FAIRCHILD CORP
Form 10-K
August 13, 2007

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

FORM 10-K

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

For the Year Ended September 30, 2006
Commission File Number 1-6560

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

Delaware	**34-0728587**
(State or other jurisdiction of Incorporation or organization)	(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)

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

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

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] Yes [X] No.

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [X] No.

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) [ ] Yes [X] No

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

On March 31, 2006, the aggregate market value of the common shares held by nonaffiliates of the Registrant (based upon the closing price of these shares on the New York Stock Exchange) was approximately $46.7 million (excluding shares deemed beneficially owned by affiliates of the Registrant under Commission Rules).

On June 30, 2007, the number of shares outstanding of each of the Registrant's classes of common stock were as follows:

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

THE FAIRCHILD CORPORATION
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FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

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PART I

All references in this Annual Report on Form 10-K 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 30, 2006, September 30, 2005, or September 30, 2004, respectively.

CAUTIONARY STATEMENT

Certain statements in this filing contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operation, and business. These statements relate to analyses and other information, which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. These forward-looking statements are identified by their use of terms and phrases such as ''anticipate,'' ''believe,'' ''could,'' ''estimate,'' ''expect,'' ''intend,'' ''may,'' ''plan,'' ''predict,'' ''project,'' ''will'' and similar term references to assumptions. These forward-looking statements involve risks and uncertainties, including current trend information, projections for deliveries, and other trend estimates that may cause our actual future activities and results of operations to be materially different from those suggested or described in this financial discussion and analysis by management. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled “Risk Factors” (refer to Item 1A). Given these uncertainties, users of the information included in this financial discussion and analysis by management, including investors and prospective investors, are cautioned not to place undue reliance on such forward-looking statements. We do not intend to update the forward-looking statements included in this filing, even if new information, future events or other circumstances have made them incorrect or misleading.

FINANCIAL RESTATEMENT

This report contains our consolidated financial statements and related notes for fiscal 2006, as well as a restatement of our previously issued consolidated financial statements for fiscal 2005 and 2004, and for the quarters ended June 30, 2006, March 31, 2006, December 31, 2005, June 30, 2005, March 31, 2005, and December 31, 2004. Since we announced our restatement in January 2007, we have devoted substantial efforts towards the completion of our restatement. For the purposes of the consolidated financial statements, all restatement adjustments relating to periods prior to October 1, 2003 have been presented as adjustments to retained earnings as of September 30, 2003. We have also included under Item 6, “Selected Financial Data”, restated financial information as of and for the three month transition period ended September 30, 2003 and as of and for the fiscal years ended June 30, 2003 and 2002.

During the course of our fiscal 2006 audit, 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 generally accepted accounting principles (“GAAP”) and, consequently, we would restate our consolidated financial statements. During the course of the Company’s review of its historical financial statements, additional errors were identified. The consolidated financial statements for fiscal 2005 and 2004 included in this Annual Report on Form 10-K 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. See Note 2 of our consolidated financial statements included in this Form 10-K for additional information regarding the restatement of our consolidated financial statements for the periods noted below.

The overall impact of our restatement was a total increase in retained earnings of $2.7 million through June 30, 2006. This amount includes:

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A $0.6 million increase in earnings for periods prior to October 1, 2003 (as reflected in beginning retained earnings as of October 1, 2003);

- A $1.1 million decrease in earnings for fiscal 2004;
- A $1.9 million decrease in net loss for fiscal 2005; and
- A $1.3 million decrease in net loss for the nine months ended June 30, 2006.

As a result of Fairchild's failure to file on a timely basis its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, Fairchild is no longer eligible to use form S-3 to register its securities with the SEC until all required reports under the Securities Exchange Act of 1934 have been timely filed for the 12 months prior to the filing of the registration statement for those securities.

ITEM 1. BUSINESS

General

The Fairchild Corporation was incorporated in October 1969, under the laws of the State of Delaware. Our business consists of three segments: PoloExpress; Hein Gericke; and Aerospace. Both our PoloExpress and Hein Gericke segments are engaged in the design and retail sale of motorcycle apparel, protective clothing, helmets, and technical accessories for motorcyclists in Europe. In addition, Hein Gericke is engaged in the design and distribution of motorcycle apparel in the United States. Our Aerospace segment stocks a wide variety of aircraft parts and distributes them to commercial airlines and air cargo carriers, fixed-base operators, corporate aircraft operators, and other aerospace companies worldwide. Additionally, our Aerospace segment performs component repair and overhaul services. 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. Also during fiscal 2006, we split our previously reported Sports & Leisure segment into two separate segments, PoloExpress and Hein Gericke, as management began reviewing the operating results of each and allocating resources to each separately in 2006.

On July 6, 2006, we completed the sale of our Farmingdale, New York, shopping center, Airport Plaza, to an affiliate of Kimco Realty Corporation. 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.

On November 1, 2003, we acquired substantially all of the worldwide operations of Hein Gericke, PoloExpress, and Intersport Fashions West, Inc., the predecessor company to Fairchild Sports USA, ("Fairchild Sports USA") collectively now known as Fairchild Sports. The Hein Gericke operations, including Fairchild Sports USA, were acquired out of the German-equivalent of bankruptcy, while the PoloExpress operations were financially stable.

On December 3, 2002, we completed the sale of our fastener business to Alcoa Inc. for approximately $657.0 million in cash and the assumption of certain liabilities. In addition, we earned additional proceeds of $12.5 million in each of fiscal 2004, 2005, and 2006 as the number of commercial aircraft delivered by Boeing and Airbus exceeded specified annual levels. We received the final $12.5 million payment in February 2007.

Financial Information about Business Segments

Our business segment information is incorporated herein by reference from Note 16 of our Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data".

Narrative Description of Business Segments

PoloExpress Segment

PoloExpress is engaged in the design and retail sale of motorcycle apparel, protective clothing, helmets, and technical accessories for motorcyclists in Europe. As of September 30, 2006, PoloExpress operated 91 retail shops in Germany and two shops in Switzerland. PoloExpress has seasonal fluctuations in its business, with a historic trend of a higher volume of sales and profits during the months of March through September. Our PoloExpress segment represented approximately 36% of our consolidated revenues in fiscal 2006.

Products

Products sold by PoloExpress include motorcycle apparel, helmets, boots, protective clothing, and technical accessories for motorcycle enthusiasts. The majority of these products are sold at retail stores leased by us and operated primarily by shop partners who sell our products in accordance with agreements with us permitting the shop partner to operate and maintain an individual store. Shop partners are paid a commission based on the performance of their store. All inventory displayed and stocked in the stores is owned by us and, until sold, remains our property. Less than 5% of PoloExpress stores leased by us are operated using our own employees. Mail order and internet sales represented 6.8% of PoloExpress sales for fiscal 2006. Although the PoloExpress retail stores sell predominantly Polo brand products, these retail stores also stock and sell products that we purchase from other manufacturers. The PoloExpress products are manufactured by third parties located principally in Asia, and are shipped to our leased warehouse, where they are temporarily stored until shipped to the individual retail stores for sale. The main warehouse for PoloExpress is located in Düsseldorf, Germany.

Sales and Markets

PoloExpress mainly sells its products in Germany and Switzerland through its retail stores. Approximately 96% of PoloExpress retail sales are to customers in Germany and 4% are to customers in Switzerland. Since the vast majority of sales are through these retail stores, we have a very large number of customers. Mainly due to the prevailing weather in Western Europe, our business is very seasonal with a historic trend of a higher volume of sales and profits during the months of March through September.

Competition

PoloExpress faces competition from other European retail sellers of motorcycle equipment and clothing, including Hein Gericke, Harley-Davidson, Detlev Louis, Dianese, and many independent shop owners. There is a large market for motorcycle enthusiasts in Europe and competition is tight among the retailers. We believe that a key market position is held by PoloExpress in Germany.

Hein Gericke Segment

Hein Gericke, including Fairchild Sports USA, is engaged in the design and retail sale of motorcycle apparel, protective clothing, helmets, and technical accessories for motorcyclists in Europe and the design and distribution of such apparel in the United States. As of September 30, 2006, Hein Gericke operated 145 retail shops in Austria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Turkey, and the United Kingdom. Fairchild Sports USA, located in Tustin, California, is a designer and distributor of motorcycle apparel, and other protective clothing, under several labels, including Hein Gericke. Hein Gericke has seasonal fluctuations in its business, with a historic trend of a higher volume of sales and profits during the months of March through September. Our Hein Gericke segment represented approximately 38% of our consolidated revenues in fiscal 2006.

