

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A

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

For the Quarterly Period Ended December 31, 2000

Commission File Number 1-6560

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

<p style="text-align:center"><u>Delaware</u></p> <p>(State or other jurisdiction of Incorporation or organization)</p> <p>45025 Aviation Drive, Suite 400 Dulles, VA</p> <p>(Address of principal executive offices)</p> <p>Registrant's telephone number, including area code</p>	<p style="text-align:center"><u>34-0728587</u></p> <p>(I.R.S. Employer Identification No.)</p> <p style="text-align:center"><u>20166</u></p> <p>(Zip Code)</p> <p style="text-align:center"><u>(703) 478-5800</u></p>
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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days.

YES NO

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

<u>Title of Class</u>	<u>Outstanding at April 1, 2001</u>
Class A Common Stock, \$0.10 Par Value	22,527,801
Class B Common Stock, \$0.10 Par Value	2,621,502

AMENDMENT:

The purpose of this amendment is to provide restated financial information and additional disclosure for Part I, Financial Information. The Company is improving its results for the six months ended December 31, 2000, by restating a \$0.5 million loss, or \$0.02 per share, previously recognized from the cumulative effect of change in accounting for derivatives to other comprehensive income. See Note 8 of Part I, Item 1 “Financial Information.”

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

December 31, 2000 (Unaudited) and June 30, 2000
(In thousands)

ASSETS

	December 31, 2000	June 30, 2000
<u>CURRENT ASSETS:</u>		(*)
Cash and cash equivalents, \$500 and \$14,287 restricted	\$ 16,603	\$ 35,790
Short-term investments	11,097	9,054
Accounts receivable-trade, less allowances of \$6,685 and \$9,598	110,890	127,230
Inventories:		
Finished goods	148,000	138,330
Work-in-process	31,727	30,523
Raw materials	12,732	11,006
	<u>192,459</u>	<u>179,859</u>
Prepaid expenses and other current assets	85,372	74,231
Total Current Assets	<u>416,421</u>	<u>426,164</u>
Property, plant and equipment, net of accumulated depreciation of \$149,598 and \$142,938	162,701	174,137
Net assets held for sale	17,726	20,112
Cost in excess of net assets acquired (Goodwill), less accumulated amortization of \$59,085 and \$52,826	427,105	436,442
Investments and advances, affiliated companies	3,627	3,238
Prepaid pension assets	64,471	64,418
Deferred loan costs	13,836	14,714
Real estate investment	112,115	112,572
Long-term investments	8,867	10,084
Other assets	5,816	5,539
TOTAL ASSETS	<u>\$ 1,232,685</u>	<u>\$ 1,267,420</u>

*Condensed from audited financial statements.

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

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

December 31, 2000 (Unaudited) and June 30, 2000

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2000	June 30, 2000
<u>CURRENT LIABILITIES:</u>		(*)
Bank notes payable and current maturities of long-term debt	\$ 27,881	\$ 28,594
Accounts payable	50,995	62,494
Accrued liabilities:		
Salaries, wages and commissions	31,498	38,065
Employee benefit plan costs	5,970	5,608
Insurance	11,694	12,237
Interest	6,373	6,408
Other accrued liabilities	42,466	60,123
	98,001	122,441
Total Current Liabilities	176,877	213,529
 <u>LONG-TERM LIABILITIES:</u>		
Long-term debt, less current maturities	478,585	453,719
Fair market value of interest rate contract	3,545	-
Other long-term liabilities	24,795	26,741
Retiree health care liabilities	43,761	42,803
Noncurrent income taxes	115,561	128,515
TOTAL LIABILITIES	843,124	865,307
 <u>STOCKHOLDERS' EQUITY:</u>		
Class A common stock, \$0.10 par value; authorized 40,000 shares, 30,320 (30,079 in June) shares issued and 22,513 (22,430 in June) shares outstanding	3,032	3,008
Class B common stock, \$0.10 par value; authorized 20,000 shares, 2,622 shares issued and outstanding	262	262
Paid-in capital	232,774	231,190
Treasury stock, at cost, 7,807 (7,649 in June) shares of Class A common stock	(76,563)	(75,506)
Retained earnings	249,703	261,788
Notes due from stockholders	(1,861)	(1,867)
Cumulative other comprehensive income	(17,786)	(16,762)
TOTAL STOCKHOLDERS' EQUITY	389,561	402,113
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,232,685	\$ 1,267,420

*Condensed from audited financial statements

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

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED STATEMENTS OF EARNINGS (Unaudited)
For The Three (3) And Six (6) Months Ended December 31, 2000 and January 2, 2000
(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	12/31/00	1/2/00	12/31/00	1/2/00
<u>REVENUE:</u>				
	\$	\$	\$	\$
Net sales	148,100	152,244	296,467	316,753
Other income, net	3,860	2,782	6,376	7,610
	151,960	155,026	302,843	324,363
<u>COSTS AND EXPENSES:</u>				
Cost of goods sold	109,045	114,372	222,636	235,734
Selling, general & administrative	34,464	35,377	64,326	67,205
Amortization of goodwill	3,125	3,012	6,259	6,108
Restructuring	-	3,040	-	6,057
	146,634	155,801	293,221	315,104
OPERATING INCOME	5,326	(775)	9,622	9,259
Interest expense	14,315	12,119	27,298	24,328
Interest income	(244)	(822)	(768)	(1,557)
Net interest expense	14,071	11,297	26,530	22,771
Investment income	1,004	1,998	624	2,878
Decrease in fair market value of interest rate derivatives	(3,075)	-	(3,545)	-
Nonrecurring gain	-	-	-	28,003
Earnings (loss) from continuing operations before taxes	(10,816)	(10,074)	(19,829)	17,369
Income tax benefit (provision)	3,990	3,866	7,564	(5,266)
Equity in earnings (loss) of affiliates, net		(872)		(1,073)

	<u>187</u>		<u>181</u>	
	\$	\$	\$	\$
NET EARNINGS (LOSS)	<u>(6,639)</u>	<u>(7,080)</u>	<u>(12,084)</u>	<u>11,030</u>
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	1,510	(1,434)	(2,570)	(3,082)
Unrealized holding changes on derivatives	-	-	(528)	-
Unrealized holding gain on securities arising during the period	<u>2,834</u>	<u>6,845</u>	<u>2,073</u>	<u>1,839</u>
Other comprehensive loss	<u>4,344</u>	<u>5,411</u>	<u>(1,025)</u>	<u>(1,243)</u>
	\$	\$	\$	\$
COMPREHENSIVE INCOME (LOSS)	<u>(2,295)</u>	<u>(1,669)</u>	<u>(13,109)</u>	<u>9,787</u>

