FAIRCHILD CORP
Form 10-Q
November 30, 2007

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2007
Commission File Number 1-6560

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

Delaware
(State of incorporation or organization)

34-0728587
(I.R.S. Employer Identification No.)

1750 Tysons Boulevard, Suite 1400, McLean, VA 22102
(Address of principal executive offices)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days: [ ] Yes [X] No.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer:
[ ] Large accelerated file [ ] Accelerated filer [X] Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
[ ] Yes [X] No

On October 31, 2007, the number of shares outstanding of each of the Registrant’s classes of common stock was as follows:

Title of Class	
Class A Common Stock, $0.10 Par Value	**22,604,835**
Class B Common Stock, $0.10 Par Value	**2,621,338**

THE FAIRCHILD CORPORATION INDEX TO QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED MARCH 31, 2007

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS

	March 31, 2007 (Unaudited)	September 30, 2006
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,003	$ 8,541
Short-term investments - unrestricted	15,692	50,510
Short-term investments - restricted	51,650	6,002
Accounts receivable-trade, less allowances of $1,179 and $1,083	18,572	16,927
Finished goods inventories, less reserves of $16,059 and $15,223	135,406	106,718
Prepaid expenses and other current assets	20,834	10,795
Total Current Assets	254,157	199,493
Property, plant and equipment, net of accumulated depreciation of $28,850 and $24,989	59,592	58,698
Goodwill	12,322	14,128
Amortizable intangible assets, net of accumulated amortization of $1,959 and $1,673	1,007	1,279
Unamortizable intangible assets	32,679	30,969
Prepaid pension assets	34,223	33,373
Deferred loan fees	1,936	3,170
Long-term investments - unrestricted	3,499	4,370
Long-term investments - restricted	21,902	60,949
Notes receivable	3,339	5,396
Other assets	4,179	3,304
TOTAL ASSETS	**$ 428,835**	**$ 415,129**

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

THE FAIRCHILD CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2007 (Unaudited)	September 30, 2006
CURRENT LIABILITIES:		
Bank notes payable and current maturities of long-term debt	$ 60,149	$ 25,492
Accounts payable	56,060	26,325
Accrued liabilities:		
Salaries, wages and commissions	10,087	10,044
Insurance	7,234	7,357
Interest	840	1,810
Other accrued liabilities	25,659	28,304
Income taxes	1,155	2,314
Current liabilities of discontinued operations	-	62
Total Current Liabilities	161,184	101,708
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities	30,098	65,450
Other long-term liabilities	31,746	31,750
Pension liabilities	40,183	40,622
Retiree health care liabilities	24,758	26,008
Deferred tax liability	4,761	4,530
Noncurrent income taxes	7,582	39,923
Noncurrent liabilities of discontinued operations	16,120	16,120
TOTAL LIABILITIES	316,432	326,111
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Class A common stock, $0.10 par value; 40,000 shares authorized,		
30,480 shares issued and 22,605 shares outstanding;		
entitled to one vote per share	3,047	3,047
Class B common stock, $0.10 par value; 20,000 shares authorized,		
2,621 shares issued and outstanding; entitled		
to ten votes per share	262	262
Paid-in capital	232,625	232,612
Treasury stock, at cost, 7,875 shares of Class A common stock	(76,352)	(76,352)
Retained earnings (accumulated deficit)	1,927	(15,680)
Notes due from stockholders	(43)	(43)
Accumulated other comprehensive loss	(49,063)	(54,828)
TOTAL STOCKHOLDERS' EQUITY	112,403	89,018
	$ 428,835	**$ 415,129**

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
REVENUE:		(Restated)		(Restated)
Net sales	$ 80,775	$ 62,727	$ 141,160	$ 114,038
Rental revenue	237	237	475	475
	81,012	**62,964**	**141,635**	**114,513**
COSTS AND EXPENSES:				
Cost of goods sold	49,268	38,976	87,278	71,064
Cost of rental revenue	59	51	119	107
Selling, general & administrative expense	40,479	35,438	76,759	64,482
Other income, net	(779)	(712)	(3,867)	(1,285)
Amortization of intangibles	141	129	279	257
	89,168	73,882	160,568	134,625
OPERATING LOSS	**(8,156)**	**(10,918)**	**(18,933)**	**(20,112)**
Interest expense	(4,096)	(1,772)	(9,146)	(4,758)
Interest income	630	611	1,750	959
Net interest expense	(3,466)	(1,161)	(7,396)	(3,799)
Investment income	736	389	1,932	1,317
Increase in fair market value of interest rate contract	-	-	-	836
Loss from continuing operations before taxes	(10,886)	(11,690)	(24,397)	(21,758)
Income tax (provision) benefit	(49)	5	(656)	18
Equity in earnings (loss) of affiliates, net	-	(1)	89	(42)
Loss from continuing operations	(10,935)	(11,686)	(24,964)	(21,782)
Earnings (loss) from discontinued operations, net	(778)	621	(2,744)	210
Gain on disposal of discontinued operations, net	32,815	-	45,315	12,500
NET EARNINGS (LOSS)	**$ 21,102**	**$ (11,065)**	**$ 17,607**	**$ (9,072)**
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE:				
Loss from continuing operations	$ (0.43)	$ (0.46)	$ (0.99)	$ (0.86)
Earnings (loss) from discontinued operations, net	(0.03)	0.02	(0.11)	0.01
Gain on disposal of discontinued operations, net	1.30	-	1.80	0.49
NET EARNINGS (LOSS) PER SHARE	**$ 0.84**	**$ (0.44)**	**$ 0.70**	**$ (0.36)**
Weighted average shares outstanding:				
Basic and Diluted	25,226	25,226	25,226	25,226

