

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K/A  
ANNUAL REPORT

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

For the Year Ended June 30, 2000

Commission File Number 1-6560

**THE FAIRCHILD CORPORATION**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
Incorporation or organization)

**34-0728587**

(I.R.S. Employer Identification No.)

**45025 Aviation Drive, Suite 400, Dulles, VA**

(Address of principal executive offices)

**20166**

(Zip Code)

Registrant's telephone number, including area code

**(703) 478-5800**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class

Class A Common Stock, par value \$.10 per share

Name of exchange on which registered

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 [ ].

On April 1, 2001, 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 \$83.7 million (excluding shares deemed beneficially owned by affiliates of the Registrant under Commission Rules).

As of April 1, 2001, the number of shares outstanding of each of the Registrant's classes of common stock were:

Class A common stock, \$.10 par value	22,527,801
Class B common stock, \$.10 par value	2,621,502

**AMENDMENT:**

This Form 10-K was amended solely to provide enhanced disclosure for Item 8, "Financial Statements and Supplementary Data." Disclosure enhancements were made to Footnote 3, "Discontinued Operations and Net Assets Held For Sale," Footnote 9, "Income Taxes," and Footnote 19, "Foreign Operations and Export Sales."

## **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 projections, 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 the Airbus consortium of companies; customer satisfaction and quality issues; labor disputes; competition, including price competition; our ability to achieve and execute internal business plans; worldwide political instability and economic growth; 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 II**

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following consolidated financial statements of the Company and the report of our independent public accountants with respect thereto, are set forth below.

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Supplementary information regarding "Quarterly Financial Data (Unaudited)" is set forth under Item 8 in Note 20 to Consolidated Financial Statements.

## **Report of Independent Public Accountants**

To the Shareholders of The Fairchild Corporation:

We have audited the accompanying consolidated balance sheets of The Fairchild Corporation (a Delaware corporation) and consolidated subsidiaries as of June 30, 2000 and 1999, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Nacanco Paketleme (see Note 6), an investment that was sold in July 1999, and until then, was reflected in the consolidated accompanying financial statements using the equity method of accounting. The investment in Nacanco Paketleme represented 1 percent of total assets as of June 30, 1999, and the equity in its net income represents 11 percent, and 9 percent of earnings from continuing operations for the years ended June 30, 1999 and 1998, respectively. The statements of Nacanco Paketleme were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Nacanco Paketleme, is based on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform an 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Fairchild Corporation and consolidated subsidiaries as of June 30, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Vienna, VA  
September 11, 2000

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

<u>ASSETS</u>	<u>June 30, 2000</u>	<u>June 30, 1999</u>
<b><u>CURRENT ASSETS:</u></b>		
Cash and cash equivalents, \$14,287 and \$15,752 restricted	\$ 35,790	\$ 54,860
Short-term investments	9,054	13,094
Accounts receivable-trade, less allowances of \$9,598 and \$6,442	127,230	130,121
Inventories:		
Finished goods	138,330	137,807
Work-in-process	30,523	38,316
Raw materials	11,006	14,116
	179,859	190,239
Prepaid expenses and other current assets	74,231	73,926
Total Current Assets	426,164	462,240
Property, plant and equipment, net of accumulated depreciation of \$142,938 and \$103,556	174,137	184,065
Net assets held for sale	20,112	21,245
Cost in excess of net assets acquired (Goodwill), less accumulated amortization of \$52,826 and \$40,307	436,442	447,722
Investments and advances, affiliated companies	3,238	31,791
Prepaid pension assets	64,418	63,958
Deferred loan costs	14,714	13,077
Real estate investment	112,572	83,791
Long-term investments	10,084	15,844
Other assets	5,539	5,053
<b>TOTAL ASSETS</b>	<b>\$ 1,267,420</b>	<b>\$ 1,328,786</b>

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

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

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	June 30, 2000	June 30, 1999
<u>CURRENT LIABILITIES:</u>		
Bank notes payable and current maturities of long-term debt	\$ 28,594	\$ 28,860
Accounts payable	62,494	72,271
Accrued liabilities:		
Salaries, wages and commissions	38,065	43,095
Employee benefit plan costs	5,608	5,204
Insurance	12,237	14,216
Interest	6,408	7,637
Other accrued liabilities	60,123	50,984
	122,441	121,136
Net current liabilities of discontinued operations	-	10,999
Total Current Liabilities	213,529	233,266
<u>LONG-TERM LIABILITES:</u>		
Long-term debt, less current maturities	453,719	495,283
Other long-term liabilities	26,741	25,963
Retiree health care liabilities	42,803	44,813
Noncurrent income taxes	128,515	121,961
TOTAL LIABILITIES	865,307	921,286
<u>STOCKHOLDERS' EQUITY:</u>		
Class A common stock, \$0.10 par value; authorized 40,000 shares, 30,079 (29,754 in 1999) shares issued and 22,430 (22,259 in 1999) shares outstanding	3,008	2,975
Class B common stock, \$0.10 par value; authorized 20,000 shares, 2,622 shares issued and outstanding	262	262
Paid-in capital	231,190	229,038
Treasury stock, at cost, 7,649 (7,496 in 1999) shares of Class A common stock	(75,506)	(74,102)
Retained earnings	261,788	252,030
Notes due from stockholders	(1,867)	-
Cumulative other comprehensive income	(16,762)	(2,703)
TOTAL STOCKHOLDERS' EQUITY	402,113	407,500
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,267,420	\$ 1,328,786

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

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

	For the Years Ended June 30,		
	2000	1999	1998
<b>REVENUE:</b>			
Net sales	\$ 635,361	\$ 617,322	\$ 741,176
Other income, net	14,410	3,899	6,508
	<u>649,771</u>	<u>621,221</u>	<u>747,684</u>
<b>COSTS AND EXPENSES:</b>			
Cost of goods sold	472,023	504,893	554,670
Selling, general & administrative	133,353	149,348	142,102
Amortization of goodwill	12,574	6,517	5,469
Restructuring	8,578	6,374	-
	<u>626,528</u>	<u>667,132</u>	<u>702,241</u>
OPERATING INCOME (LOSS)	23,243	(45,911)	45,443
Interest expense	48,942	33,162	46,007
Interest income	(4,850)	(2,816)	(3,292)
Net interest expense	44,092	30,346	42,715
Investment income (loss)	9,935	39,800	(3,362)
Nonrecurring gain	28,625	-	124,028
Earnings (loss) from continuing operations before taxes	17,711	(36,457)	123,394
Income tax (provision) benefit	4,399	13,245	(47,274)
Equity in earnings (loss) of affiliates, net	(346)	1,795	2,571
Minority interest, net	-	(2,090)	(26,292)
Earnings (loss) from continuing operations	21,764	(23,507)	52,399
Loss from discontinued operations, net	-	-	(4,296)
Gain (loss) on disposal of discontinued operations, net	(12,006)	(31,349)	59,717
Extraordinary items, net	-	(4,153)	(6,730)
NET EARNINGS (LOSS)	<u>\$ 9,758</u>	<u>\$ (59,009)</u>	<u>\$ 101,090</u>
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(10,098)	(2,545)	(5,140)
Unrealized holding changes on securities arising during the period	(3,961)	(16,544)	20,633
Other comprehensive income (loss)	(14,059)	(19,089)	15,493
COMPREHENSIVE INCOME (LOSS)	<u>\$ (4,301)</u>	<u>\$ (78,098)</u>	<u>\$ 116,583</u>

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

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

	For the Years Ended June 30,		
	2000	1999	1998
<b><u>BASIC EARNINGS PER SHARE:</u></b>			
Earnings (loss) from continuing operations	\$ 0.87	\$ (1.03)	\$ 2.78
Loss from discontinued operations, net	-	-	(0.23)
Gain (loss) on disposal of discontinued operations, net	(0.48)	(1.38)	3.17
Extraordinary items, net	-	(0.18)	(0.36)
<b>NET EARNINGS (LOSS)</b>	<b>\$ 0.39</b>	<b>\$ (2.59)</b>	<b>\$ 5.36</b>
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	\$ (0.40)	\$ (0.11)	\$ (0.27)
Unrealized holding changes on securities arising during the period	(0.16)	(0.73)	1.10
Other comprehensive income (loss)	(0.56)	(0.84)	0.83
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>\$ (0.17)</b>	<b>\$ (3.43)</b>	<b>\$ 6.19</b>
<b><u>DILUTED EARNINGS PER SHARE:</u></b>			
Earnings (loss) from continuing operations	\$ 0.87	\$ (1.03)	\$ 2.66
Loss from discontinued operations, net	-	-	(0.22)
Gain (loss) on disposal of discontinued operations, net	(0.48)	(1.38)	3.04
Extraordinary items, net	-	(0.18)	(0.34)
<b>NET EARNINGS (LOSS)</b>	<b>\$ 0.39</b>	<b>\$ (2.59)</b>	<b>\$ 5.14</b>
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	\$ (0.40)	\$ (0.11)	\$ (0.26)
Unrealized holding changes on securities arising during the period	(0.16)	(0.73)	1.05
Other comprehensive income (loss)	(0.56)	(0.84)	0.79
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>\$ (0.17)</b>	<b>\$ (3.43)</b>	<b>\$ 5.93</b>
Weighted average shares outstanding:			
Basic	24,954	22,766	18,834
Diluted	25,137	22,766	19,669

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

**THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands)

	Class A Common Stock	Class B Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Notes Due From Stockholders	Cumulative Other Comprehensive Income	Total
Balance, July 1, 1997	\$ 2,023	\$ 263	\$ 71,015	\$209,949	\$(51,719)	\$ -	\$ 893	\$ 232,424
Net earnings	-	-	-	101,090	-	-	-	101,090
Cumulative translation adjustment	-	-	-	-	-	-	(5,140)	(5,140)
Compensation expense from adjusted terms to warrants and options	-	-	5,655	-	-	-	-	5,655
Stock issued for Special-T Fasteners acquisition	108	-	21,939	-	-	-	-	22,047
Stock issued for Exchange Offer	221	-	42,588	-	-	-	-	42,809
Equity Offering	300	-	53,268	-	-	-	-	53,568
Proceeds received from stock options exercised (141,259 shares)	10	-	652	-	(189)	-	-	473
Cashless exercise of warrants	5	-	(5)	-	-	-	-	-
Net unrealized holding gain on available-for-sale securities	-	-	-	-	-	-	20,633	20,633
Balance, June 30, 1998	2,667	263	195,112	311,039	(51,908)	-	16,386	473,559
Net loss	-	-	-	(59,009)	-	-	-	(59,009)
Cumulative translation adjustment	-	-	-	-	-	-	(2,545)	(2,545)
Stock issued for Special-T Fasteners acquisition	1	-	132	-	-	-	-	133
Stock issued for Banner Aerospace merger	298	-	33,093	-	-	-	-	33,391
Proceeds received from stock options exercised (75,383 shares)	7	-	266	-	(92)	-	-	181
Stock issued for Special-T restricted stock plan (14,969 shares)	1	-	(1)	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	(22,102)	-	-	(22,102)
Exchange of Class B for Class A common stock (3,064 shares)	1	(1)	-	-	-	-	-	-
Compensation expense-stock options	-	-	436	-	-	-	-	436
Net unrealized holding loss on available-for-sale securities	-	-	-	-	-	-	(16,544)	(16,544)
Balance, June 30, 1999	2,975	262	229,038	252,030	(74,102)	-	(2,703)	407,500
Net earnings	-	-	-	9,758	-	-	-	9,758
Cumulative translation adjustment	-	-	-	-	-	-	(10,098)	(10,098)
Stock issued for Special-T Fasteners acquisition (44,079 shares)	4	-	530	-	-	-	-	534
Proceeds received from stock options exercised (314,126 shares)	22	-	1,321	-	(916)	-	-	427
Stock issued for Special-T restricted stock plan (14,969 shares)	1	-	(1)	-	-	-	-	-
Cashless exercise of warrants	6	-	(6)	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	(488)	-	-	(488)
Compensation expense-stock options	-	-	308	-	-	-	-	308
Loans to stockholders	-	-	-	-	-	(1,867)	-	(1,867)
Net unrealized holding loss on available-for-sale securities	-	-	-	-	-	-	(3,961)	(3,961)
Balance, June 30, 2000	\$ 3,008	\$ 262	\$231,190	\$261,788	\$(75,506)	\$ (1,867)	\$ (16,762)	\$402,113

