banker to aid in the disposal of the Fairchild Technologies business.
- o Our belief was further enhanced as active discussions began with approximately 20 potentially interested parties; and based on those discussions we believed that we could sell Fairchild Technologies within one year.
- o The expected quarterly losses, as accrued at the measurement date created an incentive to sell the Fairchild Technologies business in order to reduce cash outflows.

However, our February 1998 expectations that we could sell Fairchild Technologies within one year were severely hampered by a general slowdown in the semiconductor manufacturing equipment industry, the economic crisis in Asia, and public knowledge that the business was for sale. As a result of these conditions, the major customer of Fairchild Technologies semiconductor equipment group business refused to place additional firm orders and Fairchild Technologies incurred net operating losses well in excess of the \$8.0 million originally planned. As a further result of these conditions, efforts to sell the Fairchild Technologies business, as a whole, were unsuccessful. However, several parties expressed interest in specific product lines and intellectual property of Fairchild Technologies. Management realized that it would have to split-up Fairchild Technologies and separately dispose of components of its semiconductor equipment group and its optical disc equipment business. In February 1999, disposition discussions began to intensify, and shortly thereafter letters of intent were signed to sell portions of the Fairchild Technologies business.

In March 1999, management decided to cease all manufacturing activities of the semiconductor equipment group of Fairchild Technologies. In April 1999, we began to dispose of the semiconductor equipment group's production machinery and existing inventory, informed customers and business partners that it ceased operations, significantly reduced its workforce, and stepped up the level of discussions and negotiations with other companies regarding the sale of its remaining assets. Fairchild Technologies also continued exploring several alternative transactions with potential buyers for its optical disc equipment group business.

During the fourth quarter of fiscal 1999, we liquidated, through several transactions, a significant portion of Fairchild Technologies, consisting mostly of its semiconductor equipment group. On April 14, 1999, we disposed of Fairchild Technologies' photoresist deep ultraviolet track equipment machines and technology, spare parts and testing equipment to Apex Co., Ltd., in exchange for 1,250,000 shares of Apex stock valued at approximately \$5.1 million. On May 1, 1999, we sold Fairchild CDI for a nominal amount. On June 15, 1999, we received from Süss Microtec AG \$7.9 million and the right to receive 350,000

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shares of Sues Microtec stock (or approximately \$3.5 million) in exchange for Fairchild Technologies' Falcon semiconductor equipment group product line and certain intellectual property.

In July 1999, we received approximately \$7.1 million from Novellus in exchange for Fairchild Technologies' Low-K dielectric product line and certain intellectual property. This transaction finalized the liquidation of the semiconductor equipment group of Fairchild Technologies.

Following these transactions Fairchild Technologies completely ceased operations. Under these circumstances, management believes that discontinued operations treatment for accounting purposes continued to be appropriate subsequent to March 1999.

On April 13, 2000, we completed a spin-off to our stockholders of the shares of Fairchild (Bermuda) Ltd. On April 14, 2000, Fairchild (Bermuda) sold to Convac Technologies Ltd. the Optical Disc Equipment Group business formerly owned by Fairchild Technologies. Subsequently, on April 14, 2000, Fairchild (Bermuda), renamed Global Sources Ltd., completed an exchange of approximately 95% of its shares for 100% of the shares of Trade Media Holdings Limited, an Asian based, business-to-business online and traditional marketplace services provider. Immediately after the share exchange, our stockholders owned 1,183,081 shares of the 26,152,308 issued shares of Global Sources. Global Sources shares are listed on the NASDAQ under the symbol "GSOL". This transaction allowed us to complete our formal plan to dispose of Fairchild Technologies and provided our shareholders with a unique opportunity to participate in a new public entity.

Fairchild Technologies reported sales of \$8,087 in 2000.

17. RELATED PARTY TRANSACTIONS

We pay for a chartered helicopter used from time to time for business related travel. The owner of the chartered helicopter is a company controlled by Mr. Jeffrey Steiner. Cost for such flights that are charged to us are comparable to those charged in arm's length transactions between unaffiliated third parties. The total amounts paid for such helicopter was approximately \$143 and \$200 in 2001 and 2000, respectively. No amounts were paid in 2002.

We have extended loans to purchase our Class A common stock to certain members of our senior management and Board of Directors, for the purpose of encouraging ownership of our stock, and to provide additional incentive to promote our success. The loans are non-interest bearing, have maturity dates ranging from 11/2 to 31/2 years, and become due and payable immediately upon the termination of employment for senior management, or director affiliation with us for a director. As of June 30, 2002, the indebtedness owed to us from Mr. Flynn, Mr. Juris, Mr. Persavich, and Mr. J. Steiner, was approximately \$175 each. On June 30, 2002, Mr. Gerard, Ms. Hercot, Mr. Kelley, Mr. Miller and Mr. E. Steiner owed us approximately \$99, \$167, \$50, \$220 and \$220, respectively. On June 30, 2002, approximately \$106 of indebtedness was owed to us by each of Mr. Caplin, Mr. David, Mr. Harris, Mr. Lebard, and Mr. Richey. As of June 30, 2002, each of the individual amounts due to us represented the largest aggregate balance of indebtedness outstanding under the officer and director stock purchase program. We recognized compensation expense of \$22 and \$443 in 2001 and 2000, respectively, as a result of favorable terms granted to the recipients of the loans.

On November 16, 1999, Mr. Richey borrowed \$46 from us to exercise stock options and hold our Class A common stock. The loan matures on November 16, 2002 and bears interest at 5.5%. The loan balance was \$53 at June 30, 2002.