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

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

	Six Months Ended March 31,	
	2007	2006
	(Unaudited)	
		(Restated)
Cash flows from operating activities:		
Net earnings (loss)	$ 17,607	$ (9,072)
Depreciation and amortization	4,086	3,291
Non-cash interest expense	2,844	469
Gain on collection of note receivable	(2,110)	-
Stock compensation expense	13	90
Increase in fair market value of interest rate contract	-	(836)
Equity in (earnings) loss of affiliates, net of distributions	(89)	42
Gain on sale of investments	(1,294)	(712)
Net proceeds from the sale of trading securities	32,301	10,031
Changes in operating assets and liabilities	(15,512)	(12,488)
Non-cash charges and working capital changes of discontinued operations	(45,378)	(12,103)
Net cash used for operating activities	(7,532)	(21,288)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,690)	(4,120)
Change in available-for-sale investment securities, net	29	9,526
Equity investment in affiliates	-	(43)
Proceeds from sale of equity investment in affiliates	95	-
Net proceeds from the sale of discontinued operations	12,500	12,500
Collections of notes receivable	3,767	548
Net cash provided by investing activities of discontinued operations	-	41
Net cash provided by investing activities	12,701	18,452
Cash flows from financing activities:		
Proceeds from issuance of debt	15,031	23,584
Debt repayments	(16,973)	(13,849)
Payment of interest rate contract	-	(4,310)
Payment of financing fees	(18)	(289)
Loan repayments from stockholders	-	66
Net cash used for financing activities of discontinued operations	-	(343)
Net cash provided by (used for) financing activities	(1,960)	4,859
Net change in cash and cash equivalents	3,209	2,023
Effect of exchange rate changes on cash	253	1
Cash and cash equivalents, beginning of the period	8,541	12,582
Cash and cash equivalents, end of the period	$ 12,003	$ 14,606

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated balance sheet as of March 31, 2007, and the condensed consolidated statements of operations, and cash flows for the periods ended March 31, 2007 and 2006 have been prepared by us, without audit. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations, and cash flows at March 31, 2007, and for all periods presented, have been made. These adjustments include certain reclassifications, which reflect the sale of our shopping center and the sale of the remaining operations of a landfill development partnership as discontinued operations. These adjustments also include restatement adjustments. For additional discussion regarding the nature and impact of the restatement adjustments, see Note 2 of these condensed consolidated financial statements as well as Notes 2 and 18 of our audited financial statements in our 2006 Annual Report on Form 10-K.

During the three months ended December 31, 2006, we corrected the carrying value of the liability associated with our arrangement to acquire the remaining 7.5% of PoloExpress. As a result of this correction, we recognized $1.3 million of interest expense during the six months ended March 31, 2007 that pertained to periods prior to October 1, 2006. Management believes the impact of this error is immaterial in each applicable prior period.

The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and the Securities and Exchange Commission’s instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in complete financial statements prepared in accordance with GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our 2006 Annual Report on Form 10-K. The results of operations for the periods ended March 31, 2007 and 2006 are not necessarily indicative of the operating results for the full year. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation.

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

Liquidity

The Company has experienced losses from operations and negative operating cash flows in each of the years for the three years ended September 30, 2006. Although the Company believes its financial resources are sufficient to fund its operations and other contractual obligations in the near term, our cash needs could be substantially higher than projected. The Company believes it has sufficient financial flexibility to meet the near term liquidity needs, including the potential to refinance existing debt, borrow additional funds, sell non-core assets, or reduce operational cash disbursements. However, external factors could impact our ability to execute these alternatives.

Stock-Based Compensation

We adopted Statement of Financial Accounting Standards (“SFAS”) No. 123R, *Share Based Payment*, on October 1, 2005, and accordingly, we recognized a nominal amount of compensation cost in the three and six months ended March 31, 2007 and 2006. No tax benefits and deferred tax assets were recognized on the compensation cost because our tax position reflects a full domestic valuation allowance against deferred tax assets.

Our employee stock option plan expired in April 2006 and our non-employee directors’ stock option plan expired in September 2006. As of March 31, 2007, outstanding stock options on Class A common stock reflected only those stock options granted prior to the expiration of the plans. During the six months ended March 31, 2006, the Company granted 3,000 stock options at a weighted-average exercise price of $2.46 per share. On March 31, 2007, we had outstanding stock option awards of 322,917, of which 232,917 stock option awards were vested. No new stock option plans are being proposed at this time.

Comprehensive Income (Loss)

The activity in other comprehensive income (loss), net of tax, was:

	Three Months Ended March 31,		Six Months Ended March 31,	
(In thousands)	2007	2006	2007	2006
Net earnings (loss)	$ 21,102	$ (11,065)	$ 17,607	$ (9,072)
Unrealized periodic holding gains (losses) on available-for-sale securities	(314)	4,118	1,947	3,117
Foreign currency translation adjustments	784	1,096	3,818	68
Unrealized holding gains on derivatives	-	-	-	299
Other comprehensive income (loss)	$ 21,572	$ (5,851)	$ 23,372	$ (5,588)

The components of accumulated other comprehensive loss were:

(In thousands)	March 31, 2007	September 30, 2006
Unrealized holding gains on available-for-sale securities	$ 7,506	$ 5,559
Foreign currency translation adjustments	5,454	1,636
Excess of additional pension liability over unrecognized prior service costs	(62,023)	(62,023)
Accumulated other comprehensive loss	$ (49,063)	$ (54,828)

Recently Issued Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* permitting entities to elect fair value measurement for many financial instruments and certain other items. Unrealized gains and losses on designated items will be recognized in earnings at each subsequent period. SFAS No. 159 also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. We are required to adopt this statement in October 2008 and we are currently evaluating the potential impact to our future results of operations, financial position, and cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. We are required to adopt this statement in October 2008 and we are currently evaluating the potential impact to our future results of operations, financial position, and cash flows.

In September 2006, the FASB published SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Pension Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R).* SFAS No. 158 requires an employer to recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. Employers must also recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period. SFAS No. 158 is effective for fiscal years ending after December 15, 2006 and will be adopted by the Company as of September 30, 2007. If SFAS No. 158 was adopted as of September 30, 2006, the Company would have recorded a reduction in prepaid assets and other assets of $18.1 million and $1.5 million, respectively, a decrease in pension liabilities of $2.6 million, and a charge to other comprehensive income (loss) of $17.0 million.

In July 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN No. 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. We are required to adopt FIN No. 48 effective October 1, 2007. The cumulative effect of initially adopting FIN No. 48 will be recorded as an adjustment to opening retained earnings in the year of adoption and will be presented separately. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized upon adoption of FIN No. 48. We are currently evaluating the impact this new standard will have on our future results of operations, financial position, and cash flows.

2. RESTATEMENT

During the course of our fiscal 2006 audit and based upon discussions with our external independent registered public accounting firm and management, the Audit Committee of our Board of Directors concluded in January 2007 that our previously filed interim and audited consolidated financial statements should not be relied upon since they were prepared applying accounting practices in accounting for income taxes that did not comply with U.S. generally accepted accounting principles ("GAAP") and, consequently, we would restate our consolidated financial statements. During the course of management's review of the Company's historical financial statements, additional errors were identified. The consolidated financial statements for the three and six months ended March 31, 2006 included in this Quarterly Report on Form 10-Q include restatement adjustments that we have categorized into the following three areas: our accounting for income taxes; our accounting for commitments and contingencies; and our accounting for long-term investments.