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

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

	For the Years Ended June 30,		
	2000	1999	1998
<u>Cash flows from operating activities:</u>			
Net earnings (loss)	\$ 9,758	\$ (59,009)	\$ 101,090
Depreciation and amortization	41,821	25,657	20,873
Deferred loan fee amortization	1,200	1,100	2,406
Accretion of discount on long-term liabilities	66	5,270	3,766
Net gain on the disposition of subsidiaries and investments in affiliates	(28,625)	-	(124,041)
Net gain on the sale of discontinued operations	-	-	(132,787)
Extraordinary items, net of cash payments	-	6,389	10,347
Provision for restructuring (excluding cash payments of \$2,600 in 1999)	-	3,774	-
(Gain) loss on sale of property, plant, and equipment	(1,964)	400	246
(Undistributed) distributed earnings of affiliates, net	372	3,433	1,725
Minority interest	-	2,090	26,292
Change in trading securities	-	(1,254)	9,275
Change in receivables	2,892	8,632	(12,846)
Change in inventories	(23,223)	14,727	(54,857)
Change in other current assets	(25,734)	(22,365)	(26,643)
Change in other non-current assets	(18,305)	(26,741)	700
Change in accounts payable, accrued liabilities and other long-term liabilities	(11,979)	45,906	77,434
Non-cash charges and working capital changes of discontinued operations	(13,351)	15,259	11,789
Net cash provided by (used for) operating activities	(67,072)	23,268	(85,231)
<u>Cash flows from investing activities:</u>			
Proceeds received from (used for) investment securities, net	14,655	189,379	(7,287)
Purchase of property, plant and equipment	(27,339)	(30,142)	(36,029)
Proceeds from sale of plant, property and equipment	12,693	844	336
Equity investment in affiliates	(2,489)	(7,678)	(4,343)
Proceeds received from divestiture of investment in affiliates	46,886	-	-
Acquisition of subsidiaries, net of cash acquired	-	(274,427)	(59,178)
Net proceeds received from sale of subsidiaries	61,906	60,396	-
Net proceeds received from the sale of discontinued operations	7,100	-	167,987
Changes in real estate investment	(27,712)	(40,351)	(17,262)
Changes in net assets held for sale	4,672	3,134	2,140
Investing activities of discontinued operations	-	(312)	(2,750)
Net cash provided by (used for) investing activities	90,372	(99,157)	43,614
<u>Cash flows from financing activities:</u>			
Proceeds from issuance of debt	206,874	483,222	275,523
Debt repayments and repurchase of debentures, net	(246,260)	(380,083)	(258,014)
Issuance of Class A common stock	368	181	54,041
Purchase of treasury stock	(488)	(22,102)	-
Loans to stockholders	(1,867)	-	-
Financing activities of discontinued operations	-	-	2,538
Net cash provided by (used for) financing activities	(41,373)	81,218	74,088
Effect of exchange rate changes on cash	(997)	(70)	(2,290)
Net change in cash and cash equivalents	(19,070)	5,259	30,181
Cash and cash equivalents, beginning of the year	54,860	49,601	19,420
Cash and cash equivalents, end of the year	\$ 35,790	\$ 54,860	\$ 49,601

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

**THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(In thousands, except 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 consolidated 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. During fiscal 1999 and 1998 we held a significant equity interest in Nacanco Paketleme. Our financial statements present the results of our former communications services segment, Shared Technologies Fairchild and Fairchild Technologies as discontinued operations.

*Fiscal Year:* Our fiscal year ends June 30. All references herein to "2000", "1999", and "1998" mean the fiscal years ended June 30, 2000, 1999 and 1998, respectively.

*Consolidation Policy:* The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles and include our accounts and all of the accounts of our wholly-owned and majority-owned 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 (see Note 6).

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

*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. Total net cash disbursements (receipts) made by us for income taxes and interest were as follows:

	2000	1999	1998
Interest	\$54,535	\$29,200	\$52,737
Income Taxes	(15,076)	(21,304)	(987)

*Restricted Cash:* On June 30, 2000 and 1999, we had restricted cash of \$14,287 and \$15,752, respectively, all of which is maintained as collateral for certain debt facilities. Cash investments are in short-term treasury bills and certificates of deposit.

*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.

*Inventories:* Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out ("LIFO") method at several 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 \$3,920 and \$3,018 higher at June 30, 2000 and 1999, respectively. Inventories from continuing operations are valued as follows:

	June 30, 2000	June 30, 1999
First-in, first-out (FIFO)	\$ 141,094	\$ 162,797
Last-in, first-out (LIFO)	38,765	27,442
Total inventories	<u>\$ 179,859</u>	<u>\$ 190,239</u>

*Properties and Depreciation:* The cost of property, plant and equipment is depreciated over 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. In fiscal 1999, we changed the estimated useful life for depreciating our machinery and equipment from 8 to 10 years. Depreciation is computed using the straight-line method for financial reporting purposes and accelerated depreciation methods for Federal income tax purposes. Property, plant and equipment consisted of the following:

	June 30, 2000	June 30, 1999
Land	\$ 13,170	\$ 13,325
Building and improvements	48,844	56,790
Machinery and equipment	223,059	173,791
Transportation vehicles	1,124	1,062
Furniture and fixtures	20,181	22,439
Construction in progress	10,697	20,214
Property, plant and equipment at cost	<u>317,075</u>	<u>287,621</u>
Less: Accumulated depreciation	142,938	103,556
Net property, plant and equipment	<u>\$ 174,137</u>	<u>\$ 184,065</u>

*Amortization of Goodwill:* Goodwill, which represents the excess of the cost of purchased businesses over the fair value of their net assets at dates of acquisition, is being amortized on a straight-line basis over 40 years.

*Deferred Loan Costs:* Deferred loan costs associated with various debt issues are being amortized over the terms of the related debt, based on the amount of outstanding debt, using the effective interest method. For 2000, 1999, and 1998 amortization expense for these loan costs was \$1,338, \$1,100, and \$2,406, respectively.

*Impairment of Long-Lived Assets:* We review for impairment our long-lived assets, including property, plant and equipment, identifiable intangibles and goodwill, 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 less than the carrying amount of our assets. Impairment is measured based on the difference between the carrying amount of our assets and their fair value.

*Foreign Currency Translation:* For foreign subsidiaries whose functional currency is the local foreign currency, 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 for 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 other income and were insignificant in fiscal 2000, 1999 and 1998.

*Research and Development:* Company-sponsored research and development expenditures are expensed as incurred.

*Capitalization of interest and taxes:* We capitalize interest expense and property taxes relating to certain real estate property being developed in Farmingdale, New York. Interest of \$5,792, \$4,671 and \$3,078 was capitalized in 2000, 1999 and 1998, respectively.

*Nonrecurring Income:* Nonrecurring income 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. Nonrecurring income of \$124,028 in 1998 resulted from the disposition of our aerospace distribution segment's hardware group (See Note 2).

*Stock-Based Compensation:* As permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", we will continue to use the intrinsic value based method of accounting prescribed by APB Opinion No. 25, for our stock-based employee compensation plans. The fair market disclosures that are required by SFAS 123 are included in Note 11.

*Fair Value of Financial Instruments:* The carrying amount reported in the balance sheet approximates the fair value for our cash and cash equivalents, investments, 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 estimated using discounted cash flow analyses, based on our current incremental borrowing rates for similar types of borrowing arrangements. Fair values of our off-balance-sheet instruments (hedging agreements, 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 7.

*Use of Estimates:* The preparation of financial statements in conformity with generally accepted accounting principles requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities, concerning 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' financial statements have been reclassified to conform to the 2000 presentation.

*Recently Issued Accounting Pronouncements:* In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes a new model for accounting for derivatives and hedging activities and supersedes and amends a number of existing accounting standards. It requires that all derivatives be recognized as assets and liabilities on the balance sheet and measured at fair value. The corresponding derivative gains or losses are reported based on the hedge relationship that exists. Changes in the fair value of derivative instruments that are not designated as hedges or that do not meet the hedge accounting criteria in SFAS 133, are required to be reported in earnings. Most of the general qualifying criteria for hedge accounting under SFAS 133 were derived from, and are similar to, the existing qualifying criteria in SFAS 80, "Accounting for Futures Contracts." SFAS 133 describes three primary types of hedge relationships: fair value hedge, cash flow hedge, and foreign currency hedge. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137 to defer the required effective date of implementing SFAS 133 from fiscal years beginning after June 15, 1999 to fiscal years beginning after June 15, 2000. We adopted SFAS 133 on July 1, 2001 and recognized a cumulative pre-tax loss of approximately \$0.8 million.

## 2. BUSINESS COMBINATIONS

### *Acquisitions*

We have accounted for the following acquisitions by using the purchase method. The respective purchase price is assigned to the net assets acquired, based on the fair value of such assets and liabilities at the respective acquisition dates.

On June 18, 1999, we completed the acquisition of Technico S.A. for approximately \$4.1 million and assumed approximately \$2.2 million of Technico's existing debt. The total cost of the acquisition exceeded the fair value of the net assets of Technico by approximately \$3.4 million, which is being allocated as goodwill, and amortized using the straight-line method over 40 years. The acquisition was financed with additional borrowings from our credit facility.

On April 20, 1999, we completed the acquisition of all the capital stock of Kaynar Technologies, Inc. for approximately \$222 million and assumed approximately \$103 million of existing debt, the majority of which was refinanced at closing. In addition, we paid \$28 million for a covenant not to compete from Kaynar Technologies' largest preferred shareholder. The total cost of the acquisition exceeded the fair value of the net assets of Kaynar Technologies by approximately \$282 million, which is being allocated as goodwill, and amortized using the straight-line method over 40 years. The acquisition was financed with existing cash, the sale of \$225 million of 10 3/4% senior subordinated notes due 2009 and proceeds from a new bank credit facility.