18. LEASES

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Operating Leases

We hold certain of our facilities and equipment under long-term leases. The minimum rental commitments under non-cancelable operating leases with lease terms in excess of one year, for each of the five years following June 30, 2002, are as follows: \$9,383 for 2003; \$7,801 for 2004; \$6,424 for 2005; \$4,420 for 2006; and \$2,764 for 2007. Rental expense on operating leases from continuing operations for fiscal 2002, 2001, and 2000 was \$9,279, \$12,445, and \$11,280, respectively.

Capital Leases

Minimum commitments under capital leases for each of the five years following June 30, 2002, are \$344 for 2003; \$176 for 2004; \$37 for 2005; \$23 for 2006; and \$12 for 2007, respectively. At June 30, 2002, the present value of capital lease obligations was \$553 and imputed interest was \$39. Capital assets leased and included in property, plant, and equipment consisted of:

	June 30, 2002	June 30, 2001
Land	\$ -	\$ 70
Buildings and improvements	153	378
Machinery and equipment	1,063	1,920
Furniture and fixtures	-	17
Transportation vehicles	44	-
Less: Accumulated depreciation	(443)	(1,993)
	\$ 817	\$ 392

Leasing Operations

In fiscal 1999, we began leasing retail space to tenants under operating leases at a 456,000 square foot shopping center that we developed in Farmingdale, New York. Rental revenue is recognized as lease payments are due from tenants, and the related costs are amortized over their estimated useful life. The future minimum lease payments to be received from non-cancelable operating leases on June 30, 2002 are \$6,296 in 2003; \$6,706 in 2004; \$6,636 in 2005; \$6,575 in 2006; \$6,575 in 2007; and \$44,531 thereafter. Rental property under operating leases consists of the following as of June 30, 2002:

Land and improvements	\$21,818
Buildings and improvements	55,533
Tenant improvements	9,121
Less: Accumulated depreciation	(5,915)
	\$80,557

19. CONTINGENCIES

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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 June 30, 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. On June 30, 2002, \$4.8 million of these liabilities was classified as other accrued liabilities and \$9.1 million was classified as other long-term liabilities. 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.

20. BUSINESS SEGMENT INFORMATION

We report in three principal business segments. The aerospace fasteners segment includes the manufacture of high performance specialty fasteners and fastening systems. The aerospace distribution segment distributes a wide range of aircraft parts and related support services to the aerospace industry. The real estate segment leases space to tenants at completed sections of a shopping center in Farmingdale, New York. The corporate segment includes the Gas Springs division prior to its disposition and corporate activities. Our financial data by business segment is as follows:

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	Aerospace Fasteners (d)	Aerospace Distribution	Real Estate Operations	Co
Fiscal 2002:				
Sales	\$ 560,796	\$ 63,297	\$ -	
Operating Income (Loss) (a)	41,581	2,579	1,076	
Capital Expenditures	10,938	545	-	
Depreciation and Amortization	26,661	679	2,744	
Identifiable Assets at June 30	671,909	49,358	116,020	
Fiscal 2001:				
Sales	\$ 536,904	\$ 85,908	\$ -	
Operating Income (Loss) (b)	37,008	2,499	(138)	
Capital Expenditures	15,261	751	-	
Depreciation and Amortization	39,090	900	2,268	
Identifiable Assets at June 30	578,981	46,718	116,250	
Fiscal 2000:				
Sales	\$ 533,620	\$ 101,002	\$ -	
Operating Income (Loss) (c)	33,909	7,758	1,033	
Capital Expenditures	26,367	630	-	
Depreciation and Amortization	38,025	976	894	
Identifiable Assets at June 30	599,139	54,784	122,148	

21. FOREIGN OPERATIONS AND EXPORT SALES

Our operations are located primarily in the United States and Europe. All rental revenue is generated in the United States. Inter-area sales are not significant to the total sales of any geographic area. Sales by geographic area are attributed by country of domicile of our subsidiaries. Our financial data by geographic area is as follows:

United	States	Europe	Austr
Fiscal 2002:			
Sales by geographic area	\$ 462,630	\$ 158,737	\$ 2
Rental Revenue by geographic area	6,679	-	
Operating income (loss) by geographic area	8,371	17,973	
Earnings (loss) from continuing operations before taxes	(35,931)	10,116	
Identifiable assets by geographic area at June 30	781,674	179,224	8
Long-lived assets by geographic area at June 30	301,520	39,847	1
Fiscal 2001:			
Sales by geographic area	\$ 465,490	\$ 154,339	\$ 2
Rental Revenue by geographic area	7,030	-	
Operating income (loss) by geographic area	(4,402)	24,377	1
Loss from continuing operations before taxes	(51,536)	19,029	
Identifiable assets by geographic area at June 30	984,344	168,729	7
Long-lived assets by geographic area at June 30	318,196	38,458	1
Fiscal 2000:			
Sales by geographic area	\$ 470,984	\$ 160,954	\$ 2

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Rental Revenue by geographic area	3,583	-	
Operating income (loss) by geographic area	(1,440)	24,382	
Earnings from continuing operations before taxes	(2,874)	20,849	(
Identifiable assets by geographic area at June 30	1,013,100	244,106	9
Long-lived assets by geographic area at June 30	343,151	43,094	2

Export sales are defined as sales by our operations located in the United States to customers in foreign regions. Export sales were as follows:

	Europe	Canada	Japan	Asia (without Japan)	South America
Fiscal 2002	\$ 40,972	\$ 14,265	\$ 8,003	\$ 3,612	\$ 9,242
Fiscal 2001	42,067	14,670	8,502	2,140	1,906
Fiscal 2000	42,831	16,621	8,568	3,031	1,146

22. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table of quarterly financial data has been prepared from our financial records, without audit, and reflects all adjustments which are, in the opinion of our management, necessary for a fair presentation of the results of operations for the interim periods presented.