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

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED STATEMENTS OF EARNINGS (Unaudited)
For The Three (3) And Six (6) Months Ended December 31, 2000 and January 2, 2000
(In thousands, except per share data)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>12/31/00</u>	<u>1/2/00</u>	<u>12/31/00</u>	<u>1/2/00</u>
<u>BASIC AND DILUTED EARNINGS PER SHARE:</u>				
NET EARNINGS (LOSS)	\$	\$	\$	\$
	<u>(0.26)</u>	<u>(0.28)</u>	<u>(0.48)</u>	<u>0.44</u>
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	\$	\$	\$	\$
	0.06	(0.06)	(0.10)	(0.12)
Unrealized holding changes on derivatives	-	-	(0.02)	
Unrealized holding gain on securities arising during the period	0.11	0.28	0.08	0.07
Other comprehensive loss	0.17	0.22	(0.04)	(0.05)
COMPREHENSIVE INCOME (LOSS)	\$	\$	\$	\$
	<u>(0.09)</u>	<u>(0.06)</u>	<u>(0.52)</u>	<u>0.39</u>
Weighted average shares outstanding:				
Basic	<u>25,101</u>	<u>24,889</u>	<u>25,068</u>	<u>24,882</u>
Diluted	<u>25,101</u>	<u>24,889</u>	<u>25,068</u>	<u>24,977</u>

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

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For The Six (6) Months Ended December 31, 2000 and January 2, 2000

(In thousands)

	For the Six Months Ended	
	12/31/00	1/2/00
<u>Cash flows from operating activities:</u>		
Net earnings (loss)	\$ (12,084)	\$ 11,030
Depreciation and amortization	21,975	19,738
Accretion of discount on long-term liabilities	689	1,923
Amortization of deferred loan fees	917	577
Unrealized holding (gain) loss on derivatives	4,356	-
Net gain on divestiture of investment in affiliate	-	(25,747)
Net gain on divestiture of subsidiary	-	(2,256)
Gain on sale of investments	(1,066)	(2,851)
Distributed (undistributed) earnings of affiliates, net	(181)	1,651
Change in assets and liabilities	(55,838)	(50,810)
Non-cash charges and working capital changes of discontinued operations	-	(12,049)
Net cash used for operating activities	(41,232)	(58,794)
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(8,343)	(16,575)
Net proceeds received from (used for) investment securities	4,040	1,351
Net proceeds received from divestiture of investment in affiliate	-	43,103
Net proceeds received from divestiture of subsidiaries	-	61,906
Real estate investment	(1,705)	(11,087)
Equity investment in affiliates	(285)	(2,441)
Proceeds received from net assets held for sale	2,081	4,419
Other, net	132	-
Investing activities of discontinued operations	-	7,100
Net cash provided by (used for) investing activities	(4,080)	87,776
<u>Cash flows from financing activities:</u>		
Proceeds from issuance of debt	31,269	161,846
Debt repayments	(6,770)	(161,178)
Issuance of Class A common stock	551	168
Purchase of treasury stock	-	(622)
Net loans to stockholders'	6	-
Net cash provided by financing activities	25,056	214
Effect of exchange rate changes on cash	1,069	(244)
Net change in cash and cash equivalents	(19,187)	28,952
Cash and cash equivalents, beginning of the year	35,790	54,860
Cash and cash equivalents, end of the period	\$ 16,603	\$ 83,812

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

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except share data)

1. FINANCIAL STATEMENTS

The consolidated balance sheet as of December 31, 2000, and the consolidated statements of earnings and cash flows for the six months ended December 31, 2000 and January 2, 2000 have been prepared by us, without audit. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at December 31, 2000, and for all periods presented, have been made. The balance sheet at June 30, 2000 was condensed from the audited financial statements as of that date.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our June 30, 2000 Annual Report on Form 10-K. The results of operations for the period ended December 31, 2000 are not necessarily indicative of the operating results for the full year. Certain amounts in the prior year's quarterly financial statements have been reclassified to conform to the current presentation.

2. PRO FORMA FINANCIAL STATEMENTS

The unaudited pro forma consolidated statement of earnings for the three and six months ended January 2, 2000 have been prepared to give effect to the dispositions of Dallas Aerospace (December 1999), Camoloc Gas Springs (September 1999) and the investment in Nacanco (July 1999), as if these transactions had occurred on July 1, 1999. The unaudited pro forma information is not intended to be indicative of future results of our operations or results that might have been achieved if these transactions had been in effect since July 1, 1999.

	Three Months Ended 1/2/00	Six Months Ended 1/2/00
Net sales	\$ 141,694	\$ 294,320
Gross profit	36,099	76,693
Net loss	(7,825)	(8,515)
Net loss, per basic and diluted share	\$ (0.32)	\$ (0.34)

3. EQUITY SECURITIES

We had 22,512,688 shares of Class A common stock and 2,621,652 shares of Class B common stock outstanding at December 31, 2000. Class A common stock is traded on both the New York and Pacific Stock Exchanges. There is no public market for the Class B common stock. The shares of Class A common stock are entitled to one vote per share and cannot be exchanged for shares of Class B common stock. The shares of Class B common stock are entitled to ten votes per share and can be exchanged, at any time, for shares of Class A common

stock on a share-for-share basis. For the six months ended December 31, 2000, 82,966 shares of Class A common stock were issued as a result of the exercise of stock options.

During the six months ended December 31, 2000, we issued 132,394 deferred compensation units pursuant to our stock option deferral plan, as a result of the exercise of 291,050 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.

4. RESTRICTED CASH

On December 31, 2000 and June 30, 2000, we had restricted cash of \$500 and \$14,287, respectively, all of which is maintained as collateral for certain debt facilities and escrow arrangements.