Products

Products of Hein Gericke include motorcycle apparel, helmets, boots, protective clothing, and technical accessories for motorcycle enthusiasts. The majority of these products are sold at retail stores leased by us and operated primarily by shop partners who sell our products in accordance with agreements with us permitting the shop partner to operate and maintain an individual store. Shop partners are paid a commission based on the performance of their store. All inventory displayed and stocked in the stores is owned by us and, until sold, remains our property. Approximately 30% of stores leased by us are operated using our own employees. Mail order and internet sales represented 1.0% of Hein Gericke sales in fiscal 2006. Although the Hein Gericke retail stores sell predominantly Hein Gericke brand products, these retail stores stock and sell products that we purchase from other manufacturers. The Hein Gericke products are manufactured by third parties located principally in Asia, and are shipped to our leased warehouse, where they are temporarily stored until shipped to the individual retail stores for sale. The main warehouse for Hein Gericke is located in Düsseldorf, Germany.

Fairchild Sports USA is a designer and distributor of motorcycle apparel under several labels, including Hein Gericke. In addition, Fairchild Sports USA designs and contracts with manufacturers for the production of apparel under private labels for third parties, including Honda and Yamaha as well as for Harley-Davidson dealers under a licensing arrangement with Harley-Davidson.

Sales and Markets

Hein Gericke mainly sells its products in Europe through its retail stores in Austria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Turkey, and the United Kingdom. Approximately 46% of Hein Gericke's retail sales are to customers in Germany and 37% are to customers in the United Kingdom. Since the vast majority of sales are through these retail stores, we have a very large number of customers. Mainly due to the prevailing weather in Western Europe, our business is very seasonal with a historic trend of a higher volume of sales and profits during the months of March through September.

Fairchild Sports USA is a designer and distributor in the United States, selling to companies such as Honda, Yamaha, Harley-Davidson, Harley-Davidson dealers, and other independent dealers.

Overall, foreign sales (revenues generated outside of the United States) and domestic sales represented 92% and 8%, respectively, of the revenues generated by our Hein Gericke segment.

Competition

Hein Gericke faces competition from other European retail sellers of motorcycle equipment and clothing, including PoloExpress, Harley-Davidson, Detlev Louis, Dianese, and several independent shop owners. There is a large market for motorcycle enthusiasts in Europe and competition is tight among the retailers. We believe that key market positions are held by Hein Gericke in Europe.

Aerospace Segment

Our Aerospace segment consists of aerospace operations that are conducted through our subsidiary Banner Aerospace Holding Company I, Inc. We offer a wide variety of aircraft parts and component repair and overhaul services. The aircraft parts which we distribute are either purchased on the open market or acquired from original equipment manufacturers ("OEMs") as an authorized distributor. Our Aerospace segment represented approximately 26% of our consolidated revenues in fiscal 2006.

Products

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

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

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

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

Sales and Markets

Our aerospace operations sell products in the United States and abroad to original equipment manufacturers, commercial airlines, corporate aircraft operators, fixed-base operators, air cargo carriers, general aviation suppliers, and the military. Our aerospace operations conduct marketing efforts through direct sales forces, outside representatives and, for some product lines, overseas sales offices. Sales in the aviation aftermarket depend on price, service, quality, and reputation.

Our Aerospace segment's business does not experience significant seasonal fluctuations nor depend on a single customer. Approximately 52% of our aerospace sales are to domestic purchasers, some of which may represent offshore users.

Competition

Our aerospace operation competes with: AAR Corp; Volvo Aero Services; Duncan Aviation; Stevens Aviation; OEMs such as Honeywell, Rockwell Collins, Raytheon, and Litton; other repair and overhaul organizations; and many smaller companies.

We face intense competition in the aerospace industry, as we are one of many companies competing for business. Quality, performance, service, and price are generally the prime competitive factors in the aerospace industry. We seek to maintain a higher level of quality and performance over our competitors.

Corporate and Other Segment

Our corporate and other segment owns and rents two improved parcels located in Southern California and owns several other parcels of non-core real estate, including three parcels located in Farmingdale, New York. Revenues generated by the corporate and other segment represented less than 1% of our total revenues.

Foreign Operations

Our operations are located throughout the world. Inter-area sales are not significant to the total revenue of any geographic area. Export sales are made by U.S. businesses to customers in non-U.S. countries, whereas foreign sales are made by our non-U.S. subsidiaries. For our sales results by geographic area and export sales, see Note 17 of our Consolidated Financial Statements included in Part II, Item 8, “Financial Statements and Supplementary Data”.

Backlog of Orders

Substantially all of the products we sell are provided to our customers immediately. Backlog is not an important component to our overall business.

Suppliers

In fiscal 2006, our PoloExpress and Hein Gericke segments purchased approximately 17% and 11%, respectively, of their products from Kido Industrial Co, Ltd. In fiscal 2006, our Aerospace segment purchased approximately 12% of its products from Universal Avionics Systems. We are not materially dependent upon any other single supplier, but we are dependent upon a wide range of subcontractors, vendors, and suppliers of materials to meet our commitments to our customers. From time to time, we enter into exclusive supply contracts in return for logistics and price advantages. We do not believe that any one of these exclusive contracts would impair our operations if a supplier failed to perform.

Research and Patents

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

Personnel

As of September 30, 2006, we had approximately 590 employees. Approximately 210 of these were based in the United States, and 380 were based in Europe. None of our employees were covered by collective bargaining agreements. Overall, we believe that relations with our employees are good.

Environmental Matters

A discussion of our environmental matters is included in Note 15, “Contingencies”, to our Consolidated Financial Statements, included in Part II, Item 8, “Financial Statements and Supplementary Data” and is incorporated herein by reference.

Available Information

Our Internet address is www.fairchild.com. We make available free of charge, on our Internet website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS

- **Our operations are primarily dependent upon the retail and aerospace industries.** Our operations may be affected adversely by general economic conditions and events which result in reduced customer spending in the markets served by our products in the retail and aerospace industries. Any downturn in either or both industries could materially and adversely affect the overall financial condition of our company.

- **Our company is highly leveraged.** Our ability to access additional capital or liquidate non-core assets may be limited and require significant lead time. If we are able to raise additional capital, interest rates or other terms may be unfavorable and adversely affect our financial condition or results of operations. As such, our cash requirements are dependent upon our ability to achieve and execute internal business plans, including:

  o Our ability to accurately predict demand for our products;
  o Our ability to receive timely deliveries from suppliers;
  o Our ability to raise cash to meet seasonal and other demands;
  o Our ability to maintain customer satisfaction, attract customers to our stores, and deliver products of quality;
  o Our ability to properly assess our competition; and
  o Our ability to improve our operations to profitability status.

An adverse assessment in our prediction of our cash requirements and execution of internal business plans could materially and adversely affect the overall financial condition of our company.

- **Foreign exchange rate risks.** We purchase and sell a significant amount of our products internationally. In most markets sales are made in the foreign country's local currency. Additionally, a significant amount of purchases are made in currencies other than the foreign country's local currency. We do not place a significant reliance on the use of derivative financial instruments to attempt to manage risks associated with foreign currency exchange rates. Accordingly, there can be no assurance that in the future we will not have a material adverse effect on our business and results of operations from exposure to changes in foreign exchange rates.

- **Interest rate risk.** We are subject to market risk from exposure to changes in interest rates based on our variable rate financing. Increases in interest rates could have a negative impact on our available cash and our results of operations and adversely affect the overall financial condition of our company.

- **Government regulation.** We must comply with governmental laws and regulations that are subject to change and involve significant costs. Our sales and operations in areas outside the United States may be subject to foreign laws, regulations and the legal systems of foreign courts or tribunals. These laws and policies governing operations of foreign-based companies could result in increased costs or restrictions on the ability of the Company to sell its products in certain countries. Our international sales operations may also be adversely affected by United States laws affecting foreign trade and taxation.

Our domestic sales and operations are subject to governmental policies and regulatory actions of agencies of the United States Government, including the Environmental Protection Agency, Securities and Exchange Commission ("SEC"), National Highway Traffic Safety Administration, Department of Labor, Federal Aviation Administration, and Federal Trade Commission. In addition, we are subject to policies and actions of the New York Stock Exchange ("NYSE") and laws and actions of state legislatures and other local regulators. Changes in regulations or the imposition of additional regulations could have a material adverse effect on our business and results of our operations.