On February 22, 1999, we used available cash to acquire 77.3% of SNEP S.A. By June 30, 1999, we had purchased significantly all of the remaining shares of SNEP. The total amount paid was approximately \$8.0 million, including \$1.1 million of debt assumed in a business combination accounted for as a purchase. The total cost of the acquisition exceeded the fair value of the net assets of SNEP by approximately \$4.3 million, which is being allocated as goodwill, and amortized using the straight-line method over 40 years. SNEP is a French manufacturer of precision machined self-locking nuts and special threaded fasteners serving the European industrial, aerospace and automotive markets.

On March 2, 1998, we acquired Edwards and Lock Management Corporation, doing business as Special-T Fasteners, in a business combination accounted for as a purchase. The cost of the acquisition was approximately \$50.0 million, of which 50.1% of the contractual purchase price was paid in shares of our Class A common stock and 49.9% was paid in cash. The total cost of the acquisition exceeded the fair value of the net assets of Special-T by approximately \$23.3 million, which is being allocated as goodwill, and amortized using the straight-line method over 40 years. Special-T manages the logistics of worldwide distribution of our manufactured precision fasteners to our customers in the aerospace industry, government agencies, OEMs, and other distributors.

On November 28, 1997, we acquired AS+C GmbH, Aviation Supply + Consulting in a business combination accounted for as a purchase. The total cost of the acquisition was \$14.0 million, which exceeded the fair value of the net assets of AS+C by approximately \$8.1 million, which is being allocated as goodwill and amortized using the straight-line method over 40 years. We purchased AS+C with cash borrowings. AS+C is an aerospace parts, logistics, and distribution company primarily servicing European customers.

### *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.

On December 31, 1998, Banner Aerospace consummated the sale of Solair, Inc., its largest subsidiary in the rotables group, to Kellstrom Industries, Inc., in exchange for approximately \$60.4 million in cash and a warrant to purchase 300,000 shares of common stock of Kellstrom. In December 1998, Banner Aerospace recorded a \$19.3 million pre-tax loss from the sale of Solair. This loss was included in cost of goods sold as it was attributable primarily to the bulk sale of inventory at prices below the carrying amount of that inventory.

On January 13, 1998, Banner Aerospace completed the disposition of substantially all of the assets and certain liabilities of certain subsidiaries to AlliedSignal Inc., in exchange for shares of AlliedSignal Inc. common stock with an aggregate value of \$369 million. The assets transferred to AlliedSignal consisted primarily of Banner Aerospace's hardware group, which included the distribution of bearings, nuts, bolts, screws, rivets and other types of fasteners, and its PacAero unit. Approximately \$196 million of the common stock received from AlliedSignal was used to repay outstanding term loans of Banner Aerospace's subsidiaries, and related fees.

#### *Acquisition of Minority Interest in Consolidated Subsidiaries*

On April 8, 1999, we acquired the remaining 15% of the outstanding common and preferred stock of Banner Aerospace, Inc. not already owned by us, through the merger of Banner Aerospace with one of our subsidiaries. Under the terms of the merger with Banner, we issued 2,981,412 shares of our Class A common stock to acquire all of Banner Aerospace's common and preferred stock (other than those already owned by us). Banner Aerospace is now our wholly-owned subsidiary.

On June 9, 1998 we exchanged 3,659,364 shares of Banner Aerospace's common stock for 2,212,361 newly issued shares of our Class A common stock. As a result of the exchange offer, our ownership of Banner common stock increased to 83.3%.

### **3. DISCONTINUED OPERATIONS AND NET ASSETS HELD FOR SALE**

On March 11, 1998, Shared Technologies Fairchild Inc. merged into Intermedia Communications Inc. Under the terms of the merger we received approximately \$178.0 million in cash (before tax and selling expenses) in exchange for the common and preferred stock of Shared Technologies Fairchild we owned. In fiscal 1998, we recorded a \$96.0 million gain, net of tax, on disposal of discontinued operations, from the proceeds received from the merger of Shared Technologies Fairchild with Intermedia. The results of Shared Technologies Fairchild have been accounted for as discontinued operations. Net earnings from discontinued operations for Shared Technologies Fairchild was \$648 in 1998.

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:

	1998 (a)	1999 (b)	2000 (c)	Total
Accrual for future operating losses, net	\$ 8,000	\$ (5,203)	\$ (2,797)	\$ -
Operating losses, net	12,644	21,313	1,217	35,174
Loss on dispositions, net	15,599	15,239	13,586	44,424
Loss on disposal of discontinued operations, net	\$ 36,243	\$ 31,349	\$ 12,006	\$ 79,598

- (a) The net loss on disposal of discontinued operations was increased by \$13.9 million in the fourth quarter of fiscal 1998, to reflect higher than expected operating losses that occurred since the measurement date, and to update previous loss estimates for higher than previously anticipated losses of disposal.
- (b) 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. Operating losses for fiscal 1999 of \$8.0 million were originally planned for the first eight months of fiscal 1999. Operating costs were higher than originally projected, due to deterioration in market conditions, which resulted in increased operating expenses and hindered the disposition of Fairchild Technologies within twelve months, as originally expected. Due to the decision to cease operations of the Fairchild Technologies semiconductor group in March 1999, additional expenses became necessary to reflect the shut down of facilities and accrue for severance expenses. An additional after-tax charge of \$2.8 million was recorded in fiscal 1999 for the estimated remaining losses in connection with the disposition of Fairchild Technologies.
- (c) The fiscal 2000 after-tax loss in connection with the disposition of the remaining operations of Fairchild Technologies exceeded anticipated losses by \$12.0 million, net of tax. We recognized a higher than expected loss on the disposition of the final portions of Fairchild Technologies.

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:

- We retained an investment banker to aid in the disposal of the Fairchild Technologies business.
- 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.
- 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 \$7.9 million from Suess Microtec AG and the right to receive 350,000 shares of Suess 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 shareholders, of Fairchild (Bermuda) Ltd., which owned the Fairchild Technologies Optical Disc Equipment Group business. Subsequently, on April 14, 2000, Fairchild (Bermuda), was renamed Global Sources Ltd., and 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. After the share exchange, our stockholders owned 1,183,081 shares of the 26,152,308 issued shares of Global Sources.

Earnings from discontinued operations for the twelve months ended June 30, 1998 includes net losses of \$4,944 from Fairchild Technologies until the adoption date of a formal plan for its discontinuance.

Fairchild Technologies reported sales of \$60,339, \$21,900, and \$8,087 in 1998, 1999, and 2000, respectively.

Net assets held for sale are stated at the lower of cost or at estimated net realizable value, which consider anticipated sales proceeds. Interest is not allocated to net assets held for sale. Net assets held for sale at June 30, 2000, includes two parcels of real estate in California, and several parcels of real estate 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.

#### 4. PRO FORMA FINANCIAL STATEMENTS (UNAUDITED)

The following table sets forth the derivation of the unaudited pro forma results, representing the impact of our acquisition of Kaynar Technologies (completed in April 1999), our merger with Banner Aerospace (completed in April 1999), our acquisition of Special-T (effective January 1998), and our dispositions of Dallas Aerospace (December 1999), Solair (December 1998), the hardware group of Banner Aerospace (completed January 1998), and the investment in Nacanco Paketleme (July 1999) and Shared Technologies Fairchild (completed in March 1998), as if these transactions had occurred at the beginning of each period presented. 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 and reduce minority interest from our merger with Banner Aerospace. 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 the beginning of these fiscal periods.

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Sales	\$613,667	\$686,660	\$704,633
Operating income (a)	21,192	28,745	58,953
Earnings (loss) from continuing operations (a, b)	3,695	(579)	6,174
Basic earnings (loss) from continuing operations per share	0.15	(0.03)	0.27
Diluted earnings (loss) from continuing operations per share	0.15	(0.03)	0.25
Net earnings (loss)	(8,310)	(36,081)	54,865
Basic earnings (loss) per share	(0.33)	(1.58)	2.36
Diluted earnings (loss) per share	(0.33)	(1.58)	2.26

(a) - Fiscal 2000 pro forma results include pre-tax restructuring charges of \$8,578. Fiscal 1999 pro forma results includes pre-tax charges recorded for acquisitions of \$23,604 and restructuring charges of \$6,374.

(b) - Excludes pre-tax nonrecurring gain of \$25,747 from the liquidation Nacanco Paketleme in fiscal 2000. Excludes pre-tax investment income of \$35,407 from the liquidation of certain investments in fiscal 1999.

#### 5. INVESTMENTS

Investments at June 30, 2000 consist primarily of common stock investments in public corporations, which are 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, 2000		June 30, 1999	
	Aggregate Fair Value	Cost Basis	Aggregate Fair Value	Cost Basis
<b>Short-term investments:</b>				
Trading securities - equity	\$ 2,715	\$ 2,926	\$ 1,254	\$ 1,221
Available-for-sale equity securities	6,284	5,400	11,618	9,573
Other investments	55	55	222	222
	<u>\$ 9,054</u>	<u>\$ 8,381</u>	<u>\$ 13,094</u>	<u>\$ 11,016</u>
<b>Long-term investments:</b>				
Available-for-sale equity securities	\$ 3,828	\$ 5,436	\$ 14,616	\$ 7,342
Other investments	6,256	6,256	1,228	1,228
	<u>\$ 10,084</u>	<u>\$ 11,692</u>	<u>\$ 15,844</u>	<u>\$ 8,570</u>

On June 30, 2000, we had gross unrealized holding gains from available-for-sale securities of \$1,357 and gross unrealized holding losses from available-for-sale securities of \$2,082. Investment income is summarized as follows:

	2000	1999	1998
Gross realized gain from sales	\$ 15,102	\$ 36,677	\$ 364
Change in unrealized holding gain (loss) from trading securities	578	33	(5,791)
Gross realized loss from impairments	(6,473)	-	(182)
Dividend income	728	3,090	2,247
	<u>\$ 9,935</u>	<u>\$ 39,800</u>	<u>\$ (3,362)</u>

## 6. INVESTMENTS AND ADVANCES, AFFILIATED COMPANIES

The following table summarizes historical financial information on a combined 100% basis of our investment in Nacanco Paketleme, which was accounted for using the equity method in the periods that we owned it.

	1999	1998
<b>Statement of Earnings:</b>		
Net sales	\$ 75,495	\$ 90,235
Gross profit	25,297	32,449
Earnings from continuing operations	13,119	14,780
Net earnings	13,119	14,780
<b>Balance Sheet at June 30, 1999</b>		
Current assets	\$ 26,942	
Non-current assets	38,661	
Total assets	65,603	
Current liabilities	12,249	
Non-current liabilities	1,828	

On June 30, 1999 we owned approximately 31.9% of Nacanco Paketleme common stock. We recorded equity earnings of \$4,153 and \$4,683 from this investment for 1999 and 1998, respectively.

Our share of equity in earnings, net of tax, of all unconsolidated affiliates for 2000, 1999 and 1998 was \$(346), \$1,795, and \$2,571, respectively. The carrying value of investments and advances, affiliated companies consists of the following:

	June 30, 2000	June 30, 1999
Nacanco	\$ -	\$ 17,356
Others	3,238	14,435
	<u>\$ 3,238</u>	<u>\$ 31,791</u>

On June 30, 2000, approximately \$(3,309) of our \$261,788 consolidated retained earnings were from undistributed losses of 50 percent or less currently owned affiliates accounted for using the equity method.