5. EARNINGS PER SHARE

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

	Three Months Ended		Six Months Ended	
	12/31/00	1/2/00	12/31/00	1/2/00
Basic earnings per share:				
	\$	\$	\$	
Earnings from continuing operations	<u>(6,639)</u>	<u>(7,080)</u>	<u>(12,085)</u>	<u>\$ 11,030</u>
Common shares outstanding	<u>25,101</u>	<u>24,889</u>	<u>25,068</u>	<u>24,882</u>
	\$	\$	\$	
Basic earnings from continuing operations per share	<u>(0.26)</u>	<u>(0.28)</u>	<u>(0.48)</u>	<u>\$ 0.44</u>
Diluted earnings per share:				
	\$	\$	\$	
Earnings from continuing operations	<u>(6,639)</u>	<u>(7,080)</u>	<u>(12,085)</u>	<u>\$ 11,030</u>
Common shares outstanding	<u>25,133</u>	<u>24,889</u>	<u>25,101</u>	<u>24,882</u>
Options	antidilutive	antidilutive	antidilutive	2
Warrants	antidilutive	antidilutive	antidilutive	93
Total shares outstanding	<u>25,133</u>	<u>24,889</u>	<u>25,101</u>	<u>24,977</u>
	\$	\$	\$	
Diluted earnings from continuing operations per share	<u>(0.26)</u>	<u>(0.28)</u>	<u>(0.48)</u>	<u>\$ 0.44</u>

Stock options entitled to purchase 1,855,960 shares of Class A common stock were antidilutive and not included in the diluted earnings per share calculation for the six months ended January 2, 2000. Stock options entitled to purchase 2,197,055, 2,251,014 and 2,750,203 shares of Class A common stock were antidilutive and not included in the earnings per share calculation for the three and six months ended December 31, 2000, and the three months ended January 2, 2000, respectively. Stock warrants entitled to purchase 504,396, 577,989 and 9000,000 shares of Class A common stock were antidilutive and not included in the earnings per share calculation for the three and six months ended December 31, 2000, and the three months ended January 2, 2000, respectively. These shares could be dilutive in subsequent periods.

6. CONTINGENCIES

Environmental Matters

Our operations are subject to stringent government imposed environmental laws and regulations concerning, among other things, the discharge of materials into the environment and the generation, handling, storage, transportation and disposal of waste and hazardous materials. To date, such laws and regulations have not had a material effect on our financial condition, results of operations, or net cash flows, although we have expended, and can be expected to expend in the future, significant amounts for the investigation of environmental conditions and installation of environmental control facilities, remediation of 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 December 31, 2000, the consolidated total of our recorded liabilities for environmental matters was approximately \$12.6 million, which represented the estimated probable exposure for these matters. It is reasonably possible that our total exposure for these matters could be approximately \$19.7 million.

Other Matters

AlliedSignal (now Honeywell International) had asserted indemnification claims against us in an aggregate amount of \$38.8 million, arising from the disposition of Banner Aerospace's hardware business to AlliedSignal. We claimed that AlliedSignal owed us approximately \$6.8 million. In October 2000, we reached an agreement with AlliedSignal to settle these claims and as a result of the settlement no cash changed hands.

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

7. SEGMENT INFORMATION

We currently report in three principal business segments: aerospace fasteners, aerospace distribution and real estate operations. Since our last annual report, we are now reporting the results of the real estate operations as a separate segment. Previously, the results for our real estate operations were included within the corporate and other classification. The following table provides the historical results of our operations for the three and six months ended December 31, 2000 and January 2, 2000, respectively.

	Three Months Ended		Six Months Ended	
	12/31/00	1/2/00	12/31/00	1/2/00
Sales by Segment:				
Aerospace Fasteners Segment	\$ 128,010	\$ 124,143	\$ 253,456	\$ 258,563
Aerospace Distribution Segment	20,090	28,101	43,011	57,451
Corporate and Other Segment	-	-	-	739
TOTAL SALES	\$ 148,100	\$ 152,244	\$ 296,467	\$ 316,753
Operating Results by Segment:				
Aerospace Fasteners Segment (a)	\$ 9,853	\$ 2,915	\$ 16,852	\$ 11,790
Aerospace Distribution Segment	712	2,082	1,699	4,339
Real Estate Segment (b)	(481)	333	83	434
Corporate and Other Segment	(4,758)	(6,105)	(9,012)	(7,304)
TOTAL OPERATING INCOME	\$ 5,326	\$ (775)	\$ 9,622	\$ 9,259
Earnings (loss) from continuing operations before taxes:				
Aerospace Fasteners Segment (a)	\$ 9,264	\$ 2,599	\$ 15,703	\$ 10,723
Aerospace Distribution Segment	(67)	4,574	1,661	4,340
Real Estate Segment (b)	(1,339)	333	(1,604)	434
Corporate and Other Segment	(18,674)	(17,580)	(35,589)	1,872
Total earnings (loss) from continuing operations before taxes:	\$ (10,816)	\$ (10,074)	\$ (19,829)	\$ 17,369
Total Assets:	12/31/00	6/30/00		
Aerospace Fasteners Segment	\$ 623,226	\$ 632,152		
Aerospace Distribution Segment	49,662	90,918		
Real Estate Segment	115,671	120,092		
Corporate and Other Segment	444,126	424,258		
TOTAL ASSETS	\$ 1,232,685	\$ 1,267,420		

(a) – Includes restructuring charges of \$3.0 million and \$6.1 million in the three and six months ended January 2, 2000, respectively.

(b) – Includes rental revenue of \$1.9 million and \$0.4 million for the three months ended December 31, 2000 and January 2, 2000, respectively, and \$3.5 million and \$0.8 million for the six months ended December 31, 2000 and January 2, 2000, respectively.

8. 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, if any. 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.

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

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

We did not elect to pursue hedge accounting for the interest rate swap agreement, which was executed to provide an economic hedge against cash flow variability on the floating rate note. When evaluating the impact of SFAS No. 133 on this hedge relationship, we assessed the key characteristics of the interest rate swap agreement and the note. Based on this assessment, we determined that the hedging relationship would not be highly effective. The ineffectiveness is caused by the existence of the embedded written call option in the interest rate swap agreement, and the absence of a mirror option in the hedged item. As such, pursuant to SFAS No. 133, we designated the interest rate swap agreement in the no hedging designation category. Accordingly, we have recognized a non-cash decrease in fair market value of interest rate derivatives of \$3.1 million and \$3.5 million in the second quarter and first six months of fiscal 2001, respectively, as a result of the fair market value adjustment for our interest rate swap agreement.

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

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

accounted for separately from the host contract. For the quarterly period ended December 31, 2000, we accounted for the hybrid contract, comprised of variable rate note and the embedded interest rate cap as a single debt instrument.