Fiscal 2002 quarters ended	Sep-30	Dec-30
Net sales	\$ 165,073	\$ 157,835
Rental revenue	1,733	1,664
Gross Profit	41,169	38,870
Earnings (loss) from continuing operations	(3,599)	907
Per basic share	(0.14)	0.04
Per diluted share	(0.14)	0.04
Cumulative effect of change in accounting for goodwill (a)	(144,600)	-
Per basic share	(5.75)	-
Per diluted share	(5.75)	-
Net earnings (loss) (a)	(148,199)	907
Per basic share	(5.89)	0.04
Per diluted share	(5.89)	0.04
Market price range of Class A Stock:		
High	7.15	3.90
Low	3.00	2.05
Close	3.40	2.69

Fiscal 2001 quarters ended	Sep-30	Dec-30
Net sales	\$ 148,367	\$ 148,100
Rental revenue	1,668	1,862
Gross Profit	35,341	39,646
Net earnings (loss)	(5,445)	(6,639)
Per basic share	(0.22)	(0.26)
Per diluted share	(0.22)	(0.26)
Market price range of Class A Stock:		
High	7.50	7.00

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Low	4.69	4.63
Close	6.44	5.50

23. CONSOLIDATING FINANCIAL STATEMENTS

The following consolidating financial statements separately show The Fairchild Corporation and the subsidiaries of The Fairchild Corporation. These financial statements are provided to fulfill public reporting requirements and separately present guarantors of the 10 3/4% senior subordinated notes due 2009 issued by The Fairchild Corporation (the "Parent Company"). The guarantors are primarily composed of our domestic subsidiaries, excluding Fairchild Technologies, a real estate development venture, and certain other subsidiaries. The Parent Company owns 100% of each of the subsidiary guarantors, and has no independent assets or operations. The guarantees are full and unconditional and are also joint and several. There are no restrictions of the Parent Company, or any guarantor, on the ability to obtain funds from its subsidiaries.

CONSOLIDATING STATEMENT OF EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002

	Parent Company	Guarantors	Non Guarant
Revenue:			
Net sales	\$ -	\$ 480,006	\$ 163
Rental revenue	-	-	6
Other income, net	(238)	3,749	1
	(238)	483,755	172
Costs and expenses:			
Cost of goods sold	-	372,845	119
Cost of rental revenue	-	-	4
Selling, general & administrative	7,318	94,784	26
Impairment charges	-	3,435	
	7,318	471,064	150
Operating income (loss)	(7,556)	12,691	21
Net interest expense (including intercompany)	(18,095)	54,457	10
Investment (income) loss, net	(13)	1,005	
Intercompany dividends	-	1,577	
Decrease in market value of interest rate contract	(4,567)	-	
Earnings (loss) from continuing operations before taxes	5,985	(44,348)	11
Income tax (provision) benefit	(3,402)	25,204	(6,
Equity in earnings (loss) of affiliates and subsidiaries	(157,423)	(212)	
Minority interest	-	-	
Earnings (loss) from continuing operations	(154,840)	(19,356)	4
Cumulative effect in change in accounting goodwill	-	(144,600)	

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Net earnings (loss)	\$ (154,840)	\$ (163,956)	\$ 4
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CONSOLIDATING BALANCE SHEET
JUNE 30, 2002

	Parent Company	Guarantors	Non Guarant
Cash and cash equivalents	\$ 10	\$ 4,834	\$ 10,
Short-term investments	55	439	
Accounts receivable, less allowances	940	654,638	107,
Inventory, net	-	126,874	54,
Prepaid expenses and other current assets	12,229	17,334	5,
Total current assets	13,234	804,119	177,
Investment in subsidiaries	735,342	-	
Net fixed assets	541	92,240	36,
Net assets held for sale	-	19,406	
Investments and advances in affiliates	93	3,168	
Goodwill, net	-	241,560	32,
Deferred loan costs	10,475	-	
Prepaid pension assets	-	64,693	
Real estate investment	-	-	108,
Long-term investments	60	2,352	3,
Other assets	3,223	9,367	1,
Total assets	\$ 762,968	\$1,236,905	\$ 359,
Bank notes payable & current maturities of debt	\$ 2,279	\$ 1,607	\$ 49,
Accounts payable	27	874,413	202,
Other accrued expenses	6,845	52,402	23,
Total current liabilities	9,151	928,422	276,
Long-term debt, less current maturities	432,297	3,211	2,
Fair market value of interest rate contract	10,989	-	
Other long-term liabilities	407	13,263	4,
Noncurrent income taxes	58,587	(669)	
Retiree health care liabilities	-	37,619	5,
Total liabilities	511,431	981,846	288,
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,
Retained earnings	91,947	(204,758)	(50,8
Cumulative other comprehensive loss	(14)	(17,298)	(4,3

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Treasury stock, at cost	(76,044)	-	
Total stockholders' equity	251,537	255,059	71,
Total liabilities & stockholders' equity	\$ 762,968	\$1,236,905	\$ 359,

CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

	Parent Company	Guarantors	Non Guaran
Cash Flows from Operating Activities:			
Net earnings (loss)	\$ (154,840)	\$ (163,956)	\$ 4
Depreciation & amortization	82	20,020	10
Amortization of deferred loan fees	1,542	20	
Unrealized holding (gain) loss on interest rate contract	4,567	-	
Cumulative effect of change in accounting for goodwill	-	144,600	
Loss from impairments	-	3,061	
Paid-in kind interest income	-	(653)	
Loss (gain) on sale and impairment of investments	1,145	786	
Earnings (loss) of affiliates, net	(75)	212	
Change in assets and liabilities	146,242	2,316	(2,
Net cash (used for) provided by operating activities	(1,337)	6,406	13
Cash Flows from Investing Activities:			
Proceeds received from (used for):			
Purchase of property, plant and equipment	(125)	(7,811)	(3,
Investment securities, net	-	1,027	
Sale of fixed assets	-	3,841	
Equity investment in affiliates	(524)		
Real estate investment	-	-	(
Proceeds received from net assets held for sale	-	3,316	
Change in notes receivable	155	(5,713)	
Net cash (used for) provided by investing activities	(494)	(5,340)	(3,
Cash Flows from Financing Activities:			
Proceeds from issuance of debt	106,439	478	24
Debt repayments, net	(105,153)	(3,209)	(32,
Issuance of Class A common stock	9	-	
Loans to stockholders	(16)	(47)	
Net cash (used for) provided by financing activities	1,279	(2,778)	(8,
Effect of exchange rate changes on cash	-	-	
Net change in cash	(552)	(1,712)	2
Cash and cash equivalents, beginning of the year	562	6,546	7
Cash and cash equivalents, end of the period	\$ 10	\$ 4,834	\$ 10

CONSOLIDATING STATEMENT OF EARNINGS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2001

	Parent Company	Guarantors	Non Guarant
Revenue:			
Net sales	\$ -	\$ 474,653	\$ 160,
Rental revenue	-	-	7,
Other income, net	(70)	5,593	
	(70)	480,246	168,
Costs and expenses:			
Cost of good sold	-	365,506	113,
Cost of rental revenue	-	-	4,
Selling, general & administrative	6,488	94,227	24,
Amortization of goodwill	808	10,704	
Impairment charges	-	5,889	
	7,296	476,326	143,
Operating income (loss)	(7,366)	3,920	24,
Net interest expense (including intercompany)	(10,831)	57,904	8,
Investment (income) loss, net	(2,995)	1,533	(6,9
Intercompany dividends	-	500	
Fair market value adjustment of interest rate contract	5,610	-	
Earnings (loss) before taxes	850	(56,017)	23,
Income tax (provision) benefit	(1,396)	38,151	(20,2
Equity in earnings of affiliates and subsidiaries	(14,454)	169	
Net earnings (loss)	\$ (15,000)	\$ (17,697)	\$ 2,

CONSOLIDATING BALANCE SHEET (UNAUDITED)
JUNE 30, 2001

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	Parent Company	Guarantors	Non Guarantors
Cash and cash equivalents	\$ 562	\$ 6,546	\$ 7,
Short-term investments	71	3,034	
Accounts receivable (including intercompany), less allowances	2,336	628,104	84,
Inventory, net	-	144,157	44,
Prepaid expenses and other current assets	13,292	22,134	7,
Total current assets	16,261	803,975	144,
Investment in subsidiaries	880,946	-	
Net fixed assets	501	112,969	35,
Net assets held for sale	-	17,999	
Investments and advances in affiliates	92	2,721	
Goodwill, net	15,720	370,440	32,
Deferred loan costs	11,944	20	
Prepaid pension assets	-	65,249	
Real estate investment	-	-	110,
Long-term investments	1,205	3,626	3,
Other assets	2,607	1,335	
Total assets	\$ 929,276	\$ 1,378,334	\$ 328,
Bank notes payable & current maturities of debt	\$ 2,250	\$ 1,631	\$ 22,
Accounts payable (including intercompany)	20	778,542	230,
Other accrued expenses	6,855	57,840	30,
Total current liabilities	9,125	838,013	284,
Long-term debt, less current maturities	431,041	5,918	33,
Fair market value of interest rate contract	6,422	-	
Other long-term liabilities	406	21,672	3,
Noncurrent income taxes	76,217	(587)	
Retiree health care liabilities	-	37,335	4,
Total liabilities	523,211	902,351	326,
Class A common stock	3,034	-	
Class B common stock	262	-	
Notes due from stockholders	(429)	(1,338)	
Paid-in capital	232,820	478,207	83,
Retained earnings	246,787	25,623	(64,9
Cumulative other comprehensive loss	(334)	(26,509)	(15,8
Treasury stock, at cost	(76,075)	-	
Total stockholders' equity	406,065	475,983	2,
Total liabilities & stockholders' equity	\$ 929,276	\$ 1,378,334	\$ 328,

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CONSOLIDATING STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2001

	Parent Company	Guarantors	Non Guarant
Cash Flows from Operating Activities:			
Net earnings (loss)	\$ (15,000)	\$ (17,697)	\$ 2
Depreciation & amortization	885	32,243	10
Amortization of deferred loan fees	1,414	3	
Unrealized holding loss on interest rate contract	6,422	-	
Loss from impairments	-	3,524	2
Gain on sale of investments	(850)	(4,575)	(3,
Undistributed (distributed) earnings of affiliates	59	(169)	
Change in assets and liabilities	(13,821)	(28,718)	(16,
Net cash used for operating activities	(20,891)	(15,389)	(3,
Cash Flows from Investing Activities:			
Proceeds received from (used for):			
Purchase of property, plant and equipment	(106)	(11,643)	(4,
Sale of property, plant and equipment	14	4,459	
Investment securities, net	-	16,447	
Equity investment in affiliates	477	-	
Change in real estate investment	-	-	(2,
Change in net assets held for sale	-	1,491	
Net cash (used for) provided by investing activities	385	10,754	(7,
Cash Flows from Financing Activities:			
Proceeds from issuance of debt	146,974	-	21
Debt repayments, net	(126,624)	(11,891)	(14
Issuance of Class A common stock	593	-	
Loans to stockholders	90	9	
Net cash (used for) provided by financing activities	21,033	(11,882)	6
Effect of exchange rate changes on cash	-	-	(
Net change in cash	527	(16,517)	(4,
Cash, beginning of the year	35	23,063	12
Cash, end of the year	\$ 562	\$ 6,546	\$ 7