## 7. NOTES PAYABLE AND LONG-TERM DEBT

At June 30, 2000 and 1999, notes payable and long-term debt consisted of the following:

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Short-term notes payable (weighted average interest rates of 4.5% and 3.6% in 2000 and 1999, respectively)	<u>\$ 23,069</u>	<u>\$ 22,924</u>
Bank credit agreements	\$ 218,691	\$ 258,100
10 ¾% Senior subordinated notes due 2009	225,000	225,000
10.65% Industrial revenue bonds	1,500	1,500
Capital lease obligations, interest from 7.4% to 10.1%	2,146	2,873
Other notes payable, collateralized by property, plant and equipment, interest from 3.0% to 10.5%	<u>11,907</u>	<u>13,746</u>
	459,244	501,219
Less: Current maturities	<u>(5,525)</u>	<u>(5,936)</u>
Net long-term debt	<u>\$ 453,719</u>	<u>\$ 495,283</u>

### *Credit Agreements*

We maintain credit facilities with a consortium of banks, providing us with a term loan and revolving credit facilities. On June 30, 2000, the credit facilities with our senior lenders consisted of a \$143,691 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% over the Citibank N.A. base rate, or 3% over the Eurodollar rate, and is subject to change quarterly based upon our financial performance. Advances made under the revolving credit facilities generally bear interest at a rate of, at our option, either (i) 1½% over the Citibank N.A. base rate, or (ii) 2½% over the Eurodollar rate, and is 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 ½% if greater than half of the revolving loan is being utilized or ¾% if less than half of the revolving loan is being utilized. Outstanding letters of credit are subject to fees equivalent to the Eurodollar margin rate. 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 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. Additionally, the credit agreement restricts annual capital expenditures to \$40,000 during the life of the facility. Except for non-guarantor assets, substantially all of our assets are pledged as collateral under the credit agreement. The credit agreement restricts the payment of dividends to our shareholders to an aggregate of the lesser of \$0.01 per share or \$400 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 can 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, 2000, we were in full compliance with all the covenants under the credit agreement.

At June 30, 2000, we had borrowings outstanding of \$42,000 under the revolving credit facilities and we had letters of credit outstanding of \$16,544, which were supported by a sub-facility under the revolving credit facilities. At June 30, 2000, we had unused bank lines of credit aggregating \$41,456, at interest rates slightly higher than the prime rate. We also had short-term lines of credit relating to foreign operations, aggregating \$32,653, against which we owed \$14,512 at June 30, 2000.

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 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 3.5% per annum. If our debt coverage ratio at any time reaches a threshold of 1.4 or greater, the interest rate will be reduced to LIBOR plus 3.1%.

#### *Senior Subordinated Notes*

On April 20, 1999, in conjunction with the acquisition of Kaynar Technologies, we issued, at par value, \$225,000 of 10 <sup>3</sup>/<sub>4</sub>% senior subordinated notes that mature on April 15, 2009. We will pay interest on these notes semi-annually on April 15 and October 15 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.

### *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, 2000, are as follows: \$27,813 for 2001, \$4,386 for 2002, \$34,595 for 2003, \$3,084 for 2004 and \$44,575 for 2005.

### *Hedge Agreements*

In fiscal 1998 we entered into a series of interest rate hedge agreements to reduce our exposure to increases in interest rates on variable rate debt. The ten-year hedge agreements provide us with interest rate protection on \$100,000 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 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. No costs were incurred as a result of these transactions.

In conjunction with the \$30,750 term loan agreement with Morgan Guaranty Trust Company of New York, we purchased an interest rate cap agreement for \$183 from the lender, which provides for a maximum rate of interest of 11.625% and will mature on April 1, 2003. The cost of this agreement is being amortized as additional interest expense over the life of the loan.

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.

(In thousands)

Expected Fiscal Year Maturity Date	2003	2008 (a)
<u>Interest Rate Hedges:</u>		
Variable to Fixed	\$30,750	\$100,000
Average cap rate	11.625%	6.49%
Average floor rate	N/A	6.24%
Weighted average rate	10.39%	7.06%
Fair Market Value	\$166	\$(812)

(a) – 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 this agreement.

## **8. 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:

	<u>2000</u>	<u>1999</u>
Projected benefit obligation at July 1,	\$ 221,985	\$ 222,607
Service cost	5,122	3,454
Interest cost	15,214	14,328
Actuarial gains	(12,593)	(5,003)
Benefit payments	(19,239)	(14,236)
Plan amendment	3,190	837
Foreign currency translation	<u>(4)</u>	<u>(2)</u>
Projected benefit obligation at June 30,	<u>\$ 213,675</u>	<u>\$ 221,985</u>

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

	<u>2000</u>	<u>1999</u>
Plan assets at July 1,	\$ 257,662	\$ 261,097
Actual return on plan assets	10,767	11,995
Administrative expenses	(1,413)	(1,190)
Benefit payments	(19,239)	(14,236)
Foreign currency translation	<u>(9)</u>	<u>(4)</u>
Plan assets at June 30,	<u>\$ 247,768</u>	<u>\$ 257,662</u>

The following table sets forth the funded status and amounts recognized in our consolidated balance sheets at June 30, 2000 and 1999, for the plans:

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Plan assets in excess of projected benefit obligations	\$ 34,096	\$ 35,677
Unrecognized net loss	26,970	27,867
Unrecognized prior service cost	3,534	634
Unrecognized transition (asset)	<u>(182)</u>	<u>(220)</u>
Prepaid pension expense recognized in the balance sheet	<u>\$ 64,418</u>	<u>\$ 63,958</u>

The net prepaid pension expense recognized in the consolidated balance sheets consisted entirely of a prepaid pension asset.

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

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Service cost – benefits earned during the period	\$ 5,122	\$ 3,454	\$ 2,685
Interest cost on projected benefit obligation	15,214	14,328	14,518
Expected return on plan assets	(22,360)	(21,694)	(20,455)
Amortization of net loss	1,306	1,813	1,522
Amortization of prior service cost (credit)	290	(184)	(184)
Amortization of transition (asset)	<u>(37)</u>	<u>(36)</u>	<u>(38)</u>
Net periodic pension (income)	<u>\$ (465)</u>	<u>\$ (2,319)</u>	<u>\$ (1,952)</u>

Weighted average assumptions used in accounting for the defined benefit pension plans as of June 30, 2000 and 1999 were as follows:

	<u>2000</u>	<u>1999</u>
Discount rate	8.0%	7.25%
Expected rate of increase in salaries	4.5%	4.5%
Expected long-term rate of return on plan assets	9.0%	9.0%

Plan assets include an investment in our Class A common stock, valued at a fair market value of \$3,127 and \$8,178 at June 30, 2000 and 1999, 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 \$1,065, \$951, and \$804 for 2000, 1999, and 1998, respectively. Our accrual was approximately \$32,345 and \$33,155 as of June 30, 2000 and 1999, respectively, for postretirement health care benefits related to discontinued operations. This represents the cumulative discounted value of the long-term obligation and includes benefit expense of \$3,484, \$3,902 and \$3,714 for the years ended June 30, 2000, 1999 and 1998, respectively.

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

	<u>2000</u>	<u>1999</u>
Accumulated postretirement benefit obligation at July 1,	\$ 55,027	\$ 58,197
Service cost	302	227
Interest cost	3,733	3,860
Actuarial gains	(3,290)	(2,718)
Benefit payments	(5,198)	(4,539)
Acquisitions/Divestitures	<u>(16)</u>	<u>-</u>
Accumulated postretirement benefit obligation at June 30,	<u>\$ 50,558</u>	<u>\$ 55,027</u>

In fiscal 1998, we amended a former subsidiary's medical plan to increase the retirees' contribution rate to approximately 20% of the negotiated premium. Such plan amendment resulted in a \$1,003 decrease to the

accumulated postretirement benefit obligation and is being amortized as an unrecognized prior service credit over the average future lifetime of the respective retirees.

The following table sets forth the funded status and amounts recognized in the Company's consolidated balance sheets at June 30, 2000 and 1999, for the plans:

	<u>2000</u>	<u>1999</u>
Accumulated postretirement benefit obligation	\$ 50,558	\$ 55,027
Unrecognized prior service credit	797	866
Unrecognized net loss	<u>(8,960)</u>	<u>(12,833)</u>
Accrued postretirement benefit liability	<u>\$ 42,395</u>	<u>\$ 43,060</u>

The accumulated postretirement benefit obligation was determined using a discount rate of 8.0% at June 30, 2000 and 7.25% at June 30, 1999. The effect of such change resulted in a decrease to the accumulated postretirement benefit obligation in fiscal 2000. For measurement purposes, a 6.5% annual rate of increase in the per capita claims cost of covered health care benefits was assumed for fiscal 2000. The rate was assumed to decrease gradually to 5.0% for fiscal 2003 and remain at that level thereafter.

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

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Service cost – benefits earned during the period	\$ 302	\$ 227	\$ 166
Interest cost on accumulated postretirement benefit obligation	3,733	3,860	3,979
Amortization of prior service credit	(69)	(69)	(69)
Amortization of net loss	<u>583</u>	<u>835</u>	<u>442</u>
Net periodic postretirement benefit cost	<u>\$ 4,549</u>	<u>\$ 4,853</u>	<u>\$ 4,518</u>

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, 2000:

	One Percentage-Point	
	<u>Increase</u>	<u>Decrease</u>
Effect on service and interest components of net periodic cost	\$ 107	\$ (105)
Effect on accumulated postretirement benefit obligation	1,490	(1,351)

## 9. INCOME TAXES

The provision (benefit) for income taxes from continuing operations is summarized as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Current:			
Federal	\$ (11,234)	\$ 3,416	\$ (6,245)
State	427	140	500
Foreign	<u>2,893</u>	<u>3,994</u>	<u>3,893</u>
	(7,914)	7,550	(1,852)
Deferred:			
Federal	5,508	(10,731)	46,092
State	<u>(1,993)</u>	<u>(10,064)</u>	<u>3,034</u>
	<u>3,515</u>	<u>(20,795)</u>	<u>49,126</u>
Net tax provision (benefit)	<u>\$ (4,399)</u>	<u>\$ (13,245)</u>	<u>\$ 47,274</u>

The income tax provision (benefit) for continuing operations differs from that computed using the statutory Federal income tax rate of 35%, in fiscal 2000, 1999, and 1998, for the following reasons:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Computed statutory amount	\$ 6,199	\$ (12,760)	\$ 43,188
State income taxes, net of applicable federal tax benefit	(654)	2,488	4,362
Nondeductible acquisition valuation items	4,002	1,903	1,204
Tax on foreign earnings, net of tax credits	(5,030)	(2,392)	(1,143)
Difference between book and tax basis of assets acquired and liabilities assumed	(1,491)	(53)	4,932
Revision of estimate for tax accruals	(7,800)	(1,790)	(3,905)
Other	<u>375</u>	<u>(641)</u>	<u>(1,364)</u>
Net tax provision (benefit)	<u>\$ (4,399)</u>	<u>\$ (13,245)</u>	<u>\$ 47,274</u>

The following table is a summary of the significant components of our deferred tax assets and liabilities, and deferred provision or benefit, for the following periods:

	June 30, 2000	2000 Deferred (Provision) Benefit	June 30, 1999	1999 Deferred (Provision) Benefit	1998 Deferred (Provision) Benefit
Deferred tax assets:					
Accrued expenses	\$ 6,249	\$ (7,910)	\$ 14,159	\$ 11,572	\$ (3,853)
Asset basis differences	9,384	562	8,822	710	7,540
Inventory	5,135	(5,982)	11,117	11,117	(2,198)
Employee compensation and benefits	17,022	3,435	13,587	8,501	(55)
Environmental reserves	4,738	763	3,975	509	207
Loss and credit carryforward	7,035	7,035	-	-	-
Postretirement benefits	12,000	(4,428)	16,428	(1,706)	(1,338)
Other	2,234	(2,405)	4,639	(7,465)	4,506
	<u>63,797</u>	<u>(8,930)</u>	<u>72,727</u>	<u>23,238</u>	<u>4,809</u>
Deferred tax liabilities:					
Asset basis differences	(80,038)	4,348	(84,386)	(3,954)	(54,012)
Inventory	-	-	-	1,546	(1,546)
Pensions	(19,318)	296	(19,614)	(428)	95
Other	(4,548)	771	(5,319)	393	1,528
	<u>(103,904)</u>	<u>5,415</u>	<u>(109,319)</u>	<u>(2,443)</u>	<u>(53,935)</u>
Net deferred tax liability	<u>\$ (40,107)</u>	<u>\$ (3,515)</u>	<u>\$ (36,592)</u>	<u>\$ 20,795</u>	<u>\$ (49,126)</u>

The amounts included in the balance sheet are as follows:

	June 30, 2000	June 30, 1999
Prepaid expenses and other current assets:		
Current deferred	<u>\$ 27,206</u>	<u>\$ 5,999</u>
Noncurrent income tax liabilities:		
Noncurrent deferred	\$ 67,313	\$ 42,591
Other noncurrent	<u>61,202</u>	<u>79,370</u>
	<u>\$ 128,515</u>	<u>\$ 121,961</u>

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. Our management performs a comprehensive review of its worldwide tax positions on an annual basis. Based on positive 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, management has reversed tax accruals, no longer needed, of \$7,800, \$1,790, and \$3,905 in 2000, 1999, and 1998, 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, 2000, 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.

## **10. EQUITY SECURITIES**

We had 22,429,722 shares of Class A common stock and 2,621,652 shares of Class B common stock outstanding at June 30, 2000. 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, 2000, 100,795 and 14,968 shares of Class A common stock were issued as a result of the exercise of stock options and the Special-T restricted stock plan, respectively. Under the terms of our acquisition of Special-T, we issued 44,079 restricted shares of our Class A common stock during fiscal 2000, as additional merger consideration. On February 23, 2000, we issued 63,300 restricted shares of Class A common stock as a result of a cashless exercise of 250,000 warrants. In addition, our Class A common stock outstanding was reduced as a result of 52,000 shares purchased by us during fiscal 2000, which are considered as treasury stock for accounting purposes.

During fiscal 2000, we issued 121,244 deferred compensation units pursuant to our stock option deferral plan, as a result of the exercise of 228,891 stock options. Each deferred compensation unit is represented by one share of our treasury stock and is convertible into one share of our Class A common stock after a specified period of time.

## **11. STOCK OPTIONS AND WARRANTS**

### *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 shares of common stock, valued at fair market value at the time of exercise. The options normally terminate five years from the date of grant, subject to extension of up to 10 years 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, 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.

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 July 1, 1997	1,485,440	\$ 7.46
Granted	357,250	24.25
Exercised	(141,259)	4.70
Forfeited	(46,650)	7.56
Outstanding at June 30, 1998	1,654,781	7.46
Granted	338,000	14.36
Plans assumption from Banner merger	870,315	4.25
Exercised	(75,383)	5.21
Expired	(500)	3.50
Forfeited	(650)	12.16
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	<u>2,466,571</u>	<u>\$ 11.82</u>
Exercisable at June 30, 1998	667,291	\$ 6.58
Exercisable at June 30, 1999	1,867,081	\$ 8.75
Exercisable at June 30, 2000	1,793,459	\$ 10.57

A summary of options outstanding at June 30, 2000 is presented as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Exercise Price	Average Remaining Contract Life	Number Exercisable	Weighted Average Exercise Price
\$3.50 - \$8.625	822,699	\$ 5.30	1.1 years	762,199	\$ 5.18
\$8.72 - \$13.48	492,987	\$ 9.57	3.7 years	345,487	\$ 9.41
\$13.625 - \$16.25	841,385	\$ 14.80	2.2 years	531,023	\$ 14.94
\$18.5625 - \$25.0625	309,500	\$ 24.65	1.2 years	154,750	\$ 24.65
\$3.50 - \$25.0625	2,466,571	\$ 11.82	4.1 years	1,793,459	\$ 10.57

The weighted average grant date fair value of options granted during 2000, 1999 and 1998 was \$4.16, \$6.48, and \$11.18, 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:

	2000	1999	1998
Risk-free interest rate	5.9% - 6.8%	4.3% - 5.4%	5.4% - 6.3%
Expected life in years	4.66	4.66	4.66
Expected volatility	45% - 47%	45% - 46%	44% - 45%
Expected dividends	none	none	none

We recognized compensation expense of \$23 from stock options issued to a consultant and \$414 from an employee stock plan that was established with our acquisition of Special-T Fasteners in 1998. We recognized compensation expense of \$104 as a result of stock options that were modified in 1998. 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 2000, 1999 or 1998. If stock options granted in 2000, 1999 and 1998 were accounted for based on their fair value as determined under SFAS 123, pro forma earnings would be as follows:

	2000	1999	1998
Net earnings (loss):			
As reported	\$ 9,758	\$ (59,009)	\$101,090
Pro forma	8,096	(60,682)	99,817
Basic earnings (loss) per share:			
As reported	\$ 0.39	\$ (2.59)	\$ 5.36
Pro forma	0.32	(2.66)	5.30
Diluted earnings (loss) per share:			
As reported	\$ 0.39	\$ (2.59)	\$ 5.14
Pro forma	0.32	(2.66)	5.07

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 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.

### ***Stock Warrants***

Effective as of February 21, 1997, we approved the continuation of an existing warrant to Stinbes Limited (an affiliate of Jeffrey Steiner) to purchase 375,000 shares of our Class A or Class B common stock at \$7.80 per share. The warrant has been modified to permit exercise within certain window periods including, within two years after the merger of Shared Technologies Fairchild Inc. with certain companies. The warrant's exercise price per share increases by \$.002 for each day subsequent to March 13, 1999. The payment of the warrant price may be made in cash or in shares of our Class A or Class B common stock, valued at fair market value at the time of exercise, or combination thereof. In no event may the warrant be exercised after March 13, 2002. As a result of certain modifications to the warrant, we recognized a charge of \$5,606 in 1998.

On February 21, 1996, we issued warrants to purchase 25,000 shares of Class A common stock, at \$9.00 per share, to a non-employee for services provided in connection with our various dealings with Peregrine Direct Investments Limited. The warrants issued are immediately exercisable and will expire on November 8, 2000.

On November 9, 1995, we issued warrants to purchase 500,000 shares of Class A Common Stock, at \$9.00 per share, to Peregrine Direct Investments Limited, in exchange for a standby commitment it received on November 8, 1995, from Peregrine. We elected not to exercise our rights under the Peregrine commitment. On February 23, 2000, we issued 63,300 restricted shares of Class A common stock as a result of a cashless exercise of 250,000 of these warrants. The remaining 250,000 of warrants are immediately exercisable and will expire on November 8, 2000.

## 12. EARNINGS PER SHARE

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

	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>Basic earnings per share:</b>			
Earnings (loss) from continuing operations	<u>\$ 21,764</u>	<u>\$ (23,507)</u>	<u>\$ 52,399</u>
Weighted average common shares outstanding	<u>24,954</u>	<u>22,766</u>	<u>18,834</u>
Basic earnings per share:			
Basic earnings (loss) from continuing operations per share	<u>\$ 0.87</u>	<u>\$ (1.03)</u>	<u>\$ 2.78</u>
<b>Diluted earnings per share:</b>			
Earnings (loss) from continuing operations	<u>\$ 21,764</u>	<u>\$ (23,507)</u>	<u>\$ 52,399</u>
Weighted average common shares outstanding	24,954	22,766	18,834
Diluted effect of options	97	antidilutive	546
Diluted effect of warrants	<u>86</u>	<u>antidilutive</u>	<u>289</u>
Total shares outstanding	<u>25,136</u>	<u>22,766</u>	<u>19,669</u>
Diluted earnings (loss) from continuing operations per share	<u>\$ 0.87</u>	<u>\$ (1.03)</u>	<u>\$ 2.66</u>

The computation of diluted loss from continuing operations per share for 1999 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 discontinued operations and extraordinary items.

## 13. RESTRUCTURING CHARGES

In fiscal 1999, we recorded \$6,374 of restructuring charges. Of this amount, \$500 was recorded at our corporate office for severance benefits and \$348 was recorded at our aerospace distribution segment for the write-off of building improvements from premises vacated. The remaining, \$5,526 was recorded as a result of the Kaynar Technologies initial integration in our aerospace fasteners segment, i.e. for severance benefits (\$3,932), for product integration costs incurred as of June 30, 1999 (\$1,334), and for the write down of fixed assets (\$260). 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 the current year 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. As of June 20, 2000, significantly all of our integration plans have been executed and our integration process is substantially complete.

## 14. EXTRAORDINARY ITEMS

In fiscal 1999, we recognized an extraordinary loss of \$4,153, net of tax, to write-off the remaining deferred loan fees associated with the early extinguishment of our indebtedness in connection with refinanced credit facilities enabling our acquisition of Kaynar Technologies.

In fiscal 1998, we recognized an extraordinary loss of \$6,730, net of tax, to write-off the remaining deferred loan fees and original issue discounts associated with early extinguishment of our indebtedness when we repaid all our public debt and refinanced our credit facilities.

## **15. 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'.

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 2 ½ to 4 ½ 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, 2000, the indebtedness owed to us from Mr. Cohen, Mr. Flynn, Mr. Juris, Mr. Persavich, Mr. Sharpe, and Mr. J. Steiner, was approximately \$175 each. On June 30, 2000, Ms. Hercot, Mr. Kelley, Mr. Miller and Mr. E. Steiner owed us approximately \$167, \$50, \$220 and \$220, respectively. On June 30, 2000, 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, 2000, 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 \$443 in 2000 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, 2001 and bears interest at 5.5%.

On June 30, 2000, Mr. J. Steiner has non-interest bearing indebtedness owed to us of \$200. He has authorized us to deduct this amount from his fiscal 2001 compensation.

In 1998, we made loans in the aggregate amount of \$300 to Mr. Sharpe in order to assist him in relocating from California to Virginia. On October 1, 1998, \$95 of the first loan for \$100 was repaid. The second loan, for \$200, bears interest at 5.5% per annum and matures on June 30, 2001. At June 30, 2000, a balance of approximately \$214 was outstanding.

## **16. LEASES**

### *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, 2000, are as follows: \$4,429 for 2001, \$3,809 for 2002, \$3,077 for 2003, \$2,129 for 2004, and \$1,835 for 2005. Rental expense on operating leases from continuing operations for fiscal 2000, 1999 and 1998 was \$11,280, \$9,485 and \$8,610, respectively.