9. CONSOLIDATING FINANCIAL STATEMENTS

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 provides the results of The Fairchild Corporation on an unconsolidated basis. The guarantors are composed primarily of our domestic subsidiaries, excluding Fairchild Technologies, a real estate development venture, and certain other subsidiaries.

**CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2000**

	Parent Company	Guarantors	Non Guarantors	Eliminations	Fairchild Historical
Cash	\$ 204	\$ 9,090	\$ 7,309	\$ -	\$ 16,603
Marketable securities	71	3,100	7,926	-	11,097
Accounts Receivable (including intercompany), less allowances	1,696	333,712	4,925	(229,443)	110,890
Inventory, net	-	142,281	50,178	-	192,459
Prepaid and other current assets	385	28,271	8,443	48,273	85,372
Total current assets	2,356	516,454	78,781	(181,170)	416,421
Investment in Subsidiaries	888,795	-	-	(888,795)	-
Net fixed assets	458	122,326	39,917	-	162,701
Net assets held for sale	-	17,726	-	-	17,726
Investments in affiliates	945	2,682	-	-	3,627
Goodwill	16,124	383,232	30,758	(3,009)	427,105
Deferred loan costs	12,626	22	1,188	-	13,836
Prepaid pension assets	-	64,471	-	-	64,471
Real estate investment	-	-	112,115	-	112,115
Long-term investments	415	5,504	3,436	(488)	8,867
Other assets	17,531	(13,696)	1,981	-	5,816
Total assets	\$ 939,250	\$ 1,098,721	\$ 268,176	\$(1,073,462)	\$ 1,232,685
Bank notes payable & current maturities of debt	\$ 2,250	\$ 1,770	\$ 23,861	\$ -	\$ 27,881
Accounts payable (including intercompany)	93	579,333	77,060	(605,491)	50,995
Other accrued expenses	(33,363)	58,232	33,843	39,289	98,001
Total current liabilities	(31,020)	639,335	134,764	(566,202)	176,877
Long-term debt, less current maturities	436,703	7,569	34,313	-	478,585
Fair market value of interest rate contract	3,545	-	-	-	3,545
Other long-term liabilities	406	18,939	5,451	-	24,796
Noncurrent income taxes	121,013	(941)	1,989	(6,500)	115,561
Retiree health care liabilities	-	38,782	4,979	-	43,761
Total liabilities	530,647	703,684	181,496	(572,702)	843,125
Class A common stock	3,032	-	53	(53)	3,032
Class B common stock	262	-	-	-	262
Notes due from stockholders	(520)	(1,341)	-	-	(1,861)
Paid-in-capital	232,774	463,459	157,314	(620,773)	232,774
Retained earnings	249,703	(58,115)	(63,345)	121,460	249,703
Cumulative other comprehensive income	(573)	(8,848)	(7,342)	(1,024)	(17,787)
Treasury stock, at cost	(76,075)	(118)	-	(370)	(76,563)
Total stockholders' equity	408,603	395,037	86,680	(500,760)	389,560
Total liabilities & stockholders' equity	\$ 939,250	\$ 1,098,721	\$ 268,176	\$(1,073,462)	\$ 1,232,685

**CONSOLIDATING STATEMENTS OF EARNINGS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2000**

	Parent Company	Guarantors	Non Guarantors	Eliminations	Fairchild Historical
Net Sales	\$ -	\$ 227,996	\$ 72,020	\$ (3,549)	\$ 296,467
Costs and expenses					
Cost of sales	-	175,249	50,937	(3,549)	222,637
Selling, general & administrative	3,439	45,425	9,085	-	57,949
Amortization of goodwill	404	2,128	3,727	-	6,259
	<u>3,843</u>	<u>222,802</u>	<u>63,749</u>	<u>(3,549)</u>	<u>286,845</u>
Operating income (loss)	(3,843)	5,194	8,271	-	9,622
Net interest expense (including intercompany)	(3,991)	24,899	5,623	-	26,531
Investment (income) loss, net	-	181	(805)	-	(624)
Decrease in fair market value of interest rate contract	(3,545)	-	-	-	(3,545)
Earnings (loss) before taxes	(3,397)	(19,886)	3,453	-	(19,830)
Income tax (provision) benefit	1,668	9,898	(4,002)	-	7,564
Equity in earnings of affiliates and subsidiaries	(10,355)	181	-	10,355	181
Earnings (loss) from continuing operations	(12,084)	(9,807)	(549)	10,355	(12,085)
Cumulative Effect in Change in Accounting	-	-	-	-	-
Net earnings (loss)	<u>\$ (12,084)</u>	<u>\$ (9,807)</u>	<u>\$ (549)</u>	<u>\$ 10,355</u>	<u>\$ (12,085)</u>

**CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2000**

	Parent Company	Guarantors	Non Guarantors	Eliminations	Fairchild Historical
Cash Flows from Operating Activities:					
Net earnings (loss)	\$ (12,084)	\$ (9,807)	\$ (549)	\$ 10,355	\$ (12,085)
Depreciation & amortization	455	13,073	8,447	-	21,975
Accretion of discount on long-term liabilities	-	689	-	-	689
Amortization of deferred loan fees	690	1	226	-	917
Unrealized holding (gain) loss on derivatives	4,356	-	-	-	4,356
Change in assets and liabilities	(18,841)	(16,896)	(10,992)	(10,355)	(57,084)
Net cash (used for) provided by operating activities	<u>(25,424)</u>	<u>(12,940)</u>	<u>(2,868)</u>	<u>-</u>	<u>(41,232)</u>
Cash Flows from Investing Activities:					
Purchase of PP&E	(158)	(5,908)	(2,277)	-	(8,343)
Investment securities, net	-	3,755	-	-	3,755
Change in real estate investment	-	-	(1,705)	-	(1,705)
Change in net assets held for sale	-	2,081	-	-	2,081
Other changes	-	132	-	-	132
Net cash (used for) provided by investing activities	<u>(158)</u>	<u>60</u>	<u>(3,982)</u>	<u>-</u>	<u>(4,080)</u>
Cash Flows from Financing Activities:					
Proceeds from issuance of debt	25,200	130	5,939	-	31,269
Debt repayments, net	-	(1,229)	(5,541)	-	(6,770)
Issuance of Class A common stock	551	-	-	-	551
Loans to stockholders	-	6	-	-	6
Net cash (used for) provided by financing activities	<u>25,751</u>	<u>(1,093)</u>	<u>398</u>	<u>-</u>	<u>25,056</u>
Effect of exchange rate changes on cash	-	-	1,069	-	1,069