We are subject to numerous local government laws and regulations, including those relating to the operation of our retail stores. We are also subject to laws governing our relationship with employees, including minimum wage requirements, laws and regulations relating to overtime, working and safety conditions, and citizenship requirements. Material increases in the cost of compliance with any applicable law or regulation and similar matters could materially and adversely affect the overall financial condition of our company.

In addition, our competition may not be subject to the requirements of the SEC or the NYSE rules. As a result, we may be required to expend funds on financial and other controls and disclose certain information that could put us at a competitive disadvantage to our principal competitors.

- **Economic, political, and other risks associated with business activities in foreign countries.** Because we plan to continue using foreign manufacturers, our operating results could be harmed by economic, political, regulatory and other factors in foreign countries. We currently use suppliers in Asia to manufacture a significant amount of the products we sell, and we plan to continue using foreign suppliers to manufacture these products. These international operations are subject to inherent risks, which may adversely affect us, including:

  o political and economic instability;
  o high levels of inflation, historically the case in a number of countries in Asia;
  o burdens and costs of compliance with a variety of foreign laws;
  o foreign taxes; and
  o changes in tariff rates or other trade and monetary policies.

- **Our operations are dependent upon attracting and retaining skilled employees.** Our future success depends on our continuing ability to identify, hire, develop, motivate and retain skilled personnel in all areas of our organization. The current and future total compensation arrangements, which include benefits and cash bonuses, may not be successful in attracting new employees and retaining and motivating our existing employees. If we do not succeed in attracting personnel or retaining and motivating existing personnel, we may be unable to develop and distribute products and services or grow effectively. The success of one or more of our operations is dependent on our ability to satisfy top managers and core employees, who may negotiate as a group.

- **We have a number of worldwide competitors of varying sizes some of which have greater financial resources than we do.** Several of our competitors are more diversified than we are, and/or they may have greater financial resources than we do. Also, if price becomes a more important competitive factor for our customers, we may have a competitive disadvantage. Failure to adequately address and quickly respond to these competitive pressures could have a material adverse effect on our business and results of operations.

- **Our marketing strategy of associating our retail products with a motorcycling lifestyle may not be successful with future customers.** We have had success in marketing our products to motorcyclists. The lifestyle of motorcyclists is now more typically associated with a customer base comprised of individuals who are, on average, in their mid-forties. To sustain long-term growth, the motorcycle industry must continue to be successful in promoting motorcycling to customers new to the sport of motorcycling including women and younger riders. Accordingly, we must be successful providing products that satisfy the latest fashion desires and protection requirements of our customers. Failure to adequately address and quickly respond to our customers needs could have a material adverse effect on our business and results of operations.

- **Our success in our retail operations depends upon the continued strength of the Hein Gericke and PoloExpress brands**. We believe that our Hein Gericke and PoloExpress brands have significantly contributed to the success of our business and that maintaining and enhancing the brands is critical to maintaining and expanding our customer base. Failure to protect the brands from infringers or to grow the value of our Hein Gericke and PoloExpress brands could have a material adverse effect on our business and results of operations.

- **Our future growth will suffer if we do not achieve sufficient market acceptance of our products to compete effectively.** Our success depends, in part, on our ability to gain acceptance of our current and future products by a large number of customers. Achieving market- based acceptance for our products will require marketing efforts and the expenditure of financial and other resources to create product awareness and demand by potential customers. We may be unable to offer products consistently, or at all, that compete effectively with products of others on the basis of price or performance. Failure to achieve broad acceptance of our products by potential customers and to compete effectively could have a material adverse effect on our business and results of operations.

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Quarterly fluctuations. Quarterly results of our PoloExpress and Hein Gericke segments' operations have historically fluctuated as a result of retail customers purchasing patterns, with the highest quarters in terms of sales and profitability being our third and fourth quarters. Any economic downturn occurring in our third and fourth quarters could have a material adverse effect on our business and results of operations.

- **We incur substantial costs and cash funding requirements with respect to pension benefits and providing healthcare to our former employees.** Our estimates of liabilities and expenses for pensions and other post-retirement healthcare benefits require the use of assumptions. These assumptions include the rate used to discount the future estimated liability, the rate of return on plan assets, and several assumptions relating to the retirees' medical costs and mortality. Actual results may differ, which may have a material adverse effect on future results of operations, liquidity or shareholders' equity. Our largest pension plan is in an underfunded situation, and our future funding requirements were projected based upon legislation that changed in fiscal 2006. Any additional changes in the pension laws or estimates used could have a material adverse effect on our future funding requirements, business and results of operations. In addition, rising healthcare and retirement benefit costs in the United States may put us at a competitive disadvantage.

- **If our goodwill or amortizable intangible assets become impaired, we may be required to record a significant charge to earnings.** Under generally accepted accounting principles, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill and nonamortizable intangible assets are required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or intangible assets may not be recoverable include a decline in stock price and market capitalization, reduced future cash flow estimates, and slower growth rates in the industries we serve. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or intangible assets is determined, negatively impacting our results of operations.

- **Expense of being a public company.** The costs of being a small to mid-sized public company have increased substantially with the introduction and implementation of controls and procedures mandated by the Sarbanes-Oxley Act of 2002. We have seen audit fees and audit related fees significantly increase in past years. These increases, and any additional burden placed by future legislation, could have a material adverse effect on our financial condition, future results of operations, or net cash flows. For fiscal 2006, we were not required to have an external audit of our internal controls over financial reporting under Section 404. We will continue to assess our future requirements to report on our assessment of controls or have an external audit of our internal controls on an annual basis.

- **Concentrated ownership of voting shares.** As of September 30, 2006, the Steiner family beneficially owns approximately 60.3% of the aggregate vote of shares of the Company. Therefore, the ability for individual shareholders to influence the direction of the Company may be limited.

- **Environmental matters.** As an owner and former owner and operator of property, including those at which we performed manufacturing operations, we are subject to extensive federal, state and local environmental laws and regulations. Inherent in such ownership and operation is also the risk that there may be potential environmental liabilities and costs in connection with any required remediation of such properties. We routinely assess our environmental accruals for identified concerns at locations of our former operations. We cannot provide assurance that unexpected environmental liabilities will not arise.

- **Legal matters.** We are involved in various other claims and lawsuits incidental to our business or predecessor businesses. 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 will not have a material adverse effect on our financial condition, future results of operations or net cash flows. However, litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. There exists a possibility that a material adverse impact on our financial position and results of operations could occur in the period for which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

If one or more of these or other risks or uncertainties materializes, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. If two or more of these risks or other risks or uncertainties occur individually or simultaneously, they could have a material adverse effect on our financial condition and cash position. Given these uncertainties, users of the information included in this report, including investors and prospective investors, are cautioned not to place undue reliance on such forward-looking statements. We do not intend to update the forward-looking statements included in this filing, even if new information, future events or other circumstances have made them incorrect or misleading.

ITEM 2. PROPERTIES

As of September 30, 2006, we owned or leased buildings totaling approximately 1,951,000 square feet, of which approximately 277,000 square feet were owned and 1,674,000 square feet were leased.

Our PoloExpress segment's properties consisted of approximately 750,000 square feet which is all leased. We lease and operate 93 retail stores in Germany and Switzerland. The stores which were in operation as of September 30, 2006 aggregated approximately 606,000 square feet. The PoloExpress segment leases 117,000 square feet of warehouse space in Germany. The primary offices of the PoloExpress segment are located in Düsseldorf, Germany.

Our Hein Gericke segment's properties consisted of approximately 820,000 square feet which is all leased. We lease and operate 145 retail stores in Austria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Turkey, and the United Kingdom. The stores which were in operation as of September 30, 2006 aggregated approximately 649,000 square feet. Hein Gericke's 68 stores in Germany aggregated 359,000 square feet, and our 45 stores in the United Kingdom aggregated 135,000 square feet. The remaining 155,000 square feet are leased by the 32 stores in Austria, Belgium, France, Italy, Luxembourg, the Netherlands, and Turkey. The Hein Gericke segment leases 79,000 square feet of warehouse space, including 66,000 square feet in Germany and 13,000 square feet in England. The primary offices of the Hein Gericke segment are located in Düsseldorf, Germany; Harrogate, England; and Tustin, California.