### *Capital Leases*

Minimum commitments under capital leases for each of the five years following June 30, 2000, are \$909 for 2001, \$704 for 2002, \$478 for 2003, \$275 for 2004, and \$38 for 2005, respectively. At June 30, 2000, the present value of capital lease obligations was \$2,146. At June 30, 2000, capital assets leased and included in property, plant, and equipment consisted of:

Land	\$ 79
Buildings and improvements	2,143
Machinery and equipment	2,886
Furniture and fixtures	31
Less: Accumulated depreciation	<u>(1,610)</u>
	<u>\$ 3,529</u>

### ***Leasing Operations***

In fiscal 1999, we began leasing retail space to tenants under operating leases at completed sections of a shopping center we are developing 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 noncancellable operating leases on June 30, 2000 were \$5,356 in 2001, \$5,439 in 2002, \$5,444 in 2003, \$5,463 in 2004, \$5,571 in 2005, and \$49,735 thereafter. Rental property under operating leases consists of the following as of June 30, 2000:

Land and improvements	\$ 36,228
Buildings and improvements	42,054
Tenant improvements	4,815
Construction in progress	12,643
Less: Accumulated depreciation	<u>(994)</u>
	<u>\$ 94,746</u>

## **17. CONTINGENCIES**

### ***Government Claims***

The Corporate Administrative Contracting Officer, based upon the advice of the United States Defense Contract Audit Agency, alleged that a former subsidiary of ours did not comply with Federal Acquisition Regulations and Cost Accounting Standards in accounting for (i) the 1985 reversion of certain assets of terminated defined benefit pension plans, and (ii) pension costs upon the closing of segments of our former subsidiary's business. In January 2000, we paid the government \$1.1 million to settle these pension accounting issues.

### ***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, 2000, the consolidated total of our recorded liabilities for environmental matters was approximately \$13.4 million, which represented the estimated probable exposure for these matters. It is reasonably possible that our total exposure for these matters could be approximately \$19.9 million.

### ***Other Matters***

On January 12, 1999, AlliedSignal asserted indemnification claims against us for \$18.9 million, arising from the disposition of Banner Aerospace's hardware business to AlliedSignal. AlliedSignal, now Honeywell International, has since added additional claims totaling \$19.9 million. We believe that the amount of the claims is far in excess of any amount that AlliedSignal is entitled to recover from us.

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.

## **18. BUSINESS SEGMENT INFORMATION**

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 supersedes Statement of Financial Accounting Standards No. 14 "Financial Reporting for Segments of a Business Enterprise" and requires that a public company report certain information about its reportable operating segments in annual and interim financial reports. Generally, financial information is required to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments. We adopted SFAS 131 in fiscal 1999.

We report in two 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 Corporate and Other segment includes the Gas Springs division prior to its disposition and corporate activities. Our financial data by business segment is as follows:

	2000	1999	1998
Sales:			
Aerospace Fasteners	\$ 533,620	\$ 442,722	\$ 387,236
Aerospace Distribution	101,002	168,336	358,431
Corporate and Other	739	6,264	5,760
Eliminations (a)	-	-	(10,251)
Total Sales	<u>\$ 635,361</u>	<u>\$ 617,322</u>	<u>\$ 741,176</u>
Operating Income (Loss):			
Aerospace Fasteners	\$ 33,909	\$ 38,956	\$ 32,722
Aerospace Distribution	7,758	(40,003)	20,330
Corporate and Other	(18,424)	(44,864)	(7,609)
Operating Income (Loss) (b)	<u>\$ 23,243</u>	<u>\$ (45,911)</u>	<u>\$ 45,443</u>
Capital Expenditures:			
Aerospace Fasteners	\$ 26,367	\$ 27,414	\$ 31,221
Aerospace Distribution	630	1,951	3,812
Corporate and Other	342	777	996
Total Capital Expenditures	<u>\$ 27,339</u>	<u>\$ 30,142</u>	<u>\$ 36,029</u>
Depreciation and Amortization:			
Aerospace Fasteners	\$ 38,025	\$ 22,459	\$ 16,260
Aerospace Distribution	976	1,871	3,412
Corporate and Other	2,820	1,327	1,201
Total Depreciation and Amortization	<u>\$ 41,821</u>	<u>\$ 25,657</u>	<u>\$ 20,873</u>
Identifiable Assets at June 30:			
Aerospace Fasteners	\$ 632,152	\$ 655,714	\$ 427,927
Aerospace Distribution	90,918	291,281	452,397
Corporate and Other	544,350	381,791	276,935
Total Identifiable Assets	<u>\$ 1,267,420</u>	<u>\$ 1,328,786</u>	<u>\$ 1,157,259</u>

(a) - Represents inter-segment sales from our aerospace fasteners segment to our aerospace distribution segment.

(b) - Fiscal 2000 results include restructuring charges of \$8,578 in the aerospace fasteners segment. Fiscal 1999 results include inventory impairment charges of \$41,465 in the aerospace distribution segment, costs relating to acquisitions of \$23,604 and restructuring charges of \$5,526 in the aerospace fasteners segment, \$348 in the aerospace distribution segment, and \$500 at corporate.

## 19. FOREIGN OPERATIONS AND EXPORT SALES

Our operations are located primarily in the United States and Europe. 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:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Sales by Geographic Area:			
United States	\$ 470,984	\$ 440,447	\$ 613,325
Europe	160,954	176,315	127,851
Australia	2,762	417	-
Other	<u>661</u>	<u>143</u>	<u>-</u>
Total Sales	<u>\$ 635,361</u>	<u>\$ 617,322</u>	<u>\$ 741,176</u>
Operating Income (Loss) by Geographic Area:			
United States	\$ (1,440)	\$ (66,245)	\$ 28,575
Europe	24,382	19,989	16,868
Australia	380	331	-
Other	<u>(79)</u>	<u>14</u>	<u>-</u>
Total Operating Income (Loss)	<u>\$ 23,243</u>	<u>\$ (45,911)</u>	<u>\$ 45,443</u>
Identifiable Assets by Geographic Area at June 30:			
United States	\$1,013,100	\$1,011,993	\$ 903,054
Europe	244,106	306,156	254,205
Australia	9,399	10,176	-
Other	<u>815</u>	<u>461</u>	<u>-</u>
Total Identifiable Assets	<u>\$1,267,420</u>	<u>\$1,328,786</u>	<u>\$1,157,259</u>
Long-lived Assets by Geographic Area at June 30:			
United States	\$ 343,151	\$ 353,006	\$ 476,911
Germany	10,345	10,424	8,870
France	32,749	36,987	30,787
Australia	2,016	2,695	-
Other	<u>1,839</u>	<u>2,635</u>	<u>1,458</u>
Total Long-lived Assets	<u>\$ 390,101</u>	<u>\$ 405,747</u>	<u>\$ 518,026</u>

Export sales are defined as sales by our domestic operations to customers in foreign regions. Export sales were as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Export Sales			
Europe	\$ 42,831	\$ 42,891	\$ 68,515
Canada	16,621	12,460	16,426
Japan	8,568	14,147	12,056
Asia (excluding Japan)	3,031	6,337	19,744
South America	1,146	3,556	11,038
Other	<u>4,947</u>	<u>14,694</u>	<u>10,340</u>
Total Export Sales	<u>\$ 77,144</u>	<u>\$ 94,085</u>	<u>\$ 138,119</u>

## 20. 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.

<b>Fiscal 2000 quarters ended</b>	<b>Oct. 3</b>	<b>Jan. 2</b>	<b>April 2</b>	<b>June 30</b>
Net sales	\$ 164,509	\$ 152,244	\$ 158,029	\$ 160,579
Gross profit	43,147	37,872	40,502	41,817
Earnings (loss) from continuing operations	18,110	(7,080)	2,622	8,112
per basic share	0.73	(0.28)	0.10	0.32
per diluted share	0.72	(0.28)	0.10	0.32
Loss from disposal of discontinued operations, net	-	-	-	(12,006)
Per basic share	-	-	-	(0.48)
Per diluted share	-	-	-	(0.48)
Net earnings (loss)	18,110	(7,080)	2,622	(3,894)
Per basic share	0.73	(0.28)	0.10	(0.16)
per diluted share	0.72	(0.28)	0.10	(0.16)
Market price range of Class A Stock:				
High	12 15/16	10 3/16	9 7/16	8
Low	8 3/8	6 13/16	4 1/2	4 1/8
Close	9 3/4	9 1/16	6 13/16	4 7/8
<b>Fiscal 1999 quarters ended</b>	<b>Sept. 27</b>	<b>Dec. 27</b>	<b>March 28</b>	<b>June 30</b>
Net sales	\$ 148,539	\$ 151,181	\$ 146,352	\$ 171,250
Gross profit	34,672	18,062	36,890	22,805
Earnings (loss) from continuing operations	1,190	(8,827)	20,383	(36,253)
per basic share	0.05	(0.40)	0.93	(1.46)
per diluted share	0.05	(0.40)	0.92	(1.46)
Loss from disposal of discontinued operations, net	-	(9,180)	(19,694)	(2,475)
per basic share	-	(0.42)	(0.90)	(0.10)
per diluted share	-	(0.42)	(0.89)	(0.10)
Extraordinary items, net	-	-	-	(4,153)
Per basic share	-	-	-	(0.17)
Per diluted share	-	-	-	(0.17)
Net earnings (loss)	1,190	(18,007)	689	(42,881)
per basic share	0.05	(0.82)	0.03	(1.73)
per diluted share	0.05	(0.82)	0.03	(1.73)
Market price range of Class A Stock:				
High	23 7/8	16 1/4	16 3/16	15
Low	12 3/8	10 3/8	10 1/2	10
Close	13 5/8	13 7/8	10 11/16	12 3/4

Gross profit was reduced for inventory impairment adjustments of \$19,320 and \$22,145 in the second and fourth quarter of fiscal 1999, respectively, relating to the disposition of Solair and Dallas Aerospace. Loss on

disposal of discontinued operations includes losses of \$12,006 in the fourth quarter of fiscal 2000, and \$9,180, \$19,694, and \$2,475 in the second, third and fourth quarters of fiscal 1999, respectively, resulting from the estimated loss on disposal of Fairchild Technologies. Earnings from discontinued operations, net, includes the results of Fairchild Technologies (until disposition) in each quarter. Extraordinary items relate to the early extinguishment of our debt.

## 21. CONSOLIDATING FINANCIAL STATEMENTS (UNAUDITED)

The following unaudited 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, the equity investment in Nacanco, a real estate development venture, and certain other subsidiaries.