Net change in cash	169	(13,973)	(5,383)	-	(19,187)
Cash, beginning of the year	35	23,063	12,692	-	35,790
Cash, end of the year	<u>\$ 204</u>	<u>\$ 9,090</u>	<u>\$ 7,309</u>	<u>\$ -</u>	<u>\$ 16,603</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
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 EARNINGS
FOR THE SIX MONTHS ENDED JANUARY 2, 2000**

**CONSOLIDATING STATEMENTS OF EARNINGS
For the Six Months Ended
January 2, 2000**

	Parent Company	Guarantors	Non Guarantors	Eliminations	Fairchild Historical
Net Sales	\$ -	\$ 234,852	\$ 83,451	\$ (1,550)	\$ 316,753
Costs and expenses					
Cost of sales	-	175,728	61,556	(1,550)	235,734
Selling, general & administrative	2,380	45,577	11,638	-	59,595
Restructuring	-	6,057	-	-	6,057
Amortization of goodwill	257	5,345	506	-	6,108
	<u>2,637</u>	<u>232,707</u>	<u>73,700</u>	<u>(1,550)</u>	<u>307,494</u>
Operating income (loss)	(2,637)	2,145	9,751	-	9,259
Net interest expense	24,888	(5,907)	3,790	-	22,771
Investment (income) loss, net	-	(2,878)	-	-	(2,878)
Intercompany dividends	-	-	714	(714)	-
Nonrecurring income on disposition of subsidiary	-	-	(28,003)	-	(28,003)
Earnings (loss) before taxes	(27,525)	10,930	33,250	714	17,369
Income tax (provision) benefit	(4,644)	(120)	(502)	-	(5,266)
Equity in earnings of affiliates and subsidiaries	43,199	(1,073)	-	(43,199)	(1,073)
Earnings (loss) from continuing operations	11,030	9,737	32,748	(42,485)	11,030
Earnings (loss) from disposal of discontinued operations	-	-	374	(374)	-
Net earnings (loss)	<u>\$ 11,030</u>	<u>\$ 9,737</u>	<u>\$ 33,122</u>	<u>\$ (42,859)</u>	<u>\$ 11,030</u>

**CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JANUARY 2, 2000**

**CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Six Months Ended
January 2, 2000**

	Parent Company	Guarantors	Non Guarantors	Eliminations	Fairchild Historical
<u>Cash Flows from Operating Activities:</u>					
Net earnings (loss)	\$ 11,030	\$ 9,737	\$ 33,122	\$ (42,859)	\$ 11,030
Depreciation and amortization	349	15,175	4,214	-	19,738
Amortization of deferred loan fees	577	-	-	-	577
Accretion of discount on long-term liabilities	1,923	-	-	-	1,923
(Gain) on sale of affiliate investment and divestiture of subsidiary	-	-	(28,003)	-	(28,003)
(Gain) on sale of investments	-	(2,851)	-	-	(2,851)
Undistributed loss (earnings) of affiliates	-	1,651	-	-	1,651
Change in assets and liabilities	(15,046)	(72,871)	(5,752)	42,859	(50,810)
Non-cash charges and working capital changes of discontinued operations	-	-	(12,049)	-	(12,049)
Net cash (used for) provided by operating activities	<u>(1,167)</u>	<u>(49,159)</u>	<u>(8,468)</u>	<u>-</u>	<u>(58,794)</u>
<u>Cash Flows from Investing Activities:</u>					
Net proceeds from (used for) investments	-	1,351	-	-	1,351
Purchase of property, plant and equipment	(5)	(11,932)	(4,638)	-	(16,575)
Equity investment in affiliates	-	(2,441)	-	-	(2,441)
Net proceeds from sale of affiliate investment and divestiture of subsidiaries	-	57,000	48,009	-	105,009
Real estate investment	-	-	(11,087)	-	(11,087)
Change in net assets held for sale	-	4,419	-	-	4,419
Investing activities of discontinued operations	-	-	7,100	-	7,100
Net cash (used for) provided by investing activities	<u>(5)</u>	<u>48,397</u>	<u>39,384</u>	<u>-</u>	<u>87,776</u>
<u>Cash Flows from Financing Activities:</u>					
Proceeds from issuance of debt	45,600	110,459	5,787	-	161,846
Debt repayment and repurchase of debentures (including intercompany), net	(44,557)	(77,208)	(39,413)	-	(161,178)
Issuance of Class A common stock	168	-	-	-	168
Purchase of treasury stock	-	(622)	-	-	(622)
Net cash provided by financing activities	<u>1,211</u>	<u>32,629</u>	<u>(33,626)</u>	<u>-</u>	<u>214</u>
Effect of exchange rate changes on cash	-	33	(277)	-	(244)
Net change in cash and cash equivalents	<u>39</u>	<u>31,900</u>	<u>(2,987)</u>	<u>-</u>	<u>28,952</u>
Cash and cash equivalents, beginning of the year	27	41,793	13,040	-	54,860
Cash and cash equivalents, end of the year	<u>\$ 66</u>	<u>\$ 73,693</u>	<u>\$ 10,053</u>	<u>\$ -</u>	<u>\$ 83,812</u>

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

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

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

GENERAL

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

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

CAUTIONARY STATEMENT

Certain statements in this financial discussion and analysis by management contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operation and business. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and similar terms and phrases, including references to assumptions. These forward-looking statements involve risks and uncertainties, including current trend information, projections for deliveries, backlog and other trend estimates, that may cause our actual future activities and results of operations to be materially different from those suggested or described in this Quarterly Report on Form 10-Q. These risks include: product demand; our dependence on the aerospace industry; reliance on Boeing and European Aeronautic Defense and Space Company; customer satisfaction and quality issues; labor disputes; competition, including recent intense price competition; our ability to achieve and execute internal business plans; worldwide political instability and economic growth; the cost and availability of electric power to operate our plants; and the impact of any economic downturns and inflation.

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

forward-looking statements in this Quarterly Report, even if new information, future events or other circumstances have made them incorrect or misleading.