Our Aerospace segment's properties consists of approximately 93,000 square feet, with principal operating facilities concentrated in California, Florida, Georgia, Kansas, and Texas.

We own and lease a 208,000 square foot manufacturing facility located in Fullerton, California and a 58,000 square foot manufacturing facility in Huntington Beach, California. Additionally, we own an 11,000 square foot office and warehouse facility in Wichita, Kansas. We also lease our corporate headquarters in McLean, Virginia as well as office space in New York, New York. Corporate office space is approximately 17,000 square feet.

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

Location	Owned or Leased	Square Footage	Business Segment	Primary Use
Fullerton, California	Owned	208,000	Corporate	Rental
Düsseldorf, Germany	Leased	144,000	PoloExpress	Office & Warehousing
Düsseldorf, Germany	Leased	116,000	Hein Gericke	Office & Warehousing
Huntington Beach, California	Owned	58,000	Corporate	Rental
Titusville, Florida	Leased	37,000	Aerospace	Distribution
Atlanta, Georgia	Leased	29,000	Aerospace	Distribution
Harrogate, United Kingdom	Leased	24,000	Hein Gericke	Office
Tustin, California	Leased	15,000	Hein Gericke	Office & Warehousing
McLean, Virginia	Leased	12,000	Corporate	Office
Wichita, Kansas	Owned	11,000	Aerospace	Distribution

Information concerning our long-term rental obligations at September 30, 2006, is set forth in Note 14 to our Consolidated Financial Statements, included in Part II, Item 8, "Financial Statements and Supplementary Data", of this Annual Report, and is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

A discussion of our legal proceedings is included in Note 15, "Contingencies", of our Consolidated Financial Statements, included in Part II, Item 8, "Financial Statements and Supplementary Data", of this annual report and is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

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

PART II

ITEM 5. MARKET FOR COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF COMMON STOCK

Market Information

Our Class A common stock is traded on the New York Stock Exchange under the symbol “FA”. Effective December 14, 2006, we voluntarily delisted from listing on the NYSE Arca. Our Class B common stock is not listed on any exchange and is not publicly traded. Class B common stock can be converted to Class A common stock at any time at the option of the holder. Information regarding our Class A and Class B common stock is incorporated herein by reference from Note 9, “Equity Securities”, of our Consolidated Financial Statements included in Part II, Item 8, “Financial Statements and Supplementary Data”.

Information regarding the quarterly price range of our Class A common stock is incorporated herein by reference from Note 18, “Quarterly Financial Data (Unaudited)”, of our Consolidated Financial Statements included in Part II, Item 8, “Financial Statements and Supplementary Data”.

At the beginning of the fiscal year, we were authorized to issue 5,141,000 shares of our Class A common stock under our 1986 non-qualified stock option plan and 250,000 shares of our Class A common stock under our 1996 non-employee directors stock option plan. Also at the beginning of the fiscal year, we had 807,581 shares available for grant under the 1986 non-qualified stock option plan and 193,000 shares available for grant under the 1996 non-employee directors stock option plan. During the fiscal year, the terms under which new options could be granted under both plans expired. Therefore, no shares were available for grant under either plan at the end of the fiscal year. We are considering adoption of a new plan which would be submitted to our shareholders for approval at our next annual meeting. Information regarding our stock option plans is incorporated herein by referenced from Note 10, “Stock Options”, of our Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data".

Holders of Record

We had approximately 914 and 34 record holders of our Class A and Class B common stock, respectively, at September 30, 2006.

Dividends

We have not paid any dividends over the past several years. Our intention is to retain and reinvest earnings into the Company. Additionally, the agreement between us and Alcoa, under which we sold our Fairchild Fasteners business on December 3, 2002, provides that, for a period of five years after that date, we will maintain our corporate existence, take no action to cause our own liquidation or dissolution and take no action to declare or pay any dividends on our common stock; provided, however, that we may engage in a merger or sale of substantially all of our assets to a third party that assumes our obligations under the acquisition agreement and that such provision of the agreement shall not prevent us from exercising our fiduciary duties to our stockholders. See Note 21, “Discontinued Operations”, of our Consolidated Financial Statements included in Part II, Item 8, “Financial Statements and Supplementary Data”.

Sale of Unregistered Securities

There were no sales or issuances of unregistered securities in the last fiscal quarter of the 2006 fiscal year. Sales or issuance of unregistered securities in previous fiscal quarters were reported on Form 10-Q for each such quarter.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of September 30, 2006, with respect to compensation plans under which our equity securities are authorized for issuance.

	Total equity compensation plans approved by shareholders
Number of securities to be issued upon exercise of outstanding options	336,359
Weighted average exercise price of outstanding options	$ 3.90
Number of securities remaining available for future issuance	None

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Financial Summary
(In thousands, except per share data)

	Years Ended September 30,			3 Month Transition Period Ended September 30,	Years Ended June 30,	
	2006	2005(1)	2004(1)	2003(2)	2003(3)	2002(4)
		Restated	Restated	Restated	Restated	Restated
Summary of Operations:						
Net sales	$ 308,641	$ 341,587	$ 318,132	$ 14,857	$ 59,633	$ 64,648
Rental revenue	950	656	930	260	808	480
Gross margin	123,641	130,492	122,490	3,924	20,699	16,015
Operating loss	(26,929)	(28,305)	(14,099)	(5,955)	(51,348)	(19,140)
Net interest expense	8,501	11,427	10,599	662	22,328	42,534
Income tax benefit (provision)	(2,176)	1,048	8,953	415	(408)	16,094
Income (loss) from continuing operations	(33,890)	(27,309)	(7,388)	(2,486)	(83,837)	(49,336)
Income (loss) per share from continuing operations:						
Basic and diluted	$ (1.34)	$ (1.08)	$ (0.29)	$ (0.10)	$ (3.33)	$ (1.96)
Other Data:						
Capital expenditures	7,777	11,668	12,260	312	7,888	2,106
Cash provided by (used for) operating activities	(71,773)	(13,060)	(13,101)	(6,971)	(122,521)	19,388
Cash provided by (used for) investing activities	54,987	26,802	(97,284)	29	605,516	(9,632)
Cash provided by (used for) financing activities	12,328	(13,807)	116,622	1,523	(485,842)	(9,655)
Balance Sheet Data:						
Total assets	415,129	448,639	499,165	377,208	390,549	992,118
Long-term debt, less current maturities	65,450	47,990	61,382	4,277	2,815	434,736
Stockholders' equity	89,018	111,346	138,896	136,139	137,957	226,111
Per outstanding common share	$ 3.53	$ 4.41	$ 5.52	$ 5.41	$ 5.48	$ 8.99

(1) Amounts have been restated as described in Note 2 to the Consolidated Financial Statements.

(2) The Operations, Other, and Balance Sheet Data for the 3-month transition period ended September 30, 2003 have been derived from audited financial statements restated to account for the adjustments described in Note 2 to the Consolidated Financial Statements.

(3) The Operations, Other, and Balance Sheet Data for fiscal 2003 have been derived from audited financial statements restated to account for the adjustments described in Note 2 to the Consolidated Financial Statements. Net interest expense, income from continuing operations, and stockholders' equity decreased by $0.1 million due to restatement adjustment related to death benefit obligations. Additionally, stockholders' equity increased $0.2 million related to reversal of a reserve for potential deduction disallowance deemed unnecessary.

(4) *The Operations, Other, and Balance Sheet Data for fiscal 2002 have been derived from audited financial statements restated to account for the adjustments described in Note 2 to the Consolidated Financial Statements. Net interest expense, income from continuing operations, and stockholders' equity decreased by $0.2 million due to restatement adjustment related to death benefit obligations.*

The table above does not include the operating results of acquisitions, prior to acquisition date, and discontinued operations in the "Summary of Operations" section, including: our PoloExpress and Hein Gericke segments, which were acquired on November 1, 2003; the fasteners business, which was sold on December 3, 2002 to Alcoa; APS, which was sold on January 23, 2004; Fairchild Aerostructures, which was sold on June 24, 2005 to PCA Aerospace; a landfill development partnership, which was sold on April 28, 2006; and Airport Plaza shopping center, which was sold on July 6, 2006.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Fairchild Corporation was incorporated in October 1969, under the laws of the State of Delaware. We have 100% ownership interests (directly and indirectly) in Fairchild Holding Corp. and Banner Aerospace Holding Company I, Inc. Fairchild Holding Corp. is the owner (directly and indirectly) of Hein Gericke, PoloExpress, and Fairchild Sports USA. Our consolidated financial statements present as discontinued operations the results of Airport Plaza shopping center (sold July 6, 2006), a landfill partnership (sold April 28, 2006), Fairchild Aerostructures (sold June 24, 2005), APS (sold January 23, 2004), and our former fastener business (sold December 3, 2002).