As a result of the restatement, originally reported net loss for the three and six months ended March 31, 2006 decreased by $1.1 million ($0.04 per share) and $1.2 million ($0.05 per share), respectively. The cumulative impact of errors related to periods prior to September 30, 2005 of $1.4 million has been reflected as an increase to beginning retained earnings as of October 1, 2005.

The following table summarizes the impact of the restatement adjustments on net loss and basic and diluted earnings (loss) per share for the three and six months ended March 31, 2006.

(In thousands, except per share data)	Three Months Ended March 31, 2006	Six Months Ended March 31, 2006
Net loss, as previously reported	$ (12,125)	$ (10,241)
Restatement adjustments for:		
Commitments and contingencies	50	55
Long-term investments	983	1,009
Income taxes	27	105
Net loss, as restated	$ (11,065)	$ (9,072)
Basic and diluted earnings (loss) per share:		
As previously reported	$ (0.48)	$ (0.41)
Total impact of restatement adjustments	0.04	0.05
As restated	$ (0.44)	$ (0.36)

Financial Statement Impact

Statement of Operations Impact

The following table displays the cumulative impact of the restatement on the condensed consolidated statements of operations for the three months ended March 31, 2006.

		Restatement Adjustments for:				
(In thousands)	As Previously Reported (a)	Income Taxes	Commitments and Contingencies	Long-term Investments	Total Restatement Adjustments	As Restated
Revenues	$ 62,964	$ -	$ -	$ -	$ -	$ 62,964
Cost of revenues	39,027	-	-	-	-	39,027
Other operating expenses	34,832	-	23	-	23	34,855
Operating loss	(10,895)	-	(23)	-	(23)	(10,918)
Net interest expense	(1,261)	-	73	27	100	(1,161)
Investment income	389	-	-	-	-	389
Loss from continuing operations before taxes	(11,767)	-	50	27	77	(11,690)
Income tax (provision) benefit	(22)	27	-	-	27	5
Equity in loss of affiliates, net	(957)	-	-	956	956	(1)
Loss from continuing operations	(12,746)	27	50	983	1,060	(11,686)
Earnings from discontinued operations, net	621	-	-	-	-	621
Net loss	$ (12,125)	$ 27	$ 50	$ 983	$ 1,060	$ (11,065)

(a) *Certain previously reported balances have been reclassified to conform to the current condensed consolidated balance sheet presentation, including reclassification to discontinued operations of those assets and liabilities related to a landfill development partnership, sold in April 2006, and Airport Plaza shopping center, sold in July 2006.*

The following table displays the cumulative impact of the restatement on the condensed consolidated statements of operations for the six months ended March 31, 2006.

		Restatement Adjustments for:				
(In thousands)	As Previously Reported (a)	Income Taxes	Commitments and Contingencies	Long-term Investments	Total Restatement Adjustments	As Restated
Revenues	$ 114,513	$ -	$ -	$ -	$ -	$ 114,513
Cost of revenues	71,171	-	-	-	-	71,171
Other operating expenses	63,383	-	71	-	71	63,454
Operating loss	(20,041)	-	(71)	-	(71)	(20,112)
Net interest expense	(3,979)	-	126	54	180	(3,799)
Investment income	1,317	-	-	-	-	1,317

Increase in fair market value of interest rate contract	836	-	-	-	-	836
Loss from continuing operations before taxes	(21,867)	-	55	54	109	(21,758)
Income tax (provision) benefit	(87)	105	-	-	105	18
Equity in loss of affiliates, net	(997)	-	-	955	955	(42)
Loss from continuing operations	(22,951)	105	55	1,009	1,169	(21,782)
Earnings from discontinued operations, net	210	-	-	-	-	210
Gain on disposal of discontinued operations, net	12,500	-	-	-	-	12,500
Net loss	$ (10,241)	$ 105	$ 55	$ 1,009	$ 1,169	$ (9,072)

(a) Certain previously reported balances have been reclassified to conform to the current condensed consolidated balance sheet presentation, including reclassification to discontinued operations of those assets and liabilities related to a landfill development partnership, sold in April 2006, and Airport Plaza shopping center, sold in July 2006.

3. CASH EQUIVALENTS AND INVESTMENTS

Management determines the appropriate classification of our investments at the time of acquisition and reevaluates such determination at each balance sheet date. Cash equivalents and investments consist primarily of money market accounts, investments in United States government securities, investment grade corporate bonds, credit derivative obligations, and equity securities. Investments in common stock of public corporations are recorded at fair market value and classified as trading securities or available-for-sale securities. Investments in credit derivative obligations, characterized as other securities, are recorded at fair market value and classified as available-for-sale securities. Other 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.

Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a separate component of stockholders' equity, except to the extent that unrealized losses are deemed to be other than temporary, in which case such unrealized losses are reflected in earnings. Trading securities are carried at fair value, with unrealized holding gains and losses included in investment income. 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 government and corporate obligations are accrued at the balance sheet date. Investments in companies in which ownership interests range from 20 to 50 percent are accounted for using the equity method.

A summary of the cash equivalents and investments held by us follows:

(In thousands)	March 31, 2007 Aggregate Fair Value	March 31, 2007 Cost Basis	September 30, 2006 Aggregate Fair Value	September 30, 2006 Cost Basis
Cash and cash equivalents:				
Money market and other cash funds	$ 12,003	$ 12,003	$ 8,541	$ 8,541
Total cash and cash equivalents	12,003	12,003	8,541	8,541
Short-term investments:				
Money market funds – available-for-sale – restricted	12,364	12,364	6,002	6,002
Corporate bonds – available-for-sale – restricted	23,702	23,914	-	-
Corporate bonds – trading securities	14,079	14,079	42,919	42,919
Equity securities – trading securities	-	-	2,459	2,459
Equity and equivalent securities – available-for-sale	1,613	825	5,132	825
Equity and equivalent securities – available-for-sale – restricted	15,584	12,492	-	-
Total short-term investments	67,342	63,674	56,512	52,205
Long-term investments:				
U.S. government securities – available-for-sale – restricted	-	-	512	512
Money market funds – available-for-sale – restricted	6,793	6,793	10,313	10,313
Corporate bonds – available-for-sale – restricted	3,288	3,288	28,934	29,326
Equity and equivalent securities – available-for-sale – restricted	11,821	7,985	9,275	7,984
Other securities – available-for-sale – restricted	-	-	11,915	11,565
Other investments, at cost	3,499	3,499	4,370	4,370