CONSOLIDATING STATEMENT OF EARNINGS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2000

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	Parent Company	Guarantors	Non Guarant
Revenue:			
Net sales	\$ -	\$ 470,595	\$ 166,5
Rental revenue	-	-	3,5
Other income,	(103)	9,178	1,7
	(103)	479,773	171,8
Costs and expenses:			
Cost of sales	-	355,643	118,1
Cost of rental revenue	-	-	2,4
Selling, general & administrative	6,072	100,483	24,3
Restructuring	-	8,578	
Amortization of goodwill	808	10,745	1,0
	6,880	475,449	145,9
Operating income (loss)	(6,983)	4,324	25,9
Net interest expense (income)	42,347	(7,512)	9,2
Investment income, net	(6)	(9,929)	
Nonrecurring income on disposition of subsidiary	-	-	(28,62)
Earnings (loss) before taxes	(49,324)	21,765	45,2
Income tax (provision) benefit	6,343	(238)	(1,70)
Equity in earnings of affiliates and subsidiaries	52,739	-	
Earnings (loss) from continuing operations	9,758	21,527	43,5
Earnings (loss) from disposal of discontinued operations	-	-	(12,00)
Net earnings (loss)	\$ 9,758	\$ 21,527	\$ 31,5

CONSOLIDATING STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2000

	Parent Company	Guarantors	Non Guarant
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss)	\$ 9,758	\$ 21,527	\$ 31,
Depreciation and amortization	931	32,350	8,
Deferred loan fee amortization	1,075	2	
(Gain) loss on sale of property, plant and equipment	-	(2,207)	
Gain on sale of investments	-	(9,206)	
Undistributed loss (earnings) of affiliates, net	-	372	
(Gain) on sale of affiliate investments and divestiture of			

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subsidiary	-	-	(28,6
Change in assets and liabilities	58,560	(125,047)	(53,6
Non-cash charges and working capital changes of discontinued operations	-	-	(13,3
Net cash (used for) provided by operating activities	70,324	(82,209)	(55,1
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net proceeds received from investments	-	14,655	
Purchase of property, plant and equipment	(5)	(19,321)	(8,0
Proceeds from sale of property, plant and equipment	-	12,693	
Net proceeds from divestiture of subsidiaries	-	57,000	51,
Proceeds from net assets held for sale	-	4,672	
Real estate investment	-	-	(27,7
Equity investment in affiliates	-	(2,489)	
Investing activities of discontinued operations	-	-	7,
Net cash provided by (used for) investing activities	(5)	67,210	23,
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of debt	52,200	111,569	43,
Debt repayments	(122,359)	(113,465)	(10,4
Loans to Stockholders	(520)	(1,347)	
Issuance of Class A common stock	368	-	
Purchase of treasury stock	-	(488)	
Net cash provided by (used for) financing activities	(70,311)	(3,731)	32,
Effect of exchange rate changes on cash	-	-	(9
Net change in cash and cash equivalents	8	(18,730)	(3
Cash and cash equivalents, beginning of the year	27	41,793	13,
Cash and cash equivalents, end of the period	\$ 35	\$ 23,063	\$ 12,

24. SUBSEQUENT EVENTS

On July 16, 2002 we announced that we signed a definitive agreement to sell our Fairchild 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 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 regulatory approvals and the approval of our shareholders and bondholders. We will use a portion of the proceeds from the sale to repay our bank debt and commence a tender offer to acquire all of our outstanding \$225 million, 10.75% senior subordinated notes, due in April, 2009. 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.

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ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On May 9, 2002, upon the recommendation of our Audit Committee, the Board of Directors dismissed Arthur Andersen LLP as our independent auditors and appointed Ernst & Young LLP to serve as our independent auditors for the fiscal year which ended on June 30, 2002. The change in auditors is effective immediately. Arthur Andersen's reports on our consolidated financial statements for the fiscal years ended June 30, 2001 and June 30, 2000 did not contain an adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles. During each of our fiscal years ended June 30, 2001 and June 30, 2000 and through May 9, 2002, there were: (i) no disagreements with Arthur Andersen on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to Arthur Andersen's satisfaction, would have caused them to make reference to the subject matter in connection with their report on our consolidated financial statements for such years; and (ii) there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K. We have provided Arthur Andersen with a copy of the foregoing disclosures. Incorporated by reference as Exhibit 16 is a copy of Arthur Andersen's letter, dated May 13, 2002, stating its agreement with such statements. During each of our two previous fiscal years and through the May 9, 2002, we did not consult Ernst & Young with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

PART III

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 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 which has been paid. The examining magistrate has notified Mr. Steiner that he intends to transmit the dossier to the Republic prosecutor (procureur de la Republique) for his consideration. However, to date, Mr. Steiner has not been charged.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The information required by this Item is incorporated herein by reference from the 2002 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference from the 2002 Proxy Statement.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated herein by reference from the 2002 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference from the 2002 Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The following documents are filed as part of this Report:

(a)(1) Financial Statements.

All financial statements of the registrant as set forth under Item 8 of this report on Form 10-K (see index on Page 15).

(a)(2) Financial Statement Schedules.

Schedule Number	Description	Page
I	Condensed Financial Information of Parent Company	73

All other schedules are omitted because they are included in the Consolidated Financial Statements, or are not required.