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 included elsewhere in this report. The information below has been adjusted to reflect the impacts of the restatement of the Company's financial results summarized below and more fully described in Note 2 of the Consolidated Financial Statements.

FINANCIAL RESTATEMENT

During the course of our fiscal 2006 audit, 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 GAAP and, consequently, we would restate our consolidated financial statements. During the course of the Company's review of its historical financial statements, additional errors were identified. The consolidated financial statements for fiscal 2005 and 2004 included in this Annual Report on Form 10-K 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. See Note 2 of our consolidated financial statements included in this Form 10-K for additional information regarding the restatement of our consolidated financial statements for the periods noted below.

The overall impact of our restatement was a total increase in retained earnings of $2.7 million through June 30, 2006. This amount includes:

- A $0.6 million increase in earnings for periods prior to October 1, 2003 (as reflected in beginning retained earnings as of October 1, 2003);
- A $1.1 million decrease in earnings for fiscal 2004;
- A $1.9 million decrease in net loss for fiscal 2005; and
- A $1.3 million decrease in net loss for the nine months ended June 30, 2006.

As a result of Fairchild's failure to file on a timely basis its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, Fairchild is no longer eligible to use form S-3 to register its securities with the SEC until all required reports under the Securities Exchange Act of 1934 have been timely filed for the 12 months prior to the filing of the registration statement for those securities.

EXECUTIVE OVERVIEW

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 engaged in the design and distribution of such apparel in the United States. Our Aerospace segment stocks a wide variety of aircraft parts, then distributes them to commercial airlines and air cargo carriers, fixed-base operators, corporate aircraft operators, and other aerospace companies worldwide.

For the year ended September 30, 2006, we reported a loss from continuing operations of $33.9 million, as compared to a loss of $27.3 million in fiscal 2005. The current year's loss from continuing operations benefited from the settlement of the shareholder derivative litigation, which improved results by approximately $5.7 million. Excluding this item, the increased loss from continuing operations resulted primarily from lower revenues in our Hein Gericke segment. The inventory demands of our PoloExpress and Hein Gericke businesses and our consolidated operating losses have contributed primarily to our $71.8 million use of cash in our operating activities in fiscal 2006. As of September 30, 2006, we have unrestricted cash, cash equivalents and investments of $59.1 million, and available borrowing under lines of credit of $5.3 million. As of June 30, 2007, we have unrestricted cash, cash equivalents and investments of $20.3 million, and available borrowing under lines of credit of $5.3 million.

We have undertaken a number of actions, which we believe will improve the results of Hein Gericke in 2007 and beyond including:

- Consolidating and centralizing our warehouse facilities to one location to service all of Europe.
- Improving timeliness of product deliveries from suppliers to our warehouse and delivery to the stores.
- Reintroducing our Hein Gericke product catalog to expand brand awareness and attract customer traffic.
- Optimizing store location and appearance.

In addition, we plan to:

- Continue cost structure improvements by taking aggressive actions to reduce expenses.
- Identify and target strategic markets outside of Germany and the United Kingdom for possible expansion.
- Close stores which do not provide a positive contribution.

We also have taken action to reduce the cash needs of Fairchild Sports USA by significantly downsizing the operations and focusing efforts primarily on its design and licensing businesses.

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. The sale does not include several other undeveloped parcels of real estate that we own in Farmingdale, New York, the largest of which is under contract of sale to the market chain, Stew Leonards. 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 nature of the environmental liabilities that we retained, the gain recognition is required to be delayed until the remediation efforts are complete.

On May 3, 2006, we decided to borrow $30.0 million from GoldenTree Capital Opportunities, L.P. and GoldenTree Capital Solutions Fund Financing to further improve our liquidity and provide us with flexible opportunities to:

- Invest in our existing operations;
- Pursue acquisition opportunities;
- Provide a source for any additional cash needs of our Hein Gericke operations during the 2007 season; or
- Consider the repurchase of our outstanding stock.

Subsequent to September 30, 2006, and directly resulting from the financial statement restatement process, we were unable to provide to the lenders timely financial statements for the year ended September 30, 2006, and the quarters ended December 31, 2006, March 31, 2007, and June 30, 2007, as required by the credit agreement. Our lenders have waived certain provisions in the credit agreement and granted us an extension in time to provide these financial statements.

Our cash needs are generally the highest during our second and third quarters of our fiscal year, when our Hein Gericke and PoloExpress segments purchase inventory in advance of the spring and summer selling seasons. Accordingly, €10.0 million was available and utilized to finance the fiscal 2007 seasonal trough to support our PoloExpress operations, and €9.0 million will be available to finance the fiscal 2008 season. We expect that cash on hand, which includes cash proceeds received from the sale of our shopping center, the Alcoa earn-out and escrow, the proceeds available from additional seasonal borrowings, cash available from lines of credit, and proceeds received from dispositions of short-term investments and other non-core assets, will be adequate to satisfy our cash requirements through December 2007.

In the event our cash needs are substantially higher than projected, particularly during the fiscal 2008 seasonal trough, we will take additional actions to generate the required cash. These actions may include one or any combination of the following:

- Liquidating investments and other non-core assets.
- Refinancing existing debt and borrowing additional funds which may be available to us from improved performances at our Aerospace and PoloExpress operations or increased values of certain real estate we own.
- Eliminating, reducing, or delaying all non-essential services provided by outside parties, including consultants.
- Significantly reducing our corporate overhead expenses.
- Delaying inventory purchases.

However, if we need to implement one or more of these actions, there remains some uncertainty that we will actually receive a sufficient amount of cash in time to meet all of our needs during the fiscal 2008 seasonal trough. Even if sufficient cash is realized, any or all of these actions may have adverse effects on our operating results or business.

We may also consider raising cash to meet the subsequent needs of our operations by issuing additional stock or debt, entering into partnership arrangements, liquidating assets, or other means. Should these actions be insufficient, we may be forced to liquidate other non essential assets and significantly reduce overhead expenses.

CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management’s application of accounting policies. Critical accounting policies for us include: the valuation of long-lived assets; impairment of goodwill and intangible assets with indefinite lives; pension and postretirement benefits; deferred and noncurrent income taxes; environmental and litigation accruals; and revenue recognition. Estimates in each of these areas are based on historical experience and a variety of assumptions that we believe are appropriate. Actual results may differ from these estimates.

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

Impairment of Goodwill and Intangible Assets With Indefinite Lives: Goodwill and intangible assets deemed to have indefinite lives are not amortized. Instead of amortizing goodwill and intangible assets deemed to have indefinite lives, these assets are tested for impairment annually, or immediately if conditions indicate that such an impairment could exist.

Pension and Postretirement Benefits: We have defined benefit pension plans covering certain of our current and former employees. Our funding policy is to make the minimum annual contribution required by the Employee Retirement Income Security Act of 1974 or local statutory law. The accumulated benefit obligation for pensions and postretirement benefits was determined using a discount rate of 6.0% and 5.625% at September 30, 2006 and 2005, respectively, and an estimated return on plan assets of 8.5% at September 30, 2006 and 2005. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. For measurement purposes, in 2006, we assumed a 9.5% annual rate of increase in the cost per capita of claims covered under health care benefits. In 2007, the trend rate is assumed to decrease each year by 0.5% to a rate of 5% in 2016 and remain at that level thereafter. The effect of any change in these assumptions may result in a material change to the accumulated benefit obligation.

Deferred and Noncurrent Income Taxes: Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income, the limitations that some taxing jurisdictions in which we operate have on our ability to use tax loss carry forwards to offset certain recorded deferred tax liabilities and tax planning strategies in making this assessment. The liability for noncurrent income taxes includes significant judgments and interpretations of tax laws. Therefore, the ultimate resolution of the associated contingencies could vary materially from the amounts accrued.

Environmental Matters: Our current and prior 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 other facilities owned, or previously owned, by us, which 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. At the end of each calendar quarter, we thoroughly review our environmental matters and adjust our accrual to equal the estimated probable amount that it will cost us in connection with these matters. We believe that we have recorded adequate accruals in our consolidated financial statements to complete such investigation and take any necessary corrective actions or make any necessary contributions or other payments.