Total long-term investments	25,401	21,565	65,319	64,070
Total cash equivalents and investments	$ 104,746	$ 97,242	$ 130,372	$ 124,816

On March 31, 2007 and September 30, 2006, we had restricted investments of $73.6 million and $67.0 million, respectively, all of which are maintained as collateral for certain debt facilities, the Esser put option, environmental matters, and escrow arrangements. On March 31, 2007 and September 30, 2006, cash of $8.0 million and $3.4 million, respectively, is held by our European subsidiaries which have debt agreements that place restrictions on the amount of cash that may be transferred outside the borrowing companies. For additional information on debt see Note 4.

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On March 31, 2007, we had gross unrealized holding gains from available-for-sale securities of $7.7 million and gross unrealized losses from available-for-sale securities of $0.2 million. On September 30, 2006, we had gross unrealized holding gains from available-for-sale securities of $5.9 million and gross unrealized losses from available-for-sale securities of $0.4 million. We use the specific identification method to determine the gross realized gains (losses) from sales of available-for-sale securities.

4. DEBT

At March 31, 2007 and September 30, 2006, notes payable and long-term debt consisted of the following:

(In thousands)	March 31, 2007	September 30, 2006
Revolving credit facilities – Hein Gericke	$ 11,419	$ 11,425
Seasonal loan facilities – PoloExpress	12,142	-
Current maturities of long-term debt	36,588	14,067
Total notes payable and current maturities of long-term debt	60,149	25,492
GoldenTree term loan – Corporate	20,938	30,000
Term loan agreement – Hein Gericke	4,934	6,090
Term loan agreement – PoloExpress	9,201	11,292
Promissory note – Corporate	13,000	13,000
CIT revolving credit facility – Aerospace	10,422	9,603
GMAC credit facility – Hein Gericke	3,236	3,118
Other notes payable, collateralized by assets	3,444	3,837
Capital lease obligations	1,511	2,577
Less: current maturities of long-term debt	(36,588)	(14,067)
Net long-term debt	30,098	65,450
Total debt	$ 90,247	$ 90,942

Term Loan at Corporate

On May 3, 2006, we entered into a credit agreement with The Bank of New York, as administrative agent, and GoldenTree Asset Management, L.P., as collateral agent. The lenders under the Credit Agreement were GoldenTree Capital Opportunities, L.P. and GoldenTree Capital Solutions Fund Financing. Pursuant to the credit agreement, we borrowed from the lenders $30.0 million. The loan matures on May 3, 2010, subject to certain mandatory prepayment events described in the credit agreement. Interest on the loan is LIBOR plus 7.5%, per annum, with an initial interest rate of 12.75% fixed through November 2006. As of March 31, 2007, the applicable interest rate increased to 12.9%. Subsequent interest periods may be selected by us, ranging from one month to nine months, or, if consented to by the lenders, for 12 months. Also, we may choose to convert the method of interest from a LIBOR based loan to a prime based loan.

The loan is collateralized by the stock of Banner Aerospace Holding Company I, Inc., (the parent of our Aerospace segment), certain undeveloped real estate owned by us in Farmingdale, N.Y., condemnation proceeds we expect to receive for certain other real estate in Farmingdale, N.Y., and any remaining proceeds to be received by us in the future from the Alcoa transaction. Upon the sale or other monetization of the collateral, the proceeds from such collateral must be used to prepay the loan. We may elect to retain 27.5% of the proceeds from the monetization of the collateral (instead of applying 100% of such proceeds to make a mandatory prepayment of the loan), provided that the remaining collateral meets or exceeds a collateral to loan value of 1.9:1 and we pay the lenders a fee of 3.0% of the retained proceeds. If the loan is voluntarily prepaid by us within the first three years of the loan, we must pay a prepayment penalty of 3.0% in year one, 2.0% in year two, or 1.0% in year three.

The credit agreement defines an "Available Amount" as $30.0 million, plus net cash proceeds from the sale of the Company's shopping center, plus new money from any equity offerings and earnings from investments. During the term of the loan, the aggregate of the following may not exceed the Available Amount (unless consented to by the lenders): additional investments by us in our PoloExpress or Hein Gericke segments or in any new company or new ventures; new acquisitions; guarantees by us of additional debt incurred by our PoloExpress or Hein Gericke segments (with an exception for the existing guarantees); loans by us to our sports and leisure segment (with an exception for the existing loans); and repurchases by us of our outstanding stock. The Available Amount was $40.3 million at March 31, 2007.

During the term of the loan:

- We must maintain cash, cash equivalents, or public securities that meet or exceed a minimum liquidity threshold of between $10.0 million and $20.0 million. At March 31, 2007, our minimum liquidity requirement was $10.0 million, and accordingly we have classified $10.0 million of qualified investments as restricted long-term investments.
- A change of control whereby Jeffrey Steiner, Eric Steiner, or Natalia Hercot cease to own a controlling interest in The Fairchild Corporation would be an event of default under the loan.

Subject to the covenants in the credit agreement, the proceeds of the loan may be used for general working capital purposes, investments, or stock repurchases.

Credit Facilities at Hein Gericke and PoloExpress

On March 1, 2006, our PoloExpress segment entered into an €11.0 million ($14.7 million at March 31, 2007) seasonal credit line with Stadtsparkasse Düsseldorf, with half of the facility available to us for the 2006 season. Borrowings under the facility for the 2006 season were repaid prior to June 30, 2006. The seasonal credit line bears interest at 1.5% over the three-month Euribor rate (5.22% at March 31, 2007) when utilized as a short-term credit facility and 2.75% over the European Overnight Interest Average rate (6.65% at March 31, 2007) when utilized as an overdraft facility. In addition, we must pay a 1.25% per annum non-utilization fee on the available facility during the seasonal drawing period. The seasonal financing facility is 80% guaranteed by the German State of North Rhine-Westphalia. The seasonal facility will reduce by €1.0 million per year and expires on June 30, 2008. On November 30, 2006, we amended the seasonal credit line with Stadtsparkasse Düsseldorf to include HSBC Trinkaus & Burkhardt AG as a second lender. This amendment allows us to borrow the entire €10.0 million ($13.3 million at March 31, 2007) facility for the 2007 season.