RESULTS OF OPERATIONS

Business Transactions

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

Fiscal 2000 Transactions

On December 1, 1999, we disposed of substantially all of the assets and certain liabilities of our Dallas Aerospace subsidiary to United Technologies Inc. for approximately \$57.0 million. No gain or loss was recognized from this transaction, as the proceeds received approximated the net carrying value of these assets. Approximately \$37.0 million of the proceeds from this disposition were used to reduce our 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 \$2.3 million nonrecurring pre-tax gain from this disposition.

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 the six months ended January 2, 2000, we recognized a \$25.7 million nonrecurring gain from this divestiture. We used the net proceeds from the disposition to reduce our indebtedness. We also agreed to provide consulting services over a three-year period, at an annual fee of approximately \$1.5 million.

Consolidated Results

We currently report in three principal business segments: aerospace fasteners, aerospace distribution and real estate operations. The results of Camloc Gas Springs division, prior to its disposition, were included in the Corporate and Other classification. The following table provides the historical sales and operating income of our operations for the three and six months ended December 31, 2000 and January 2, 2000, respectively. The following table also illustrates sales and operating income of our operations by segment, on an unaudited pro forma basis, for the three and six months ended January 2, 2000, as if we had operated in a consistent manner in each of the reported periods. The pro forma results represent the impact of our dispositions of Dallas Aerospace in December 1999, and Camloc Gas Springs in September 1999, as if these transactions had occurred at the beginning of the six-month period ended January 2, 2000. The pro forma information is based on the historical financial statements of these companies, giving effect to the aforementioned transactions. The pro forma information is not necessarily indicative of the results of operations, that would actually have occurred if these transactions had been in effect since the beginning of fiscal 2000, nor is it necessarily indicative of our future results.

	Three Months Ended			Six Months Ended		
	12/31/00	1/2/00	1/2/00	12/31/00	1/2/00	1/2/00
	Actual	Actual	Pro Forma	Actual	Actual	Pro Forma
Sales by Segment:						
Aerospace Fasteners Segment	\$ 128,010	\$ 124,143	\$ 124,143	\$ 253,456	\$ 258,563	\$ 258,563
Aerospace Distribution Segment	20,090	28,101	17,551	43,011	57,451	35,757
Corporate and Other Segment	-	-	-	-	739	-
TOTAL SALES	\$ 148,100	\$ 152,244	\$ 141,694	\$ 296,467	\$ 316,753	\$ 294,320

Operating Results by Segment:

Aerospace Fasteners Segment (a)	\$ 9,853	\$ 2,915	\$ 2,915	\$ 16,852	\$ 11,790	\$ 11,790
Aerospace Distribution Segment	712	2,082	909	1,699	4,339	2,261
Real Estate Operations Segment (b)	(481)	333	333	83	434	434
Corporate and Other Segment	(4,758)	(6,105)	(6,078)	(9,012)	(7,304)	(7,290)
TOTAL OPERATING INCOME	\$ 5,326	(775)	(1,921)	\$ 9,622	\$ 9,259	7,195

(a) – Includes restructuring charges of \$3.0 million and \$6.1 million in the three and six months ended January 2, 2000, respectively.

(b) – Includes rental revenue of \$1.9 million and \$0.4 million for the three months ended December 31, 2000 and January 2, 2000, respectively, and \$3.5 million and \$0.8 million for the six months ended December 31, 2000 and January 2, 2000, respectively.

Net sales of \$148.1 million in the second quarter of fiscal 2001 decreased by \$4.1 million, or 2.7%, compared to sales of \$152.2 million in the second quarter of fiscal 2000. Net sales of \$296.5 million in the first six months of fiscal 2001 decreased by \$20.3 million, or 6.4%, compared to sales of \$316.8 million in the first six months of fiscal 2000. The results for the three and six months ended January 2, 2000, included revenue of \$10.6 million and \$22.4 million, respectively, from Dallas Aerospace and the Camloc Gas Springs division prior to their respective dispositions. Additionally, the second quarter and first six months of fiscal 2001 sales were adversely affected by approximately \$10.7 million and \$17.2 million, respectively, due to the foreign currency impact on our European operations. On a pro forma basis and excluding the period-to-period foreign currency effect, net sales increased by \$17.1 million and \$19.4 million for the three and six months ended December 31, 2000, respectively, as compared to the three and six months ended January 2, 2000.

Gross margin as a percentage of sales was 26.4% and 24.9% in the second quarter of fiscal 2001 and fiscal 2000 and 24.9% and 25.6% for the first six months of fiscal 2001 and fiscal 2000, respectively. The reduced margins in the fiscal 2001 six-month period are attributable to lower prices and a change in product mix.

Selling, general & administrative expense as a percentage of sales was 23.3% and 23.2% in the second quarter of fiscal 2001 and 2000, respectively, and 21.7% and 21.2% in the first six months of fiscal 2001 and 2000, respectively. The increase for the six months of fiscal 2001 is due primarily to higher operating costs of our Farmingdale shopping center as a result of increased rental income.

Other income decreased \$2.4 million in the first six months of fiscal 2001, compared to the first six months of fiscal 2000. The decrease is due primarily to \$3.1 million of income recognized from the disposition of non-core property during the six months ended January 2, 2000, the write-off of approximately \$1.0 million of tenant improvements and a \$0.7 million loss recognized from the disposition of non-core property during the six months ended December 31, 2000, offset partially by a \$1.3 million increase in rental income on our Farmingdale shopping center.

In the six months ended January 2, 2000, we recorded \$6.1 million of restructuring charges as a result of the continued integration of Kaynar Technologies, acquired in April 1999, into our aerospace fasteners segment. All of the charges recorded were a direct result of product integration costs incurred as of January 2, 2000. These costs were classified as restructuring and were the direct result of formal plans to 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. Our integration process was completed by June 30, 2000.

Operating income for the three and six months ended December 31, 2000 improved by \$6.1 million and \$0.3 million, respectively, as compared to the same periods of the prior year. The results for the six months ended January 2, 2000, included \$2.1 million of operating income from Dallas Aerospace, prior to its disposition and \$3.1 million of income recognized from the disposition of non-core property, offset partially by restructuring charges of \$6.1 million. Operating income in the second quarter and first six months of fiscal 2001 was adversely affected by approximately \$1.1 million and \$2.1 million, respectively, due to the foreign currency impact on our European operations. Additionally, operating income in the current quarter and first six months of fiscal 2001 was affected by write-off of \$1.0 million of tenant improvements. On a pro forma basis and excluding the period-to-period foreign currency effect, operating income increased by \$7.7 million and \$3.9 million for the three and six months ended December 31, 2000, respectively, as compared to the three and six months ended January 2, 2000.