Legal Matters: We are involved in various other claims and lawsuits incidental to our business. We, either on our own or through our insurance carriers, are contesting these matters. At the end of each calendar quarter, we thoroughly review our legal matters and adjust our accrual to equal the estimated probable amount that it will cost us in connection with these matters. In the opinion of management, the ultimate resolution of the legal proceedings will not have a material adverse effect on our financial condition, future results of operations, or net cash flows.

Revenue Recognition: Revenues within our PoloExpress and Hein Gericke segments are recognized immediately upon the sale of merchandise by our retail stores, net of an allowance for returns. Sales and related costs within our Aerospace segment are recognized on shipment of products and/or performance of services, when collection is probable. Lease and rental revenue are recognized on a straight-line basis over the life of the lease. Shipping and handling amounts billed to customers are classified as revenues.

RESULTS OF OPERATIONS

Significant Business Transactions

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. The sale does not include several other undeveloped parcels of real estate that we own in Farmingdale, New York, the largest of which is under contract of sale to the market chain, Stew Leonards. 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 nature of the environmental liabilities that we retained, the gain recognition is required to be delayed until the remediation efforts are complete.

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.

On June 24, 2005, we completed the sale of our Fairchild Aerostructures business for $6.0 million to PCA Aerospace. The cash received from PCA Aerospace is subject to a post-closing adjustment based upon the net working capital of the business on January 1, 2005, compared with its net working capital as of June 24, 2005, which we have estimated to be approximately $1.5 million, and is included in accounts receivable at September 30, 2006. PCA Aerospace disputes the working capital post-closing adjustment, and also alleges that we owe PCA Aerospace $4.4 million. We have notified PCA Aerospace of our dispute of these claims. In connection with the sale, we deposited with an escrow agent approximately $0.4 million to secure indemnification obligations we may have to PCA Aerospace, which was returned to us, with interest, upon termination of the 18-month escrow period. We decided to sell Fairchild Aerostructures, which was included in our Aerospace segment, because we believe we received adequate fair value for a business whose performance was below our expectations, and because its business was unrelated to other businesses we own. We used $0.9 million of the proceeds from the sale to repay a portion of our CIT revolving credit facility and we used the remaining proceeds from the sale to reinvest in our existing operations.

On November 1, 2003, we acquired for $45.5 million (€39.0 million) substantially all of the worldwide business of Hein Gericke and Fairchild Sports USA from the Administrator for Eurobike AG in Germany. Also on November 1, 2003, we acquired for $23.4 million (€20.0 million) from the Administrator for Eurobike AG and from two subsidiaries of Eurobike AG all of their respective ownership interests in PoloExpress and receivables owed to them by PoloExpress. We used available cash from investments that were sold to pay the Administrator $14.8 million (€12.5 million) on November 1, 2003, and borrowed $54.1 million (€46.5 million) from the Administrator at a rate of 8%, per annum. On May 5, 2004 we received financing from two German banks and paid the note due to the Administrator. The aggregate purchase price for these acquisitions, including $15.0 million (€12.9 million) of cash acquired, was approximately $68.9 million (€59.0 million).

On January 2, 2004, we acquired for $18.8 million (€15.0 million) all but 7.5% of the interest owned by Mr. Klaus Esser in PoloExpress. Mr. Esser retained a 7.5% ownership interest in PoloExpress, but Fairchild has the right to call this interest at any time from March 2007 to October 2008, for a fixed purchase price of €12.3 million ($15.6 million at September 30, 2006). Mr. Esser has the right to put such interest to us at any time during April 2008 for €12.0 million ($15.2 million at September 30, 2006). On January 2, 2004, we used available cash to pay Mr. Esser $18.8 million (€15.0 million) and provided collateral of $15.0 million (€12.0 million) to a German bank to issue a guarantee to Mr. Esser to secure the price for the put Mr. Esser has a right to exercise in April 2008. The transaction includes an agreement with Mr. Esser under which he agrees with us not to compete with PoloExpress for two years. On March 30, 2007, we amended an agreement with Mr. Esser, regarding his continued employment, and agreed to continue his employment through December 31, 2008. Through September 30, 2006, in addition to his base salary, Mr. Esser received a profit distribution of approximately €1.0 million, which reduces, on a Euro for Euro basis, the call or put option price we must pay for his interest. As of September 30, 2006, the €11.0 million ($14.7 million) collateralized obligation for the put option, net of distributions, was included in other long-term liabilities. The €11.0 million ($14.7 million) restricted cash is invested in a capital protected investment and money market funds, and is included in long-term investments. We have treated the put or call option as a debt instrument as it effectively established the price Mr. Esser will receive for his portion of the business.

The total purchase price exceeded the estimated fair value of the net assets acquired by approximately $34.0 million. Approximately $33.3 million of the purchase price was allocated to identifiable intangible assets, including brand names “Hein Gericke” and “Polo”, and reflected in intangible assets in the consolidated financial statements as of September 30, 2006. The remaining purchase price was allocated to goodwill. Since their acquisition on November 1, 2003, we have consolidated the results of Hein Gericke, PoloExpress, and Fairchild Sports USA into our financial statements.

On December 3, 2002, we completed the sale of our fastener business to Alcoa Inc. for approximately $657.0 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, and 2005. Accordingly, we recognized a $12.5 million gain on disposal of discontinued operations in fiscal 2004, 2005, and 2006. The remaining threshold aircraft delivery level is 650 in 2006. On December 3, 2002, we deposited with an escrow agent $25.0 million to secure indemnification obligations we may have to Alcoa. The escrow period remains in effect to December 3, 2007, but funds may be held longer if claims are timely asserted and remain unresolved. In June 2007, we received an arbitration ruling requiring us to pay $4.0 million from the escrow to Alcoa in satisfaction of health and safety claims asserted by Alcoa through December 2006. We have sought judicial review of that arbitration award. Since December 2006, Alcoa has asserted additional claims for indemnification with respect to which we are contesting or seeking additional information. The escrow is classified in long-term investments on our balance sheet. In addition, for the period through December 3, 2007, we are required to maintain our corporate existence, take no action to cause our own liquidation or dissolution, and take no action to declare or pay any dividends on our common stock.

Consolidated Results

We currently report in three principal business segments: PoloExpress; Hein Gericke; and Aerospace. The following table provides the revenues and operating income (loss) of our segments on a historical and pro forma basis for the years ended September 30, 2006, 2005, and 2004. The pro forma results represent the impact of our acquisition of Hein Gericke, PoloExpress, and Fairchild Sports USA, as if this transaction had occurred at the beginning of fiscal 2004. The pro forma information is based on the historical financial statements of these companies, giving effect to the aforementioned transactions. The prior period historical results of the operations and entities we acquired are based upon the best information available to us and these financial statements were not audited. The pro forma information is not necessarily indicative of the results of operations that would actually have occurred if the transactions had been in effect since the beginning of fiscal 2004, nor are they necessarily indicative of our future results.

	Actual			Pro Forma
				Year Ended
(In thousands)	Years Ended September 30,			September 30,
	2006	2005	2004	2004
		Restated (a)	Restated (a)	Restated (a)
Revenues				
PoloExpress	$ 112,786	$ 111,161	$ 94,543	$ 98,404
Hein Gericke	116,255	145,933	148,189	155,415
Aerospace Segment	79,600	84,493	75,400	75,400
Corporate and Other	1,036	1,036	971	971
Intercompany Eliminations	(86)	(380)	(41)	(41)
Total	$ 309,591	$ 342,243	$ 319,062	$ 330,149
Operating Income (Loss)				
PoloExpress	$ 11,796	$ 9,895	$ 10,795	$ 11,031
Hein Gericke	(22,084)	(15,295)	(3,614)	(4,429)
Aerospace Segment	5,968	6,093	4,030	3,945
Corporate and Other	(22,609)	(28,998)	(25,310)	(25,310)
Total	$ (26,929)	$ (28,305)	$ (14,099)	$ (14,763)

(a) Amounts have been restated as described in Note 2 to the Consolidated Financial Statements.