At March 31, 2007, our German subsidiary, Hein Gericke Deutschland GmbH, and its German subsidiary, PoloExpress, had outstanding borrowings of €28.3 million ($37.7 million) due under its credit facilities with Stadtsparkasse Düsseldorf and HSBC Trinkaus & Burkhardt AG, which includes a revolving credit facility at Hein Gericke GmbH HHHproviding a credit line of €10.0 million ($11.4 million outstanding and $1.9 million available at March 31, 2007), at interest rates of 3.5% over the three-month Euribor (7.22% at March 31, 2007), which matures annually. For this revolving credit line, we must pay a 1.25% per annum non-utilization fee. Outstanding borrowings under the term loan facilities have blended interest rates, with $12.4 million (€9.3 million) bearing interest at 1% over the three-month Euribor rate (4.72% at March 31, 2007), with an interest rate cap protection in which our interest expense would not exceed 6% on 50% of debt, and the remaining $1.7 million (€1.3 million) bearing interest at a fixed rate of 6%. The term loans mature on March 31, 2009, and are secured by the assets of Hein Gericke Deutschland GmbH and PoloExpress and specified guarantees provided by the German State of North Rhine-Westphalia.

The loan agreements require Hein Gericke Deutschland and PoloExpress to maintain compliance with certain covenants. The most restrictive of the covenants requires Hein Gericke Deutschland to maintain equity of €44.5 million ($59.3 million at March 31, 2007), as defined in the loan contracts. At March 31, 2007, equity was €54.7 million ($72.9 million), which exceeded by €10.2 million ($13.6 million) the covenant requirements. No dividends may be paid by Hein Gericke Deutschland unless such covenants are met and dividends may be paid only up to its consolidated after tax profits. As of March 31, 2007, Hein Gericke borrowed approximately $28.2 million (€21.1 million) from our subsidiary, Fairchild Holding Corp., which is not subject to restriction against repayment. The loan agreements have certain restrictions on other forms of cash flow from Hein Gericke Deutschland. In addition, the loan covenants require Hein Gericke Deutschland and PoloExpress to maintain inventory and receivables in excess of €50.0 million ($66.7 million). At March 31, 2007, inventory and accounts receivable at Hein Gericke Deutschland and PoloExpress were €85.8 million ($114.4 million), which exceeded by €35.8 million ($47.7 million), the covenant requirement. The loan covenants also require Hein Gericke Deutschland to maintain inventory and accounts

receivable at a rate of one and one half times the net debt position. At March 31, 2007, we were in compliance with the loan covenants.

At March 31, 2007, our subsidiary, Hein Gericke UK Ltd had outstanding borrowings of $3.2 million (£1.6 million) on its £5.0 million ($9.8 million) credit facility with GMAC. The loan bears interest at 2.25% above the base rate of Lloyds TSB Bank Plc (7.5% at March 31, 2007) and matures on April 30, 2008. We must pay a 0.75% per annum non-utilization fee on the available facility. The financing is secured by the inventory of Hein Gericke UK Ltd and an investment with a fair market value of $5.1 million at March 31, 2007. The most restrictive covenant requires Hein Gericke UK to maintain a maximum level of inventory turns ("Inventory Turns") as defined. At March 31, 2007, Hein Gericke UK was in compliance with the Inventory Turns covenant.

Credit Facility at Aerospace Segment

At March 31, 2007, we had outstanding borrowings of $10.4 million on a $20.0 million asset based revolving credit facility with CIT. The amount that we can borrow under the facility is based upon inventory and accounts receivable at our Aerospace segment, and $3.7 million was available for future borrowings at March 31, 2007. Borrowings under the facility are collateralized by a security interest in the assets of our Aerospace segment. The loan bears interest at 1.0% over prime (9.25% at March 31, 2007) and we pay a non-usage fee of 0.5%. The credit facility matures in January 2008. The credit facility requires our Aerospace segment maintain compliance with certain covenants. The most restrictive of the covenants requires the borrowing company, a subsidiary of our Aerospace segment, to maintain a minimum net worth on a quarterly basis, of $14.0 million, plus 25% of cumulative net earnings through the end of the fiscal period. At December 31, 2006, the net worth of the borrowing company was short of the covenant requirement by approximately $0.3 million, which, at CIT's option could result in an acceleration of the maturity of the loan. However, we were in compliance with all covenants under this credit agreement, including the minimum net worth covenant, on March 31, 2007 and June 30, 2007. We are currently involved in discussions with CIT to extend the maturity of the loan and to receive a waiver from the minimum net worth covenant compliance for December 31, 2006. Management expects to continue under the current terms and conditions of the arrangement until renegotiation of the credit facility is completed.

Promissory Note – Corporate

At March 31, 2007, we had an outstanding loan of $13.0 million with Beal Bank, SSB. The loan is evidenced by a Promissory Note dated as of August 26, 2004, and is secured by a mortgage lien on the Company's real estate in Huntington Beach, California, Fullerton, California, and Wichita, Kansas. Interest on the note is at the rate of one-year LIBOR (determined on an annual basis), plus 6% (11.47% at March 31, 2007), and is payable monthly. The loan matures on October 31, 2007, provided that the Company may extend the maturity date for one year, during which time the interest rate will be one-year LIBOR plus 8%. The promissory note agreement contains a prepayment penalty of 3% if prepaid between September 2006 and October 30, 2007. On March 31, 2007, approximately $1.2 million of the loan proceeds were held in escrow to fund specific improvements to the mortgaged property.

Guarantees

At March 31, 2007, we included $1.0 million as debt for guarantees assumed by us of retail shop partners' indebtedness incurred for the purchase of store fittings in Germany. These guarantees were issued by our subsidiaries in the PoloExpress segment and are collateralized by the fittings in the stores of the shop partners for whom we have guaranteed indebtedness. In addition, at March 31, 2007, approximately $1.0 million of bank loans received by retail shop partners in the PoloExpress segment were guaranteed by our subsidiaries prior to our acquisition of the PoloExpress business and are not reflected on our balance sheet because these loans have not been assumed by us.

Letters of Credit

We have entered into standby letter of credit arrangements with insurance companies and others, issued primarily to guarantee payment of our workers' compensation liabilities. At March 31, 2007, we had contingent liabilities of $3.0 million, on commitments related to outstanding letters of credit which were secured by restricted cash collateral.