Net interest expense increased \$3.8 million in the first six months of fiscal 2001, compared to the first six months of fiscal 2000. We recognized interest expense of \$1.8 million in the first six months of fiscal 2001, while we capitalized \$3.8 million of interest expense in the first six months of fiscal 2000 from real estate development at our shopping center in Farmingdale, New York. The increase in interest rates during the first six months of fiscal 2001 was offset by higher average debt outstanding in the first six months of fiscal 2000.

In the first six months of fiscal 2001, we recognized a \$3.5 million of non-cash decrease on the fair market value adjustment of interest rate derivatives of a ten-year \$100 million interest rate hedge agreement.

We recognized investment income of \$0.6 million in the first six months of fiscal 2001, and \$2.9 million in the first six months of fiscal 2000, due primarily to recognizing realized gains on investments liquidated.

Nonrecurring pre-tax income of \$28.0 million in the six months ended January 2, 2000 resulted from the disposition of our equity investment in Nacanco Paketleme and the disposition of our Camloc Gas Springs division.

An income tax benefit of \$7.6 million in the first six months of fiscal 2001 represented a 38.1% effective tax rate on pre-tax losses from continuing operations. The tax benefit approximated the statutory rate. An income tax provision of \$5.3 million in the first six months of fiscal 2000 represented a 30.3% effective tax rate on pre-tax earnings from continuing operations. The tax provision was slightly lower than the statutory rate because of lower tax rates at some of our foreign operations.

Comprehensive income (loss) includes foreign currency translation adjustments, unrealized holding changes in the fair market value of available-for-sale investment securities, and the cumulative effect of adoption of SFAS 133, accounting for Derivatives. For the six months ended December 31, 2000, foreign currency translation adjustments decreased by \$2.6 million, the fair market value of unrealized holding gains on investment securities we own increased by \$2.1 million, and we recorded a \$0.5 million decrease in the fair market value of our \$100 million interest rate swap agreement due to the cumulative effect of adoption of SFAS 133.

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

Segment Results

Aerospace Fasteners Segment

Sales in our Aerospace Fasteners segment increased by \$3.9 million, or 3.1%, in the second quarter of fiscal 2001 and decreased by \$5.1 million, or 2.0%, in the first six months of fiscal 2001, as compared to the same periods of fiscal 2000. Sales from our European operations were adversely affected by approximately \$10.7 million in the second quarter and \$17.2 million in the first six months of fiscal 2001, as compared to the same periods of the prior year, due to the foreign currency impact from the U.S. dollar strengthening against the Euro. However, our book-to-bill ratio continues to remain positive, which we believe indicates an improving market place as compared to the sluggish conditions we have experienced over the past twelve months.

Operating income increased by \$6.9 million in the second quarter and \$5.1 million in the first six months of fiscal 2001, compared to the same periods of fiscal 2000. The increase was due primarily to productivity improvements from cost reduction efforts completed in fiscal 2000 and restructuring charges recorded in the first six months of fiscal 2000, offset partially by reduced gross margins resulting from pricing pressures. Operating income for the second quarter and first six months of fiscal 2001 was adversely affected by approximately \$1.1 million and \$2.1 million, respectively, as compared to the same periods of the prior year, due to the foreign currency impact on our European operations. Included in our prior six months results are restructuring charges of

\$6.1 million due to the integration of Kaynar Technologies into our Aerospace Fasteners business. Operating expenses at all operations are being strictly controlled as management attempts to reduce operating costs to improve operating results in the short-term, without adversely affecting our future long-term performance.

Our Aerospace Fasteners segment has several manufacturing facilities located in California, which are affected by an electric power shortage. We are cautiously optimistic that the electric power shortage in California will be resolved without any major business interruption; however, unless current tariffs are revised or their continued implementation stayed, our manufacturing costs may be materially higher. We are pursuing both long term and short term alternatives to our current electric power purchasing commitments. We anticipate that the overall demand for aerospace fasteners in calendar 2001 will continue to improve as OEMs inventory reduction programs subside and the announced increase in aircraft build rates favorably affect the demand for our products. If the Euro to U.S. Dollar exchange rate maintains the same ratio that existed on December 31, 2000, we would expect the second six months of fiscal 2001 to experience little affects from the foreign currency fluctuations that adversely affected the results of the first six months of fiscal 2001.

Aerospace Distribution Segment

Sales in our aerospace distribution segment decreased by \$8.0 million, or 28.5%, in the second quarter and \$14.4 million, or 25.1%, in the first six months of fiscal 2001, compared to the fiscal 2000 periods. The prior period results included revenue of \$10.6 million in the second quarter and \$21.7 million in the six months ended January 2, 2000, from Dallas Aerospace, prior to its disposition. On a pro forma basis, sales in our aerospace distribution segment increased by \$2.5 million, or 14.5%, in the second quarter and \$7.3 million, or 20.3%, in the first six months of fiscal 2001, reflecting an overall improvement in demand for our products.

Operating income decreased by \$1.4 million in the second quarter and \$2.6 million in the first six months of fiscal 2001, compared to the same periods in fiscal 2000. The results for the three and six months ended January 2, 2000, included operating income from Dallas Aerospace, prior to its disposition, of \$1.2 million and \$2.1 million, respectively.

Real Estate Operations Segment

Our real estate operations segment owns and operates a shopping center located in Farmingdale, New York. Included in operating income was rental revenue of \$1.9 million and \$0.4 million for the three months ended December 31, 2000 and January 2, 2000, respectively, and \$3.5 million and \$0.8 million for the six months ended December 31, 2000 and January 2, 2000, respectively. Rental revenue was higher in the fiscal 2001 periods due to an increase in the amount of retail space leased to tenants. As of December 31, 2000, approximately 73% of the developed shopping center was leased.

We reported an operating loss of \$0.5 million for the second quarter of fiscal 2001 and operating income of \$0.1 million for the six months ended December 31, 2000, compared to operating income of \$0.3 million in the second quarter and \$0.4 million in the first six months of fiscal 2000. In the second quarter of fiscal 2001, we recorded a charge of \$1.0 million to write-off specialized tenant improvements associated with an eviction of a non-paying tenant. The results of the periods ended December 31, 2000, were also affected by an increase in administrative and depreciation expenses as a result of the increase in rental revenue.