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

THE FAIRCHILD CORPORATION
CONDENSED FINANCIAL STATEMENTS OF THE PARENT COMPANY
BALANCE SHEETS (NOT CONSOLIDATED)
(In thousands)

	June 30, 2002	June 30, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10	\$
Short-term investments	55	
Accounts receivable	940	2
Prepaid expenses and other current assets	72,185	74
Total current assets	73,190	77

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Property, plant and equipment, less accumulated depreciation	541	
Investments in subsidiaries	735,342	880
Investments and advances, affiliated companies	93	
Goodwill	-	15
Deferred loan fees	10,475	11
Investments	60	1
Other assets	3,223	2
	-----	-----
Total assets	\$ 822,924	\$ 990
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 2,279	\$ 2
Accounts payable	27	
Other Accrued Expenses	66,801	68
	-----	-----
Total current liabilities	69,107	70
Long-term debt	432,297	431
Fair market value of interest rate contract	10,989	6
Non current income taxes	58,587	76
Other long-term liabilities	407	
	-----	-----
Total liabilities	571,387	584
Stockholders' equity:		
Class A common stock	3,035	3
Class B common stock	262	
Notes due from stockholders	(446)	(
Treasury stock	(76,044)	(76,
Cumulative comprehensive income	(14)	(
Paid-in capital	232,797	232
Retained earnings	91,947	246
	-----	-----
Total stockholders' equity	251,537	406
	-----	-----
Total liabilities and stockholders' equity	\$ 822,924	\$ 990
	=====	=====

The accompanying notes are an integral part of these condensed financial statements.

Schedule I

THE FAIRCHILD CORPORATION
CONDENSED FINANCIAL STATEMENTS OF THE PARENT COMPANY
STATEMENT OF EARNINGS (NOT CONSOLIDATED)
(In thousands)

For the Twelve Months Ended June 3

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	2002	2001
Costs and Expenses:		
Selling, general & administrative	\$ 7,556	\$ 6,559
Amortization of goodwill	-	808
	7,556	7,367
Operating loss	(7,556)	(7,367)
Net interest income (expense)	18,095	10,831
Investment income (loss), net	13	2,995
Fair market value adjustment of interest rate contract	(4,567)	(5,610)
Equity in earnings of affiliates	(137)	110
Earnings (loss) from continuing operations before taxes	5,848	959
Income tax provision (benefit)	3,402	1,394
Earnings (loss) before equity in earnings (loss) of Subsidiaries	2,446	(435)
Equity in earnings (loss) of subsidiaries	(157,286)	(14,565)
Net earnings (loss)	\$ (154,840)	\$ (15,000)

The accompanying notes are an integral part of these condensed financial statements.

Schedule I

THE FAIRCHILD CORPORATION
CONDENSED FINANCIAL STATEMENTS OF THE PARENT COMPANY
STATEMENT OF CASH FLOWS (NOT CONSOLIDATED)
(In thousands)

	For the Twelve Months Ended June 30	
	2002	2001
Cash provided by (used for) operations	\$ (1,337)	\$ (20,891)
Investing Activities:		
Purchase of PP&E	(125)	(106)
Equity investments in affiliates	(524)	477
Other	155	14
	(494)	385
Financing activities:		
Proceeds from issuance of debt, including intercompany	106,439	146,974
Debt repayments	(105,153)	(126,624)
Issuance of common stock	9	593
Other	(16)	90
	1,279	21,033

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Net increase (decrease) in cash

 \$ (552) \$ 527
 =====

The accompanying notes are an integral part of these condensed financial statements.

Schedule I

THE FAIRCHILD CORPORATION
 CONDENSED FINANCIAL STATEMENTS OF THE PARENT COMPANY
 NOTES TO FINANCIAL STATEMENTS (NOT CONSOLIDATED)
 (In thousands)

1. BASIS OF PRESENTATION

In accordance with the requirements of Regulation S-X of the Securities and Exchange Commission, our financial statements are condensed and omit many disclosures presented in the consolidated financial statements and the notes thereto.

2. LONG-TERM DEBT

	June 30, 2002	Jun 2
Bank Credit Agreement	\$ 209,450	
10 3/4% Senior subordinated Notes Due 2009	225,000	
Capitalized leases	126	
Total Debt	434,576	
Less: Current Maturities	(2,279)	
Total long-term debt	\$ 432,297	

Long-term debt (exclusive of capital lease obligations) maturing over the next five years is as follows: \$2,250 in 2003, \$2,250 in 2004, \$71,050 in 2005, \$133,900 in 2006, and \$0 in 2007.

3. DIVIDENDS FROM SUBSIDIARIES

Cash dividends paid to The Fairchild Corporation by its consolidated subsidiaries were \$47,742 in 2000.

4. CONTINGENCIES

We are involved in various claims and lawsuits incidental to our business, some of which involve substantial amounts. We, either on our own or through our insurance carriers, are contesting these matters. In the opinion of management,

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the ultimate resolution of the legal proceedings will not have a material adverse effect on our financial condition, or future results of operations or net cash flows.

(a) (3) Exhibits.