5. PENSIONS AND POSTRETIREMENT BENEFITS

The Company and its subsidiaries sponsor three qualified defined benefit pension plans and several other postretirement benefit plans. The components of net periodic benefit cost from these plans are as follows:

	Pension Benefits				Postretirement Benefits			
	Three Months Ended March 31,		Six Months Ended March 31,		Three Months Ended March 31,		Six Months Ended March 31,	
(In thousands)	2007	2006	2007	2006	2007	2006	2007	2006
Service cost	$ 79	$ 96	$ 158	$ 193	$ 3	$ 7	$ 6	$ 13
Interest cost	2,376	2,626	4,758	5,252	380	518	760	1,037
Expected return on plan assets	(3,047)	(3,405)	(6,094)	(6,810)	-	-	-	-
Amortization of:								
Prior service cost	65	91	130	181	(392)	(278)	(784)	(556)
Actuarial loss	810	894	1,610	1,788	264	379	528	758
Net periodic benefit cost	283	302	562	604	$ 255	$ 626	$ 510	$ 1,252
Settlement charge (a)	283	-	557	-				
Total net pension cost	$ 566	$ 302	$ 1,119	$ 604				

(a) *Represents the settlement charge from $2.3 million distributions of entitled benefits under our supplemental executive retiree plan, which requires us to expense a portion of the unrecognized actuarial loss and prior service costs during the three and six months ended March 31, 2007.*

Our funding policy is to make the minimum annual contribution required by the Employee Retirement Income Security Act of 1974 or local statutory law. Based upon our actuary's current assumptions and projections, we do not expect additional cash contributions to the largest pension plan to be required until 2008. Current actuarial projections indicate cash contribution requirements of $5.1 million in 2008, $7.2 million in 2009, $7.4 million in 2010, $7.4 million in 2011, and $18.9 million thereafter. We are also required to make annual cash contributions of approximately $0.3 million to fund a small pension plan.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 became law in the United States. The Prescription Drug, Improvement and Modernization Act of 2003 introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit. The Medicare Prescription Drug Improvement Act of 2003 is expected to result in improved financial results for employers, including us, that provide prescription drug benefits for their Medicare-eligible retirees. In October 2005, we amended our non-class action retiree medical plans to terminate the prescription drug coverage for Medicare eligible participants, effective January 1, 2006, and we have increased our retiree contributions from 35% to 50% and from 50% to 66.7% for the retiree medical plan costs in 2006 and 2007, respectively. The plan amendment had an estimated effect of reducing our postretirement liabilities by approximately $15.6 million. The reduction in liabilities will be recognized over 13 years and our postretirement benefit expense will be reduced by approximately $1.4 million in fiscal 2007 as a result of this plan amendment. In 2006, we have adjusted our liability to reflect benefits available to us from the Medicare Prescription Subsidy available for the 1991 class action settlement. We expect to receive $0.4 million in each of the next 5 years for the Medicare Prescription Subsidy.

6. EARNINGS (LOSS) PER SHARE

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

(In thousands, except per share data)	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006 (Restated)	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006 (Restated)
Basic loss per share:				
Loss from continuing operations	$ (10,935)	$ (11,686)	$ (24,964)	$ (21,782)
Weighted average common shares outstanding	25,226	25,226	25,226	25,226
Basic loss from continuing operations per share	$ (0.43)	$ (0.46)	$ (0.99)	$ (0.86)
Diluted loss per share:				
Loss from continuing operations	$ (10,935)	$ (11,686)	$ (24,964)	$ (21,782)
Weighted average common shares outstanding	25,226	25,226	25,226	25,226
Options	antidilutive	antidilutive	antidilutive	antidilutive
Total shares outstanding	25,226	25,226	25,226	25,226
Diluted loss from continuing operations per share	$ (0.43)	$ (0.46)	$ (0.99)	$ (0.86)

The computation of diluted loss from continuing operations per share for the three and six months ended March 31, 2007 excluded the effect of 322,917 incremental common shares attributable to the potential exercise of common stock options outstanding because the effect was antidilutive. The computation of diluted loss from continuing operations per share for the three and six months ended March 31, 2006 excluded the effect of 768,120 incremental common shares attributable to the potential exercise of common stock options outstanding because the effect was antidilutive.

7. EQUITY SECURITIES

We had 22,604,835 shares of Class A common stock and 2,621,338 shares of Class B common stock outstanding at March 31, 2007. Class A common stock is traded on the New York Stock Exchange. 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.

8. 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 had a material effect on our financial condition, results of operations, or net cash flows, and 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.

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, or arising from 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 several lawsuits and proceedings seeking to require us to pay for investigation or remediation of environmental matters, and for injuries to persons or property allegedly caused thereby, and we have been alleged to

be a potentially responsible party at various “superfund” sites. We believe that we have recorded adequate accruals 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.

In October 2003, we learned that volatile organic compounds had been detected in amounts slightly exceeding regulatory thresholds in a town water supply well in East Farmingdale, New York. Subsequent sampling of groundwater from the extraction wells to be used in the remediation system for this site has indicated that contaminant levels at the extraction point are significantly higher than previous sampling results indicated. These compounds may, to an as yet undetermined extent, be attributable to a groundwater plume containing volatile organic compounds, which may have had its source, at least in part, from plant operations conducted by a predecessor of ours in Farmingdale. We are aiding East Farmingdale in its investigation of the source and extent of the volatile organic compounds, and may assist it in treatment. In the six months ended March 31, 2007, we contributed approximately $0.3 million toward this remediation, but may be required to pay additional amounts of up to $7.4 million over the next 20 years.

We incurred $0.1 million and $1.6 million of expense in discontinued operations for environmental matters in the three and six months ended March 31, 2007, respectively. As of March 31, 2007 and September 30, 2006, the consolidated total of our recorded liabilities for environmental matters was approximately $14.1 million and $13.5 million, respectively, which represented the estimated probable exposure for these matters. At March 31, 2007, $1.2 million of these liabilities were classified as other accrued liabilities and $12.9 million were classified as other long-term liabilities. It is reasonably possible that our exposure for these matters could be approximately $20.5 million.