Corporate and Other

The Corporate and Other classification included the Camloc Gas Springs division, prior to its disposition, and corporate activities. The group reported a decrease in sales as a result of the disposition of the Camloc Gas Springs division in September 1999. The operating loss increased by \$1.7 million in the first six months of fiscal 2001, compared to the first six months of fiscal 2000. The first six months of fiscal 2000 included \$3.1 million of income recognized from

the disposition of non-core property, while the first six months of fiscal 2001 included a \$0.3 million loss recognized from the disposition of non-core property.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Total capitalization as of December 31, 2000 and June 30, 2000 amounted to \$889.6 million and \$884.4 million, respectively. The changes in capitalization included an \$27.7 million increase in debt reflecting cash used to support our operations, offset partially by a \$12.6 million decrease in equity in the six months ended December 31, 2000 due primarily to our reported net loss and a reduction in comprehensive income.

We maintain a portfolio of investments classified primarily as available-for-sale securities, which had a fair market value of \$20.0 million at December 31, 2000. The market value of these investments increased by \$2.0 million in the six months ended December 31, 2000. There is risk associated with market fluctuations inherent in stock investments, and because our portfolio is not diversified, large swings in its value may occur.

Net cash used for operating activities for the six months ended December 31, 2000 and January 2, 2000 was \$41.2 million and \$58.8 million, respectively. The primary use of cash for operating activities in the first six months of fiscal 2001 was a \$35.9 million decrease in accounts payable and other accrued liabilities, a \$12.6 million increase in inventories, and a \$11.4 million increase in other current assets, offset partially by a \$16.3 million decrease in accounts receivable. The primary use of cash for operating activities in the first six months of fiscal 2000 was a \$43.3 million increase in inventories and a \$22.9 million decrease in accounts payable and other accrued liabilities, offset partially by a \$15.0 million decrease in accounts receivable.

Net cash used for investing activities for the six months ended December 31, 2000 was \$4.1 million and net cash provided by investing activities for the six months ended January 2, 2000, was \$87.8 million. In the first six months of fiscal 2001, the primary use of cash included capital expenditures of \$8.3 million and costs of \$1.7 million for real estate development at our Farmingdale shopping center, offset partially by \$6.1 million of cash provided from the sale of investments and dispositions of non-core real estate. In the first six months of fiscal 2000, the primary source of cash from investing activities was \$105.0 million of net proceeds received from the dispositions of Dallas Aerospace, Nacanco and the Camloc Gas Springs division, offset partially by capital expenditures of \$16.5 million.

Net cash provided by financing activities for the six months ended December 31, 2000 and January 2, 2000 was \$25.1 million and \$0.2 million, respectively. Cash provided by financing activities in the first quarter of fiscal 2001, included \$24.4 million of net proceeds from the issuance of additional debt. Cash provided by financing activities in the first six months of fiscal 2000 included \$161.9 million of proceeds from the issuance of debt, and \$0.2 million from the issuance of stock, offset by \$161.2 million repayment of debt and a \$0.6 million purchase of treasury stock.

Our working capital requirement has increased in the second quarter of fiscal 2001, as our aerospace fasteners segment engaged in a new inventory supply program with a customer, requiring a significant investment in inventory. Under this program, we must maintain a certain level of inventory to fulfill the customer's monthly requirements. Sales under the program are expected to increase in the third quarter of fiscal 2001.

Our principal cash requirements include debt service, capital expenditures, real estate development, and payment of other liabilities. Other liabilities that require the use of cash include postretirement benefits, environmental investigation

and remediation obligations, and litigation settlements and related costs. We expect that cash on hand, cash generated from operations, cash available from borrowings and additional financing and asset sales will be adequate to satisfy our cash requirements in fiscal 2001.

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 million 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 \$0.4 million over the life of the agreement. Noncompliance with any of the financial covenants without cure or waiver would constitute an event of default under the credit agreement. An event of default resulting from a breach of a financial covenant may result, at the option of lenders holding a majority of the loans, in an acceleration of the principal and interest outstanding, and a termination of the revolving credit line. At December 31, 2000, we were in full compliance with all the covenants under the credit agreement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

We did not elect to pursue hedge accounting for the interest rate swap agreement, which was executed to provide an economic hedge against cash flow variability on the floating rate note. When evaluating the impact of SFAS No. 133 on this hedge relationship, we assessed the key characteristics of the interest rate swap agreement and the note. Based on this assessment, we determined that the hedging relationship would not be highly effective. The ineffectiveness is caused by the existence of the embedded written call option in the interest rate swap agreement, and the absence of a mirror option in the hedged item. As such, pursuant to SFAS No. 133, we designated the interest rate swap agreement in the no hedging designation category. Accordingly, we have recognized a non-cash decrease in fair market value of interest rate derivatives of \$3.1 million and \$3.5 million in the second quarter and first six months of fiscal 2001, respectively as a result of the fair market value adjustment for our interest rate swap agreement.

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

In March 2000, the Company issued a floating rate note with a principal amount of \$30,750,000. Embedded within the promissory note agreement is an interest rate cap. The embedded interest rate cap limits the 1-month LIBOR interest rate that we must pay on the note to 8.125%. At execution of the promissory note, the strike rate of the embedded interest rate cap of 8.125% was above the 1-month LIBOR rate of 6.61%. Under SFAS 133, the embedded interest rate cap is considered to be clearly and closely related to the debt of the host contract and is not required to be separated and accounted for separately from the host contract. For the six months ended December 31, 2000, we accounted for the hybrid contract, comprised of variable rate note and the embedded interest rate cap as a single debt instrument.

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

Expected Fiscal Year Maturity Date	2003	2008
Type of Interest Rate Contracts	Interest Rate Cap	Variable to Fixed
Variable to Fixed (in thousands)	\$30,750	\$100,000
Fixed LIBOR rate	N/A	6.24% (a)
LIBOR cap rate	8.125%	N/A
Average floor rate	N/A	N/A
Weighted average forward LIBOR rate	6.89%	6.04%

Fair Market Value at April 1, 2001 (in thousands)	\$37	\$(4,356)
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(a) – *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.*

SIGNATURES

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

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

By: /s/ MICHAEL T. ALCOX
Michael T. Alcox
Senior Vice President and
Chief Financial Officer

Date: May 10, 2001