### CONSOLIDATING STATEMENT OF EARNINGS FOR THE YEAR ENDED JUNE 30, 2000

	Parent Company	Guarantors	Non Guarantors	Eliminations	Fairchild Historical
Net Sales	\$ -	\$ 470,595	\$ 166,558	\$ (1,792)	\$ 635,361
Costs and expenses:					
Cost of sales	-	355,643	118,172	(1,792)	472,023
Selling, general & administrative	6,175	91,305	21,463	-	118,943
Restructuring	-	8,578	-	-	8,578
Amortization of goodwill	808	10,745	1,021	-	12,574
	<u>6,983</u>	<u>466,271</u>	<u>140,656</u>	<u>(1,792)</u>	<u>612,118</u>
Operating income (loss)	(6,983)	4,324	25,902	-	23,243
Net interest expense	42,347	(7,512)	9,257	-	44,092
Investment income, net	(6)	(9,929)	-	-	(9,935)
Intercompany dividends	-	-	-	-	-
Nonrecurring income on disposition of subsidiary	-	-	(28,625)	-	(28,625)
Earnings (loss) before taxes	(49,324)	21,765	45,270	-	17,711
Income tax (provision) benefit	6,343	(238)	(1,706)	-	4,399
Equity in earnings of affiliates and subsidiaries	52,739	-	-	(53,086)	(347)
Earnings (loss) from continuing operations	9,758	21,527	43,564	(53,086)	21,763
Earnings (loss) from disposal of discontinued operations	-	-	(12,005)	-	(12,005)
Net earnings (loss)	<u>\$ 9,758</u>	<u>\$ 21,527</u>	<u>\$ 31,559</u>	<u>\$ (53,086)</u>	<u>\$ 9,758</u>

**CONSOLIDATING BALANCE SHEET**  
**JUNE 30, 2000**

	Parent Company	Guarantors	Non Guarantors	Eliminations	Fairchild Historical
Cash	\$ 35	\$ 23,063	\$ 12,692	\$ -	\$ 35,790
Short-term investments	71	8,983	-	-	9,054
Accounts Receivable (including intercompany), less					
Allowances	2,079	82,054	43,097	-	127,230
Inventory, net	-	130,634	49,225	-	179,859
Prepaid and other current assets	141	67,624	6,466	-	74,231
Total current assets	<u>2,326</u>	<u>312,358</u>	<u>111,480</u>	<u>-</u>	<u>426,164</u>
Investment in Subsidiaries	869,958	-	-	(869,958)	-
Net fixed assets	493	131,029	42,615	-	174,137
Net assets held for sale	-	20,112	-	-	20,112
Investments and advances in affiliates	945	2,293	-	-	3,238
Goodwill	16,528	385,156	34,758	-	436,442
Deferred loan costs	13,284	24	1,406	-	14,714
Prepaid pension assets	-	64,418	-	-	64,418
Real estate investment	-	-	112,572	-	112,572
Long-term investments	355	9,729	-	-	10,084
Other assets	17,592	(13,418)	1,365	-	5,539
Total assets	<u>\$ 921,481</u>	<u>\$ 911,701</u>	<u>\$ 304,196</u>	<u>\$ (869,958)</u>	<u>\$ 1,267,420</u>
Bank notes payable & current maturities of debt	\$ 2,250	\$ 2,194	\$ 24,150	\$ -	\$ 28,594
Accounts payable (including intercompany)	2,954	46,105	13,435	-	62,494
Other accrued expenses	(42,778)	129,106	36,113	-	122,441
Net current liabilities of discontinued operations	-	-	-	-	-
Total current liabilities	<u>(37,574)</u>	<u>177,405</u>	<u>73,698</u>	<u>-</u>	<u>213,529</u>
Long-term debt, less current maturities	410,691	8,242	34,786	-	453,719
Other long-term liabilities	405	19,839	6,474	-	26,718
Noncurrent income taxes	145,847	(17,525)	193	-	128,515
Retiree health care liabilities	-	38,196	4,607	-	42,803
Minority interest in subsidiaries	-	-	23	-	23
Total liabilities	<u>519,369</u>	<u>226,157</u>	<u>119,781</u>	<u>-</u>	<u>865,307</u>
Class A common stock	3,008	-	2,090	(2,090)	3,008
Class B common stock	262	-	-	-	262
Notes due from stockholders	(520)	(1,347)	-	-	(1,867)
Paid-in-capital	5,158	226,032	249,301	(249,301)	231,190
Retained earnings	469,270	469,183	(58,098)	(618,567)	261,788
Cumulative other comprehensive income	(46)	(7,838)	(8,878)	-	(16,762)
Treasury stock, at cost	(75,020)	(486)	-	-	(75,506)
Total stockholders' equity	<u>402,112</u>	<u>685,544</u>	<u>184,415</u>	<u>(869,958)</u>	<u>402,113</u>
Total liabilities & stockholders' equity	<u>\$ 921,481</u>	<u>\$ 911,701</u>	<u>\$ 304,196</u>	<u>\$ (869,958)</u>	<u>\$ 1,267,420</u>

**CONSOLIDATING STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2000**

	Parent Company	Guarantors	Non Guarantors	Eliminations	Fairchild Historical
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>					
Net earnings (loss)	\$ 9,758	\$ 21,527	\$ 31,559	\$ (53,086)	\$ 9,758
Depreciation and amortization	931	32,350	8,540	-	41,821
Accretion of discount on long-term liabilities	-	(73)	139	-	66
Deferred loan fee amortization	1,075	2	123	-	1,200
(Gain) loss on sale of property, plant and equipment	-	(2,207)	243	-	(1,964)
Gain on sale of investments	-	(9,206)	-	-	(9,206)
Undistributed loss (earnings) of affiliates, net	-	372	-	-	372
(Gain) on sale of affiliate investments and divestiture of subsidiary	-	-	(28,625)	-	(28,625)
Change in assets and liabilities	58,562	(124,976)	(53,815)	53,086	(67,143)
Non-cash charges and working capital changes of discontinued operations	-	-	(13,351)	-	(13,351)
Net cash (used for) provided by operating activities	<u>70,326</u>	<u>(82,211)</u>	<u>(55,187)</u>	<u>-</u>	<u>(67,072)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>					
Net proceeds received from investments	-	14,655	-	-	14,655
Purchase of property, plant and equipment	(5)	(19,321)	(8,013)	-	(27,339)
Proceeds from sale of property, plant and equipment	-	12,693	-	-	12,693
Net proceeds from divestiture of subsidiaries	-	57,000	51,792	-	108,792
Net proceeds from sale of affiliate investments	-	-	-	-	-
Proceeds from net assets held for sale	-	4,672	-	-	4,672
Real estate investment	-	-	(27,712)	-	(27,712)
Equity investment in affiliates	-	(2,489)	-	-	(2,489)
Investing activities of discontinued operations	-	-	7,100	-	7,100
Net cash provided by investing activities	<u>(5)</u>	<u>67,210</u>	<u>23,167</u>	<u>-</u>	<u>90,372</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>					
Proceeds from issuance of debt	52,200	111,569	43,105	-	206,874
Debt repayments	(122,359)	(113,465)	(10,436)	-	(246,260)
Loans to Stockholders	(520)	(1,347)	-	-	(1,867)
Issuance of Class A common stock	366	-	-	-	366
Purchase of treasury stock	-	(486)	-	-	(486)
Net cash (used for) financing activities	<u>(70,313)</u>	<u>(3,729)</u>	<u>32,669</u>	<u>-</u>	<u>(41,373)</u>
Effect of exchange rate changes on cash	-	-	(997)	-	(997)
Net change in cash and cash equivalents	<u>8</u>	<u>(18,730)</u>	<u>(348)</u>	<u>-</u>	<u>(19,070)</u>
Cash and cash equivalents, beginning of the year	<u>27</u>	<u>41,793</u>	<u>13,040</u>	<u>-</u>	<u>54,860</u>
Cash and cash equivalents, end of the period	<u>\$ 35</u>	<u>\$ 23,063</u>	<u>\$ 12,692</u>	<u>\$ -</u>	<u>\$ 35,790</u>

**CONSOLIDATING STATEMENT OF EARNINGS  
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Parent Company</u>	<u>Guarantors</u>	<u>Non Guarantors</u>	<u>Eliminations</u>	<u>Fairchild Historical</u>
Net Sales	\$ -	\$ 448,495	\$ 169,720	\$ (893)	\$ 617,322
Costs and expenses					
Cost of sales	-	381,912	123,874	(893)	504,893
Selling, general & administrative	8,114	113,167	24,168	-	145,449
Restructuring	-	6,374	-	-	6,374
Amortization of goodwill	248	5,228	1,041	-	6,517
	<u>8,362</u>	<u>506,681</u>	<u>149,083</u>	<u>(893)</u>	<u>663,233</u>
Operating income (loss)	(8,362)	(58,186)	20,637	-	(45,911)
Net interest expense	27,130	(4,283)	7,499	-	30,346
Investment (income) loss, net	<u>-</u>	<u>(39,800)</u>	<u>-</u>	<u>-</u>	<u>(39,800)</u>
Earnings (loss) before taxes	(35,492)	(14,103)	13,138	-	(36,457)
Income tax (provision) benefit	21,481	(6,936)	(1,300)	-	13,245
Equity in earnings of					
Affiliates and subsidiaries	(44,998)	(516)	1,344	45,965	1,795
Minority interest	<u>-</u>	<u>(2,090)</u>	<u>-</u>	<u>-</u>	<u>(2,090)</u>
Earnings (loss) from continuing Operations	(59,009)	(23,645)	13,182	45,965	(23,507)
Earnings (loss) from disposal of Discontinued operations	-	-	(31,349)	-	(31,349)
Extraordinary items	<u>-</u>	<u>(4,153)</u>	<u>-</u>	<u>-</u>	<u>(4,153)</u>
Net earnings (loss)	<u>\$ (59,009)</u>	<u>\$ (27,798)</u>	<u>\$ (18,167)</u>	<u>\$ 45,965</u>	<u>\$ (59,009)</u>

**CONSOLIDATING BALANCE SHEET**  
**JUNE 30, 1999**

	<b>Parent Company</b>	<b>Guarantors</b>	<b>Non Guarantors</b>	<b>Eliminations</b>	<b>Fairchild Historical</b>
Cash	\$ 27	\$ 41,793	\$ 13,040	\$ -	\$ 54,860
Short-term investments	71	13,023	-	-	13,094
Accounts Receivable (including intercompany), less allowances	549	52,929	76,643	-	130,121
Inventory, net	(182)	145,080	45,341	-	190,239
Prepaid and other current assets	1,297	69,000	3,629	-	73,926
Total current assets	<u>1,762</u>	<u>321,825</u>	<u>138,653</u>	<u>-</u>	<u>462,240</u>
Investment in Subsidiaries	841,744	-	-	(841,744)	-
Net fixed assets	611	137,852	45,602	-	184,065
Net assets held for sale	-	21,245	-	-	21,245
Investments in affiliates	1,300	13,135	17,356	-	31,791
Goodwill	5,533	402,595	39,594	-	447,722
Deferred loan costs	13,029	26	22	-	13,077
Prepaid pension assets	-	63,958	-	-	63,958
Real estate investment	-	-	83,791	-	83,791
Long-term investments	-	15,844	-	-	15,844
Other assets	16,244	(11,865)	674	-	5,053
Total assets	<u>\$ 880,223</u>	<u>\$ 964,615</u>	<u>\$ 325,692</u>	<u>\$ (841,744)</u>	<u>\$ 1,328,786</u>
Bank notes payable & current maturities of debt	\$ 2,250	\$ 2,548	\$ 24,062	\$ -	\$ 28,860
Accounts payable (including intercompany)	972	12,824	58,475	-	72,271
Other accrued expenses	7,272	99,669	14,195	-	121,136
Net current liabilities of discontinued operations	-	-	10,999	-	10,999
Total current liabilities	<u>10,494</u>	<u>115,041</u>	<u>107,731</u>	<u>-</u>	<u>233,266</u>
Long-term debt, less current maturities	480,850	9,908	4,525	-	495,283
Other long-term liabilities	405	18,138	7,361	-	25,904
Noncurrent income taxes	(19,026)	140,749	238	-	121,961
Retiree health care liabilities	-	40,189	4,624	-	44,813
Minority interest in subsidiaries	-	9	50	-	59
Total liabilities	<u>472,723</u>	<u>324,034</u>	<u>124,529</u>	<u>-</u>	<u>921,286</u>
Class A common stock	2,775	200	5,085	(5,085)	2,975
Class B common stock	262	-	-	-	262
Paid-in-capital	2,138	226,900	263,058	(263,058)	229,038
Retained earnings (deficit)	477,191	413,483	(65,043)	(573,601)	252,030
Cumulative other comprehensive income	(764)	(2)	(1,937)	-	(2,703)
Treasury stock, at cost	(74,102)	-	-	-	(74,102)
Total stockholders' equity	<u>407,500</u>	<u>640,581</u>	<u>201,163</u>	<u>(841,744)</u>	<u>407,500</u>
Total liabilities & stockholders' equity	<u>\$ 880,223</u>	<u>\$ 964,615</u>	<u>\$ 325,692</u>	<u>\$ (841,744)</u>	<u>\$ 1,328,786</u>