The sales agreement with Alcoa includes an indemnification for legal and environmental claims in excess of $8.45 million, for our fastener business. As of March 31, 2007, Alcoa has contacted us concerning additional potential health and safety claims of approximately $22.6 million. On June 25, 2007, the Company received an arbitration ruling awarding Alcoa approximately $4.0 million from the Company's $25.0 million escrow account. On October 31, 2007, the Company and Alcoa resolved all disputes related to the 2002 sale of the fastener business to Alcoa. Accordingly, $25.3 million of the escrow account was released to us and Alcoa paid us an additional $0.6 million.

Asbestos Matters

On January 21, 2003, we and one of our subsidiaries were served with a third-party complaint in an action brought in New York by a non-employee worker and his spouse alleging personal injury as a result of exposure to asbestos-containing products. The defendant, who is one of many defendants in the action, had purchased a pump business from us, and asserts the right to be indemnified by us under its purchase agreement. The aforementioned case was discontinued as to all defendants, thereby extinguishing the indemnity claim against us in the instant case. However, in September 2003, the purchaser has notified us of, and claimed a right to indemnity from us in relation to thousands of other asbestos-related claims filed against it. We have not received enough information to assess the impact, if any, of the other claims. During the last forty two months, the Company has been served directly by plaintiffs' counsel in fifty five cases related to the same pump business. Two of the fifty five cases were dismissed as to all defendants based upon forum objections. The Company was voluntarily dismissed from seventeen additional pump business cases during the same period, without the payment of any consideration to plaintiffs. The Company, in coordination with its insurance carriers, intends to aggressively defend against the remaining thirty six claims.

During the last forty two months, the Company, or its subsidiaries, has been served with a total of 330 separate complaints in actions filed in various venues by non-employee workers, alleging personal injury or wrongful death as a result of exposure to asbestos-containing products other than those related to the pump business. The plaintiffs' complaints do not specify which, if any, of the Company's former products are at issue, making it difficult to assess the merit and value, if any, of the asserted claims. The Company, in coordination with its insurance carriers, intends to aggressively defend against these claims.

During the same time period, the Company has resolved 206 similar, non-pump, asbestos-related lawsuits that were previously served upon the Company. In 201 cases, the Company was voluntarily dismissed, without the payment of any consideration to plaintiffs. The remaining five cases were settled for a nominal amount.

The Company's insurance carriers have participated in the defense of all of the aforementioned asbestos claims, both pump and non-pump related. Although insurance coverage amounts vary, depending upon the policy period(s) and product line involved in each case, management believes that the Company's insurance coverage levels are adequate, and that asbestos claims will not have a material adverse effect on our financial condition, future results of operation, or net cash flow.

Commercial Lovelace Motor Freight Litigation

In July 2005, we received notice that The Ohio Bureau of Workers' Compensation (the "Bureau") is seeking reimbursement from us of approximately $7.3 million for Commercial Lovelace Motor Freight Inc. workers' compensation claims which were insured under a self-insured workers compensation program in Ohio from the 1950s until 1985. In March 2006, we received a letter from the Bureau increasing the amount of reimbursement it is seeking from us to approximately $8.0 million and suggesting a meeting to discuss a settlement. With interest, the claim could be higher. For many years prior to July 2005, we had not received any communication from the Bureau. Commercial Lovelace Motor Freight is a former wholly-owned subsidiary of ours, which filed for Bankruptcy protection in 1985. Recently, two surety companies which had issued bonds in favor of the Bureau settled claims of the Bureau, and they too demanded from the Company payment in respect of the amounts they paid.

Settlement efforts to date have not been successful with either the Bureau or the two surety companies. On August 17, 2007, the Attorney General of Ohio filed a lawsuit on behalf of the Bureau in the Court of Common Pleas of Franklin County, Ohio, seeking to recover from the Company $5.8 million, including interest to that date and other costs. This claim represents the amount remaining after the Bureau's settlements with the two surety companies. On August 21, 2007, the two surety companies sued the Company to recover on indemnification obligations allegedly due to them, in the aggregate amount of $1.1 million, including interest to that date and other costs.

The Company has filed answers to the three complaints and a motion to consolidate the three actions is pending. The Company intends to vigorously defend these actions. As of March 31, 2007, we accrued $2.0 million related to the claim made by the Bureau.

Other Matters

In early August 2006, three lawsuits were filed in the Delaware Court of Chancery, purportedly on behalf of the public stockholders of the Company, regarding a going private proposal by FA Holdings I, LLC, a limited liability company led by Jeffrey Steiner and Philip Sassower, Chairman of The Phoenix Group LLC. The defendants named in these actions included Jeffrey Steiner, Eric Steiner, Robert Edwards, Daniel Lebard, Michael Vantusko, Didier Choix, Glenn Myles, FA Holdings I, LLC and the Company. The allegations in each of the complaints, which were substantially similar, asserted that the individual defendants had breached their fiduciary duties to the Company's stockholders and that the FA Holdings offer of $2.73 for each share of the Company's stock was inadequate and unfair. The suits sought injunctive relief, rescission of any transaction, damages, costs and attorneys' fees. On September 7, 2006, the Delaware Court of Chancery consolidated all three Delaware lawsuits into a single action, styled *In re The Fairchild Corporation Shareholders Litigation*, Consolidated C.A. No. 2325-N. On September 21, 2006, the Company announced that FA Holdings I, LLC had withdrawn its proposal, but that the parties subsequently had further discussions and agreed to meet again. On December 5, 2006, the Company announced that discussions with FA Holdings regarding a potential transaction had been terminated. On March 2, 2007, plaintiffs filed a stipulation with the Delaware Court of Chancery seeking to dismiss the consolidated action. On March 6, 2007, the Delaware Court of Chancery entered an order dismissing all of the claims in the consolidated action.