- A. Articles of Incorporation, Bylaws, and Instruments Defining Rights of Securities
 - 3.1 Registrant's Restated Certificate of Incorporation (incorporated by reference to Exhibit "C" of Registrant's Proxy Statement dated October 27, 1989).
 - 3.2 Certificate of Amendment to Registrant's Certificate of Incorporation, dated November 16, 1990, changing name from Banner Industries, Inc. to The Fairchild Corporation.
 - 3.3 Registrant's Amended and Restated By-Laws, as amended as of November 21, 1996 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 29, 1996).
 - 3.4 Amendment to the Company's By-Laws, dated as of February 12, 1999 (incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
 - 3.5 Amendment to the Company's By-Laws, dated February 17, 2000, together with Charter for the Board's Audit Committee, adopted on February 17, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2000).
 - 3.6 Amendment to the Company's Charter of the Audit Committee dated May 10, 2001.
 - 4.1 Specimen of Class A Common Stock certificate (incorporated by reference to Registration Statement No. 33-15359 on Form S-2).
 - 4.2 Specimen of Class B Common Stock certificate (incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1989).
 - 4.3 Indenture dated as of April 20, 1999, between the Company and Subsidiary Guarantors and The Bank of New York, as Trustee (relating to the Company's 10 3/4% Senior Subordinated Notes Due 2009) (incorporated by reference to Registrant's Registration Statement No. 333-80311 on Form S-4, declared effective August 9, 1999).
 - 4.4 Form of Global Note (relating to the Company's 10 3/4% Senior Subordinated Notes Due 2009) (incorporated by reference to Registrant's Registration Statement No. 333-80311 on Form S-4, declared effective August 9, 1999).
 - 4.5 Registration Rights Agreement, dated April 15, 1999, between the Company and Credit Suisse First Boston Corporation on behalf of the Initial Purchasers (relating to the Company's 10 3/4% Senior Subordinated Notes Due 2009) (incorporated by reference to Registrant's Registration Statement No. 333-80311 on Form S-4, declared effective August 9, 1999).
 - 4.6 Purchase Agreement, dated as of April 15, 1999, between the Company, the Subsidiary Guarantors and the Initial Purchasers (relating to the Company's 10 3/4% Senior Subordinated Notes Due 2009) (incorporated by reference to Registrant's Registration Statement No. 333-80311 on Form S-4, declared effective August 9, 1999).
- B. Material Contracts
 - B1. (Stock Option Plans)

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- 10.3 Amended and Restated 1986 Non-Qualified and Incentive Stock Option Plan, dated as of February 9, 1998 (incorporated by reference to Exhibit B of Registrant's Proxy Statement dated October 9, 1998).
- 10.4 Amendment Dated May 7, 1998 to the 1986 Non-Qualified and Incentive Stock Option Plan (incorporated by reference to Exhibit A of Registrant's Proxy Statement dated October 9, 1998).
- 10.5 1996 Non-Employee Directors Stock Option Plan (incorporated by reference to Exhibit B of Registrant's Proxy Statement dated October 7, 1996).
- 10.6 Stock Option Deferral Plan dated February 9, 1998 (for the purpose of allowing deferral of gain upon exercise of stock options) (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 1998).
- 10.7 Amendment to the Stock Option Deferral Plan, dated June 28, 2000 (for the purpose of making an equitable adjustment in connection with the spin off of Fairchild Bermuda and the receipt of Global Sources shares) (incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000).
- 10.8 Amendment dated May 21, 1999, amending the 1996 Non-Employee Directors Stock Option Plan (for the purpose of allowing deferral of gain upon exercise of stock options) (incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
- 10.9 2000 Non-Employee Directors Stock Option Plan (incorporated by reference to Appendix 2 of Registrant's Proxy Statement dated October 10, 2000).
- 10.10 2001 Non-Employee Directors Stock Option Plan (incorporated by reference to Appendix 1 of Registrant's Proxy Statement dated October 10, 2000).
- B2. (Employee Agreements)
- 10.11 Amended and Restated Employment Agreement between Registrant and Jeffrey J. Steiner dated September 10, 1992 (incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1993).
- 10.12 Employment Agreement between Banner Aerospace, Inc. and Jeffrey J. Steiner, dated September 9, 1992.
- 10.13 Restated and Amended Service Agreement between Fairchild Switzerland, Inc. and Jeffrey J. Steiner, dated April 1, 2001.
- 10.14 Banner Aerospace, Inc. Deferred Bonus Plan, dated January 21, 1998 (as amended), to allow the deferral of bonuses in connection with 1998 or 1999 Extraordinary Transactions (incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
- 10.15 Letter Agreement dated February 27, 1998, between Registrant and John L. Flynn (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 1998).
- 10.16 Letter Agreement dated February 27, 1998, between Registrant and Donald E. Miller (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 1998).
- 10.17 Officer Loan Program, dated as of February 5, 1999, lending up to \$750,000 to officers for the purchase of Company Stock (incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
- 10.18 Director and Officer Loan Program, dated as of August 12, 1999, lending up to \$2,000,000 to officers and directors for the purchase of Company Stock (incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
- 10.19 Employment Agreement between Eric Steiner and The Fairchild Corporation, dated as of August 1, 2000 (incorporated by reference to