Revenues decreased by $32.7 million, or 9.5%, for fiscal 2006 compared to fiscal 2005. Revenues decreased by $29.7 million in our Hein Gericke segment due primarily to the downsized activities of our Fairchild Sports USA business and by $4.9 million in our Aerospace segment due to fiscal 2005 benefiting from the delivery of several unusually large one-time orders. Revenues increased by $23.2 million, or 7.3%, in fiscal 2005, as compared to fiscal 2004. The increase in fiscal 2005 was due to the prior period including only eleven months of activity from our acquisition of Hein Gericke, PoloExpress and Fairchild Sports USA on November 1, 2003, our foreign sales benefiting from a stronger Euro as compared to the U.S. dollar, and increased sales at our Aerospace segment.

Gross margin as a percentage of revenues was 39.9%, 38.1%, and 38.4%, in fiscal 2006, fiscal 2005, and fiscal 2004, respectively. The improvement in margins in fiscal 2006 compared to fiscal 2005 reflected an increase in margins resulting from a shift in the product mix to higher margin products at each of our PoloExpress, Hein Gericke, and Aerospace segments. The change in margins in fiscal 2005 compared to fiscal 2004 reflects a slight reduction in margins at our Hein Gericke segment.

Selling, general and administrative expense includes pension and postretirement expenses of $3.7 million, $6.5 million, and $6.7 million for 2006, 2005, and 2004, respectively, primarily relating to inactive and retired employees of businesses that we sold and for which we retained the pension or postretirement liability. Pension and postretirement expense decreased by $2.8 million in fiscal 2006 compared to fiscal 2005, and decreased by $0.2 million in fiscal 2005 compared to fiscal 2004. The decrease from 2005 to 2006 resulted primarily from higher curtailment expenses in 2005 as well as termination of certain medical benefits during fiscal 2006. Selling, general and administrative expense, excluding pension and postretirement expense, as a percentage of revenues was 49.0%, 45.9%, and 43.4%, in fiscal 2006, fiscal 2005, and fiscal 2004, respectively. The change in fiscal 2006 compared to fiscal 2005 was due primarily to the lower volume of revenues. Selling, general and administrative expense in fiscal 2006 also benefited from $5.7 million received by us from the settlement of the shareholder derivative litigation, offset partially by $0.6 million of related legal fees. The increase in selling, general and administrative expense as a percentage of revenues in fiscal 2005, as compared to fiscal 2004, was due primarily to us owning our PoloExpress and Hein Gericke segments for 11 months in fiscal 2004, and a stronger Euro as compared to the U.S. dollar in fiscal 2005 compared to fiscal 2004.

Other income, net, decreased by $0.2 million in fiscal 2006, as compared to fiscal 2005, due primarily to a $1.0 million gain recognized on the sale of real estate in fiscal 2005. Other income decreased by $4.2 million in fiscal 2005 compared to fiscal 2004 due primarily to $1.6 million of proceeds received from a title insurance claim settlement recognized in fiscal 2004 and $1.0 million of foreign currency gains recognized in fiscal 2004, compared to foreign currency losses of $0.2 million in fiscal 2005.

Restructuring charges of $0.6 million in 2004 included the costs to close all fifteen of the GoTo Helmstudio retail locations in Germany. All of the charges were the direct result of activities that occurred as of June 30, 2004. The restructuring charges included an accrual for the remaining lease costs of the closed stores, the write-off of store fittings, and for severance. These costs were classified as restructuring and were the direct result of a formal plan to close the GoTo Helmstudio locations and terminate its employees. Such costs are nonrecurring in nature. Other than a reduction in our existing cost structure, none of the restructuring costs will result in future increases in earnings or represent an accrual of future costs of our ongoing business.

Operating loss for fiscal 2006, fiscal 2005, and fiscal 2004 was $26.9 million, $28.3 million, and $14.1 million, respectively. The $1.4 million improvement in operating loss for fiscal 2006 compared to fiscal 2005 was due primarily to $5.1 million net proceeds we received from the settlement of the shareholder derivative litigation and the decreased pension and postretirement expense, offset partially by the reduction in gross profit. The $14.2 million increase in operating loss in fiscal 2005 compared to fiscal 2004 was due primarily to a $12.7 million decrease in operating income at our Hein Gericke segment (see segment discussion below).

Net interest expense decreased by $2.9 million, or 25.6%, in fiscal 2006, as compared to fiscal 2005, due primarily to lower interest expense on the $100 million interest rate contract, which we settled in December 2005, partially offset by interest expense on the $30.0 million Golden Tree term loan we entered into on May 3, 2006. Net interest expense increased by $0.8 million, or 7.8%, in fiscal 2005, as compared to fiscal 2004, due primarily to a $0.6 million increase in non-cash interest from an increase in deferred loan fees expensed in the current period and a higher average outstanding debt obtained in fiscal 2005 as compared to fiscal 2004.

Investment income was $2.9 million for fiscal 2006 and included $1.3 million of realized gains from the sale of investments and $1.1 million of dividend income offset partially by a $0.5 million increase in the fair market value of investments classified as trading securities. Investment income was $6.0 million for fiscal 2005, including $5.3 million of stock and dividends received from the demutualization of an insurance company, $0.5 million in other dividend income, $0.2 million of realized net gains from the sale of investments, and a $0.8 million increase in the fair market value of investments classified as trading securities, offset partially by a $0.8 million investment impairment. Investment income was $3.7 million in 2004, including $2.8 million of stock and dividends received from the demutualization of an insurance company, $1.1 million in other dividend income and $0.3 million of net gains realized from the sale of investments, partially offset by $0.5 million from the decline in fair market value of trading securities.

The fair market value adjustment of our position in a ten-year $100 million interest rate contract improved by $0.8 million in fiscal 2006, $5.9 million in fiscal 2005, and $4.9 million in fiscal 2004. The fair market value adjustment of this agreement reflected increasing interest rates and caused the favorable change in fair market value of the contract in these periods. We settled the interest rate contract at the end of December 2005, and accordingly we will have no further income or loss from this contract. The settlement allowed us to increase cash available for operations by releasing approximately $2.5 million of cash held in escrow in excess of the liability.

The overall tax expense for fiscal 2006 was $4.8 million. A $2.2 million tax expense from continuing operations resulted from $0.3 million of current federal, state, and foreign taxes and $1.9 million of foreign deferred taxes. The foreign deferred taxes arise from a tax benefit from operating losses of $0.1 million, offset by $1.9 million in tax expense related to the impact of the conversion of PoloExpress from a German partnership to a German

Corporation. The conversion of PoloExpress will allow PoloExpress and Hein Gericke Deutschland to file consolidated trade tax returns thereby enabling the Company to reduce its current income tax and trade tax liabilities. However, as a result of this conversion, the Company was required to record a deferred tax liability of $5.6 million as it will no longer benefit from future tax deductions related to the amortization of acquired intangibles. Offsetting this liability is $3.6 million of deferred tax assets related to future tax deductions which were previously not expected to be recoverable. This conversion will allow our two subsidiaries, Hein Gericke Deutschland and PoloExpress, to compute their trade tax liabilities on a combined basis and utilize the cumulative combined income and trade tax losses of approximately $20.6 million and $18.8 million, respectively, to offset their combined future profits subject to income and trade tax. No Federal taxes were recognized from continuing operations due to the domestic tax losses. The $2.6 million tax expense in discontinued operations resulted from current state tax liabilities of $0.9 million associated with the sale of certain assets and $1.7 million in additional foreign tax liabilities arising from transfer pricing issues identified during a tax audit in Germany related to a previously sold business.

The overall tax provision for fiscal 2005 was a benefit of $0.2 million, representing $1.9 million of current and deferred foreign tax expenses, $0.2 million of current state tax expenses related to our continuing operations, and $0.8 million of tax expense related to our discontinued operations, all of which is more than offset by a $3.2 million tax benefit of federal deferred taxes.

The overall provision for fiscal 2004 was a benefit of $23.0 million. The $9.0 million benefit from continuing operations consists of $0.8 million in current state and foreign tax liabilities, $3.2 million of foreign deferred tax expense, of which $1.2 million is a result in changes to the ability to use certain foreign tax loss carryforwards to offset existing foreign deferred tax liabilities in future periods, a $13.0 million benefit associated with the carryback of current period losses from continuing operations and a reduction in various tax contingency requirements. The $14.0 million tax benefit from discontinued operations resulted from changes to our tax contingency requirements, primarily the favorable resolution of the tax audits of Kaynar Technologies, Inc. for its final year ended April 30, 1999, and our tax year ended June 30, 1999.