Two actions, styled Noto v. Steiner, *et al.*, and Barbonel v. Steiner, *et al.*, were commenced on November 18, 2004, and November 23, 2004, respectively, in the Court of Chancery of the State of Delaware in and for Newcastle County, Delaware. The plaintiffs allege that each is, or was, a shareholder of The Fairchild Corporation and purported to bring actions derivatively on behalf of the Company, claiming, among other things, that Fairchild executive officers received excessive pay and perquisites and that the Company's directors approved such excessive pay and perquisites in violation of fiduciary duties to the Company. The complaints name, as defendants, all of the Company's directors, its Chairman and Chief Executive Officer, its President and Chief Operating Officer, its former Chief Financial Officer, and its General Counsel. While the Company and its Officers and Directors believe it and they have meritorious defenses to these suits, and deny liability or wrongdoing with respect to any and all claims alleged in the

suits, it and its Officers and Directors elected to settle to avoid onerous costs of defense, inconvenience and distraction. On April 1, 2005, we mailed to our shareholders a Notice of Hearing and Proposed Settlement of The Fairchild Corporation Stockholder Derivative Litigation. On May 18, 2005, the Court of Chancery of the State of Delaware in and for Newcastle County declined to approve that proposed settlement of the actions. On October 24, 2005, we mailed to our shareholders a Notice of Hearing and Proposed Supplemental Settlement of The Fairchild Corporation Stockholder Derivative Litigation. On November 23, 2005, the Court of Chancery of the State of Delaware in and for Newcastle County approved the proposed settlement of these actions. The Court's order became final on December 23, 2005. As a result of the settlement, we recognized a reduction in our selling, general and administrative expense for approximately $5.7 million of proceeds we received from Mr. J. Steiner and our insurance carriers. In January 2006, we received approximately $0.9 million from our insurance carriers to pay for the plaintiffs' and objector's attorneys' fees. In April 2006, and July 2006, we received approximately $0.8 million and $1.1 million, respectively, from our insurance carriers to pay for certain of our legal costs associated with this matter.

Alcoa and the Company had certain disputes related to the sale of the fasteners business to Alcoa in December 2002. On October 31, 2007, the Company and Alcoa resolved all related disputes, and $25.3 million of an escrow account established at the time of the sale was released to us and Alcoa paid us an additional $0.6 million.

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 litigation against us, including that mentioned above, will not have a material adverse effect on our financial condition, future results of operations or net cash flows.

9. DISCONTINUED OPERATIONS

Shopping Center

On July 6, 2006, Republic Thunderbolt, LLC (an indirect, wholly-owned subsidiary of the Company) completed the sale of Airport Plaza, a shopping center located in Farmingdale, New York, to an affiliate of Kimco Realty Corporation. We decided to sell the shopping center to enhance our financial flexibility, allowing us to pursue other opportunities. We received net proceeds of approximately $40.7 million from the sale. As a condition to closing, the buyer assumed our existing mortgage loan on Airport Plaza that had an outstanding principal balance of approximately $53.5 million on the closing date. Also as a condition to closing, we provided the buyer with an environmental indemnification and agreed to remediate an environmental matter that was identified, the costs of which are estimated to be between $1.0 million and $2.7 million. We expect to recognize a gain of approximately $15.1 million from this transaction. However, because of the uncertain environmental liabilities that we retained, the gain recognition is required to be delayed until the remediation efforts are complete.

Landfill Development Partnership

On April 28, 2006, our consolidated partnership, Eagle Environmental, L.P. II, completed the sale of its Royal Oaks landfill to Highstar Waste Acquisition for approximately $1.4 million. This transaction concludes the operating activity of Eagle Environmental L.P. II, and there is no requirement or current intent by us to pursue any new operating activities through this partnership. In fiscal 2006, we recognized a $1.1 million gain on disposal of discontinued operations as a result of this transaction.

Fastener Business

On December 3, 2002, we completed the sale of our fastener business to Alcoa Inc. for approximately $657 million in cash and the assumption of certain liabilities. During the four-year period from 2003 to 2006, we are entitled to receive additional cash proceeds of $0.4 million for each commercial aircraft delivered by Boeing and Airbus in excess of stated threshold levels, up to a maximum of $12.5 million per year. Deliveries exceeded the threshold aircraft delivery level needed for us to earn the full $12.5 million contingent payment for 2003, 2004, 2005, and 2006. Accordingly, we recognized a $12.5 million gain on disposal of discontinued operations for the six months ended March 31, 2007 and March 31, 2006. In February 2007, we received from Alcoa the final $12.5 million payment related to the sale of this business. Of this amount received, we repaid approximately $9.1 million of our loan from GoldenTree Asset Management.

On December 3, 2002, we deposited with an escrow agent $25.0 million to secure indemnification obligations we may have to Alcoa. On October 31, 2007, the Company and Alcoa resolved all related disputes. Accordingly, $25.3 million of the escrow account was released to us and Alcoa made an additional payment to us of $0.6 million.

The results of the shopping center, landfill development partnership, and the fastener business are recorded as earnings from discontinued operations, the components of which are as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
(In thousands)	2007	2006	2007	2006
Net revenues	$ -	$ 2,498	$ -	$ 4,889
Cost of revenues	-	931	-	2,548
Gross margin	-	1,567	-	2,341
Selling, general & administrative expense	922	326	2,888	774
Other income, net	(144)	(172)	(144)	(280)
Operating income (loss)	(778)	1,413	(2,744)	1,847
Investment income	-	-	-	23
Net interest expense	-	(784)	-	(1,644)
Earnings (loss) from discontinued operations before taxes	(778)	629	(2,744)	226
Income tax provision	-	(8)	-	(16)
Earnings (loss) from discontinued operations, net	$ (778)	$ 621	$ (2,744)	$ 210

Certain liabilities remaining from the sale of our shopping center that occurred in July 2006 are being reported as liabilities of discontinued operations at March 31, 2007 and September 30, 2006, and were as follows:

(In thousands)	March 31, 2007	September 30, 2006
Current liabilities of discontinued operations	$ -	$ (62)
	-	(62)
Noncurrent liabilities of discontinued operations:		
Other long-term liabilities (a)	(16,120)	(16,120)
	(16,120)	(16,120)
Total net liabilities of discontinued operations	$ (16,120)	$ (16,182)

(a) *Represents a $15.1 million deferred gain on the sale of the shopping center and $1.0 million for the estimated minimum cost to remediate environmental matters.*

10. BUSINESS SEGMENT INFORMATION

Our business consists of three segments: PoloExpress; Hein Gericke; and Aerospace. Our PoloExpress and Hein Gericke segments are engaged in the design and retail sale of protective clothing, helmets and technical accessories for motorcyclists in Europe, and our Hein Gericke segment is also engaged in the design, licensing, and distribution of apparel in the United States. Our Aerospace 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 worldwide.

In fiscal 2006, we operated a Real Estate segment, which owned and leased a shopping center located in Farmingdale, New York, and owned and rented two improved parcels located in Southern California. During fiscal 2006, we sold the shopping center and reclassified the remaining portions of our Real Estate segment into our corporate and other segment.

(In thousands)	PoloExpress	Hein Gericke	Aerospace	Corporate and Other	Total
Three Months Ended March 31, 2007:					
Revenues	$ 31,736	$ 25,544	$ 23,495		