**CONSOLIDATING STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Parent Company</u>	<u>Guarantors</u>	<u>Non Guarantors</u>	<u>Eliminations</u>	<u>Fairchild Historical</u>
<b>Cash Flows from Operating Activities:</b>					
Net earnings (loss)	\$ (59,009)	\$ (27,798)	\$ (18,167)	\$ 45,965	\$ (59,009)
Depreciation & amortization	127	17,610	7,920	-	25,657
Amortization of deferred loan fees	1,100	-	-	-	1,100
Accretion of discount on long-term liabilities	5,270	-	-	-	5,270
Extraordinary items net of cash paid	-	6,389	-	-	6,389
Provision for restructuring	-	3,774	-	-	3,774
Loss on sale of PP&E	-	307	93	-	400
Distributed earnings of affiliates	-	1,460	1,973	-	3,433
Minority interest	-	2,826	(736)	-	2,090
Change in assets and liabilities	15,030	52,898	(3,058)	(45,965)	18,905
Non-cash charges and working capital changes of discontinued operations	-	-	15,259	-	15,259
Net cash (used for) provided by operating activities	<u>(37,482)</u>	<u>57,466</u>	<u>3,284</u>	<u>-</u>	<u>23,268</u>
<b>Cash Flows from Investing Activities:</b>					
Proceeds received from investment securities	-	189,379	-	-	189,379
Purchase of PP&E	(61)	(19,162)	(10,919)	-	(30,142)
Proceeds from sale of PP&E	-	656	188	-	844
Equity investment in affiliates	630	(8,308)	-	-	(7,678)
Gross proceeds from divestiture of subsidiary	-	60,396	-	-	60,396
Acquisition of subsidiaries, net of cash acquired	(221,467)	(45,287)	(7,673)	-	(274,427)
Change in real estate investment	-	-	(40,351)	-	(40,351)
Change in net assets held for sale	-	3,134	-	-	3,134
Investing activities of discontinued operations	-	-	(312)	-	(312)
Net cash (used for) provided by investing activities	<u>(220,898)</u>	<u>180,808</u>	<u>(59,067)</u>	<u>-</u>	<u>(99,157)</u>
<b>Cash Flows from Financing Activities:</b>					
Proceeds from issuance of debt	483,100	(3,241)	3,363	-	483,222
Debt repayment (including intercompany), net	(225,000)	(213,187)	58,104	-	(380,083)
Issuance of Class A common stock	126	(126)	-	-	-
Proceeds from exercised stock options	181	-	-	-	181
Purchase of treasury stock	-	(22,102)	-	-	(22,102)
Net cash (used for) provided by financing activities	<u>258,407</u>	<u>(238,656)</u>	<u>61,467</u>	<u>-</u>	<u>81,218</u>
Exchange rate effect on cash	-	-	(70)	-	(70)
Net change in cash and cash equivalents	<u>27</u>	<u>(382)</u>	<u>5,614</u>	<u>-</u>	<u>5,259</u>
Cash, beginning of the year	-	42,175	7,426	-	49,601
Cash, end of the year	<u>\$ 27</u>	<u>\$ 41,793</u>	<u>\$ 13,040</u>	<u>\$ -</u>	<u>\$ 54,860</u>

**CONSOLIDATING STATEMENTS OF EARNINGS  
FOR THE YEAR ENDED JUNE 30, 1998**

	<b>Parent Company</b>	<b>Guarantors</b>	<b>Non Guarantors</b>	<b>Eliminations</b>	<b>Fairchild Historical</b>
Net Sales	\$ -	\$ 613,324	\$ 138,807	\$ (10,955)	\$ 741,176
Costs and expenses					
Cost of sales	-	464,942	100,683	(10,955)	554,670
Selling, general & administrative	3,516	112,447	19,631	-	135,594
Amortization of goodwill	147	4,247	1,075	-	5,469
	<u>3,663</u>	<u>581,636</u>	<u>121,389</u>	<u>(10,955)</u>	<u>695,733</u>
Operating income (loss)	(3,663)	31,688	17,418	-	45,443
Net interest expense	24,048	14,094	4,573	-	42,715
Investment (income) loss, net	(208)	3,570	-	-	3,362
Nonrecurring income on disposition of subsidiary	-	(124,028)	-	-	(124,028)
Earnings (loss) before taxes	(27,503)	138,052	12,845	-	123,394
Income tax (provision) benefit	10,580	(54,384)	(3,470)	-	(47,274)
Equity in earnings of affiliates and subsidiaries	118,013	140	3,044	(118,626)	2,571
Minority interest	-	(26,292)	-	-	(26,292)
Earnings (loss) from continuing operations	101,090	57,516	12,419	(118,626)	52,399
Earnings (loss) from discontinued operations	-	2,348	(6,644)	-	(4,296)
Earnings (loss) from disposal of discontinued operations	-	95,018	(35,301)	-	59,717
Extraordinary items	-	(6,730)	-	-	(6,730)
Net earnings (loss)	<u>\$ 101,090</u>	<u>\$ 148,152</u>	<u>\$ (29,526)</u>	<u>\$ (118,626)</u>	<u>\$ 101,090</u>

**CONSOLIDATING STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 1998**

	<u>Parent Company</u>	<u>Guarantors</u>	<u>Non Guarantors</u>	<u>Eliminations</u>	<u>Fairchild Historical</u>
<b>Cash Flows from Operating Activities:</b>					
Net earnings (loss)	\$ 101,090	\$ 148,152	\$ (29,526)	\$ (118,626)	\$ 101,090
Depreciation & amortization	72	14,939	5,862	-	20,873
Amortization of deferred loan fees	2,406	-	-	-	2,406
Accretion of discount on long-term liabilities	3,766	-	-	-	3,766
Net gain on disposition of subsidiaries	-	(124,041)	-	-	(124,041)
Net gain on sale of discontinued operations	-	(132,787)	-	-	(132,787)
Extraordinary items net of cash paid	-	10,347	-	-	10,347
Loss on sale of PP&E	-	147	99	-	246
Distributed earnings of affiliates	-	547	1,178	-	1,725
Minority interest	-	26,890	(598)	-	26,292
Change in assets and liabilities	(187,408)	64,276	(2,431)	118,626	(6,937)
Non-cash charges and working capital changes of discontinued operations	-	-	11,789	-	11,789
Net cash (used for) provided by operating activities	<u>(80,074)</u>	<u>8,470</u>	<u>(13,627)</u>	<u>-</u>	<u>(85,231)</u>
<b>Cash Flows from Investing Activities:</b>					
Proceeds used for investment securities	-	(7,287)	-	-	(7,287)
Purchase of PP&E	-	(30,220)	(5,809)	-	(36,029)
Proceeds from sale of PP&E	-	336	-	-	336
Equity investment in affiliates	(141)	(4,202)	-	-	(4,343)
Minority interest in subsidiaries	-	(26,383)	-	-	(26,383)
Acquisition of subsidiaries, net of cash acquired	-	(25,445)	(7,350)	-	(32,795)
Net proceeds from sale of discontinued operations	-	167,987	-	-	167,987
Change in real estate investment	-	-	(17,262)	-	(17,262)
Change in net assets held for sale	-	2,140	-	-	2,140
Investing activities of discontinued operations	-	-	(2,750)	-	(2,750)
Net cash (used for) provided by investing activities	<u>(141)</u>	<u>76,926</u>	<u>(33,171)</u>	<u>-</u>	<u>43,614</u>
<b>Cash Flows from Financing Activities:</b>					
Proceeds from issuance of debt	225,000	50,523	-	-	275,523
Debt repayment (including intercompany), net	(198,867)	(106,899)	47,752	-	(258,014)
Issuance of Class A common stock	53,848	193	-	-	54,041
Financing activities of discontinued operations	-	-	2,538	-	2,538
Net cash provided by (used for) financing Activities	<u>79,981</u>	<u>(56,183)</u>	<u>50,290</u>	<u>-</u>	<u>74,088</u>
Exchange rate effect on cash	-	-	(2,290)	-	(2,290)
Net change in cash	(234)	29,213	1,202	-	30,181
Cash, beginning of the year	234	12,962	6,224	-	19,420
Cash, end of the year	<u>\$ -</u>	<u>\$ 42,175</u>	<u>\$ 7,426</u>	<u>\$ -</u>	<u>\$ 49,601</u>

## **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 by the undersigned, thereunto duly authorized.

THE FAIRCHILD CORPORATION

By: /s/ MICHAEL T. ALCOX

Michael T. Alcox  
Senior Vice President and  
Chief Financial Officer

Date: May 7, 2001

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: <u>/s/</u>	<u>JEFFREY J. STEINER</u> Jeffrey J. Steiner	Chairman, Chief Executive Officer and Director	May 7, 2001
By: <u>/s/</u>	<u>MELVILLE R. BARLOW</u> Melville R. Barlow	Director	May 7, 2001
By: <u>/s/</u>	<u>MORTIMER M. CAPLIN</u> Mortimer M. Caplin	Director	May 7, 2001
By: <u>/s/</u>	<u>PHILIP DAVID</u> Philip David	Director	May 7, 2001
By: <u>/s/</u>	<u>ROBERT EDWARDS</u> Robert Edwards	Director	May 7, 2001
By: <u>/s/</u>	<u>STEVEN L. GERARD</u> Steven L. Gerard	Director	May 7, 2001
By: <u>/s/</u>	<u>HAROLD J. HARRIS</u> Harold J. Harris	Director	May 7, 2001
By: <u>/s/</u>	<u>DANIEL LEBARD</u> Daniel Lebard	Director	May 7, 2001
By: <u>/s/</u>	<u>HERBERT S. RICHEY</u> Herbert S. Richey	Director	May 7, 2001
By: <u>/s/</u>	<u>ERIC I. STEINER</u> Eric I. Steiner	President, Chief Operating Officer and Director	May 7, 2001