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- Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000).
- 10.20 Employment Agreement between Banner Aerospace, Inc. and Warren D. Persavich (together with Amendment No. 1 to such Agreement) (incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000).
- B3. (Credit Agreements)
- B3.1. Fairchild Corporation Credit Agreement:
- 10.21 Credit Agreement dated as of April 20, 1999, among The Fairchild Corporation (as Borrower), Citicorp. USA, Inc. and certain financial institutions (incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
- 10.22 Amendment No. 1, dated as of November 29, 1999 to the Credit Agreement dated as of April 20, 1999 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 2, 2000).
- 10.23 Amendment No. 2, dated as of March 10, 2000 to the Credit Agreement dated as of April 20, 1999 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2000).
- B3.2. Warthog, Inc. Credit Agreement:
- 10.24 Mortgage and Security Agreement with Morgan Guaranty Trust Company of New York dated March 23, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2000).
- B3.3. Interest Rate Hedge Agreements:
- 10.25 ISDA Master (Swap) Agreement between Registrant and Citibank, N.A. dated as of October 30, 1997 (incorporated by reference to Exhibit 10.36 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 28, 1997).
- 10.26 Amendment No. 1 dated as of August 7, 1998, to the ISDA Master (Swap) Agreement between Registrant and Citibank, N.A. dated as of October 30, 1997.
- 10.27 Confirmation Letter dated as of January 16, 1998, to the ISDA Master (Swap) Agreement between Registrant and Citibank, N.A. dated as of October 30, 1997.
- B4. (Warrants to Steiner Affiliate):
- 10.28 Form Warrant Agreement (including form of Warrant) issued by the Company to Drexel Burnham Lambert on March 13, 1986, subsequently purchased by Jeffrey Steiner, subsequently assigned to Stinbes Limited (an affiliate of Jeffrey Steiner) and subsequently assigned to The Steiner Group, LLC (an affiliate of Jeffrey Steiner), for the purchase of Class A or Class B Common Stock (incorporated herein by reference to Exhibit 4(c) of the Company's Registration Statement No. 33-3521 on Form S-2). (Referred to as the "Steiner Warrant")
- 10.29 Form Warrant Agreement issued to Stinbes Limited (subsequently assigned to The Steiner Group, LLC) dated as of September 26, 1997, effective retroactively as of February 21, 1997 (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 28, 1997).
- 10.30 Extension of Warrant Agreement between Registrant and Stinbes Limited (subsequently assigned to The Steiner Group, LLC) for 375,000 shares of Class A or Class B Common Stock dated as of September 26, 1997, effective retroactively as of February 21, 1997 (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 28, 1997).

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- 10.31 Amendment of Warrant Agreement dated February 9, 1998, between the Registrant and Stinbes Limited (subsequently assigned to The Steiner Group, LLC) (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 1998).
- 10.32 Amended Warrant Agreement dated December 28, 1998, effective retroactively as of September 17, 1998, between Registrant and Stinbes Limited (subsequently assigned to The Steiner Group, LLC) (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 1999).
- B5. (Other Material Contracts):
- 10.33 Share Purchase Agreement dated as of July 27, 1999 between a Company subsidiary and Jeffrey Steiner (as Sellers) and American National Can Group, Inc. (as Buyer), for the sale of all stock of Nacanco Paketleme A.S. owned by the Sellers (incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
- 10.34 Asset Purchase Agreement dated as of October 22, 1999, among The Fairchild Corporation, Banner Aerospace, Inc., Dallas Aerospace, Inc., and United Technologies Corporation, acting through its Pratt & Whitney Division (incorporated by reference to the Registrant's Report on Form 8-K dated December 13, 1999).

(a) (3) Exhibits (continued)

Other Exhibits

11. Computation of earnings per share (found at Note 14 in Item 8 to Registrant's Consolidated Financial Statements for the fiscal years ended June 30, 2002, 2001 and 2000).
- *12. Certifications required by Section 906 of the Sarbanes-Oxley Act.
16. Letter from Arthur Andersen LLP to the Securities and Exchange Commission dated May 9, 2002. (Incorporated by reference to the Registrant's Report on Form 8-K dated May 9, 2002.)
- *22 List of subsidiaries of Registrant.
- *23.1 Consent of Ernst & Young LLP, independent auditors.
- *23.2 Notice regarding lack of consent of Arthur Andersen LLP.
- *99 September 7, 2001 Audit Report of Arthur Andersen LLP.

*Filed herewith.

(b) Reports on Form 8-K

On May 15, 2002, we filed a Form 8-K to report on Item 4 and Item 7 regarding the change in certifying accountants. On May 9, 2002, upon the recommendation of our Audit Committee, the Board of Directors dismissed Arthur Andersen LLP as our independent auditors and appointed Ernst & Young LLP to serve as our independent auditors for the current fiscal year which ended on June 30, 2002. The change in auditors was effective immediately.

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 Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this report to be signed on our behalf

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by the undersigned, thereunto duly authorized.

THE FAIRCHILD CORPORATION

By: /s/ JOHN L. FLYNN
John L. Flynn
Chief Financial Officer and
Senior Vice President, Tax

Date: September 26, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant, in their capacities and on the dates indicated.

By:	JEFFREY J. STEINER	Chairman, Chief Executive	September 26, 2002
	/s/		

	Jeffrey J. Steiner	Officer and Director	
By:	MELVILLE R. BARLOW	Director	September 26, 2002
	/s/		

	Melville R. Barlow		
By:	MORTIMER M. CAPLIN	Director	September 26, 2002
	/s/		

	Mortimer M. Caplin		
By:	ROBERT EDWARDS	Director	September 26, 2002
	/s/		

	Robert Edwards		
By:	STEVEN L. GERARD	Director	September 26, 2002
	/s/		

	Steven L. Gerard		
By:	HAROLD J. HARRIS	Director	September 26, 2002
	/s/		

	Harold J. Harris		
By:	DANIEL LEBARD	Director	September 26, 2002
	/s/		

	Daniel Lebard		
By:	HERBERT S. RICHEY	Director	September 26, 2002

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/s/

Herbert S. Richey

By: ERIC I. STEINER President, Chief Operating September 26, 2002

/s/

Eric I. Steiner Officer and Director

CERTIFICATION ACCOMPANYING PERIODIC REPORT
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C.1350)

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

1. I have reviewed this annual report on Form 10-K of The Fairchild Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

Date: September 26, 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
(18 U.S.C.1350)

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

1. I have reviewed this annual report on Form 10-K of The Fairchild Corporation;

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2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

Date: September 26, 2002

/s/ John L. Flynn

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