Loss from discontinued operations includes the results of the Airport Plaza shopping center prior to its sale, the fasteners business prior to its sale, Fairchild Aerostructures prior to its sale, APS prior to its sale, and certain legal, tax, and environmental expenses associated with our former businesses. The loss from discontinued operations for fiscal 2006 consists primarily of an accrual of $9.0 million of environmental liabilities at locations of operations previously sold and $5.6 million to cover legal expenses and workers compensation obligations associated with businesses we sold several years ago, offset partially by $0.9 million of earnings generated by the shopping center prior to its sale. The loss from discontinued operations for fiscal 2005 consists primarily of an accrual of $5.3 million of environmental liabilities at locations of operations previously sold and $0.2 million to cover legal expenses and workers compensation obligations associated with businesses we sold several years ago, offset partially by $1.9 million of collections of old accounts receivable previously written-off from businesses we previously sold. The loss from discontinued operations for fiscal 2004 consists primarily of an accrual of $14.1 million of environmental liabilities at locations of operations previously sold and $2.2 million to cover legal expenses and workers compensation obligations associated with a business we sold several years ago.

In fiscal 2006, we recognized a $13.6 million gain on the disposal of discontinued operations, as a result of $12.5 million additional proceeds earned from the sale of the fastener business, and the $1.1 million gain recognized on the sale of a landfill development partnership. In fiscal 2005, we recognized a $13.6 million gain on the disposal of discontinued operations, as a result of $12.5 million additional proceeds earned from the sale of the fastener business, and the $1.1 million gain recognized on the sale of Fairchild Aerostructures. In fiscal 2004, we recorded a $9.5 million gain on the disposal of discontinued operations, as a result of additional proceeds earned from the sale of the fastener business.

Other comprehensive income includes foreign currency translation adjustments, unrecognized actuarial loss on pensions, and unrealized periodic holding changes in the fair market value of available-for-sale investment securities. Fiscal 2006 comprehensive income included an $8.1 million decrease in the minimum pension liability due to changes in the discount rate, a $3.8 million increase in the fair market value of available-for-sale securities, and a $2.6 million increase in unrealized foreign currency translations due to the strengthening of the Euro against the U.S. dollar. In fiscal 2005, other comprehensive income included a $7.5 million increase in the minimum pension liability due to changes in the discount rate, $0.2 million decrease in the fair market value of available-for-sale securities, and a $1.4 million decrease in unrealized foreign currency translations due to the strengthening of the U.S. dollar against the Euro. In fiscal 2004, a $1.8 million increase in the minimum pension liability was offset by a $1.2 million increase in the fair market value of available-for-sale securities, and a $0.5 million improvement in unrealized foreign currency translations due to the strengthening of the Euro against the U.S. dollar.

Segment Results

PoloExpress Segment

Our PoloExpress segment designs and sells motorcycle apparel, protective clothing, helmets, and technical accessories for motorcyclists. As of September 30, 2006, PoloExpress operated 91 retail shops in Germany and two shops in Switzerland. While the PoloExpress retail stores primarily sell PoloExpress brand products, these retail stores also sell products of other manufacturers, the inventory of which is owned by the Company. The PoloExpress segment is a seasonal business, with an historic trend of a higher volume of sales and profits during March through September.

Sales in our PoloExpress segment increased by $1.6 million, or 1.5%, from fiscal 2005 to fiscal 2006. Sales gains resulted from four stores newly opened or relocated in fiscal 2006 and the incremental sales resulting from the full year impact of three new store openings in fiscal 2005. Same store sales decreased by 0.4% in 2006 reflecting harsh weather in March in Germany and higher sales generated in fiscal 2005 resulting from PoloExpress celebrating its 25th anniversary. Additionally, the month long World Cup soccer tournament, which was hosted by Germany beginning in June, negatively affected revenues and profits. Finally, foreign currency exchange rates on the translation of European sales into U.S. dollars changed unfavorably and reduced our revenues by approximately $2.2 million in 2006. Retail sales per square meter was approximately $2,625 in 2006 compared to $2,864 in 2005. Operating income in our PoloExpress segment increased by $1.9 million in fiscal 2006 as compared to fiscal 2005. The increase in fiscal 2006 was due primarily to improved gross margins in conjunction with increased sales.

The actual results for 2005 and 2004 are not comparable because we only owned the PoloExpress segment for eleven months in 2004. On a pro forma basis, sales in our PoloExpress segment increased by $12.8 million, or 13.0%, in 2005, as compared to 2004. Approximately $4.3 million of this increase is due to the weighted average strengthening of the Euro relative to the U.S. Dollar during 2005. Additionally, fiscal 2005 sales were favorably impacted by incremental sales from three new stores opened in fiscal 2005. Same store sales increased by 6.4% in 2005. Retail sales per square meter was approximately $2,864 in 2005 compared to $2,719 in 2004. On a pro forma basis, operating income of our PoloExpress segment decreased by $1.1 million during 2005 compared to 2004, reflecting higher advertising costs and other selling costs in fiscal 2005 compared to 2004 as well as incremental costs associated with opening our first store in Switzerland.

We have continued a program to focus on optimizing store size and expanding into new markets.

Hein Gericke Segment

Our Hein Gericke segment designs and sells motorcycle apparel, protective clothing, helmets, and technical accessories for motorcyclists. As of September 30, 2006, Hein Gericke operated 145 retail shops in Austria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Turkey, and the United Kingdom. Although the Hein Gericke retail stores primarily sell Hein Gericke brand items, these retail stores also sell products of other manufacturers, the inventory of which is owned by the Company. Fairchild Sports USA, located in Tustin, California, designs and sells apparel and accessories under private labels for third parties and sells licensed product to Harley-Davidson dealers. The Hein Gericke segment is a seasonal business, with an historic trend of a higher volume of sales during March through September.

Sales in our Hein Gericke segment decreased by $29.7 million, or 20.3%, from fiscal 2005 to fiscal 2006. Sales at Fairchild Sports USA represented $19.8 million of the decrease in fiscal 2006 due to a reduction in sales to Harley-Davidson and the reduction in sales to Tucker-Rocky due to the sale of the First Gear product line in fiscal 2005. Same store sales decreased by 9.0% in 2006 reflecting lower sales at Hein Gericke due in most part to delays in inventory receipts which resulted in out-of-stock conditions on certain high demand items; a shift in the timing and marketing strategy; and unusually harsh weather during March in Europe. Additionally, the month long World Cup soccer tournament, which was hosted by Germany beginning in June, negatively affected revenues and profits. In addition, foreign currency exchange rates on the translation of European sales into U.S. Dollars changed unfavorably and reduced our revenues by approximately $2.2 million in 2006. Retail sales per square meter was approximately $2,017 in 2006 compared to $2,210 in 2005. The operating results in our Hein Gericke segment decreased by $6.8 million in fiscal 2006 as compared to fiscal 2005. The decrease in fiscal 2006 was due primarily to a $3.3 million decline in operating results at Fairchild Sports USA, and the aforementioned sales decreases, offset partially by a 0.6% improvement in its gross margins as a percentage of sales in fiscal 2006, as compared to fiscal 2005.

The actual results for 2005 and 2004 are not comparable because we only owned the Hein Gericke segment for eleven months in 2004. On a pro forma basis, sales in our Hein Gericke segment decreased by $9.5 million, or 6.1%, in 2005, as compared to 2004. A reduction in sales of $8.0 million occurred at Fairchild Sports USA primarily due to a reduction in sales to Harley-Davidson. Hein Gericke sales in Europe were negatively impacted by unfavorable market conditions as overall same store sales decreased by 4.2% in 2005. Retail sales per square meter was approximately $2,210 in 2005 compared to $2,251 in 2004. The impact of changes in foreign currency exchange rates favorably affected the translation of European sales into U.S. Dollars, by an aggregate of $4.5 million in 2005. On a pro forma basis, the operating results in our Hein Gericke segment decreased by $10.9 million during 2005, as compared to 2004. The operating loss in 2005 was adversely affected by difficult trading conditions in Germany and the United Kingdom, which led to $2.8 million of higher promotional costs in an effort to preserve sales. Lower sales volume in Germany and the United States negatively impacted our operating results, decreasing our margin contribution by $4.6 million. Sales were impacted at all Hein Gericke locations as the implementation of a new ERP system interrupted stock replenishment at all stores for one to two months at the beginning of the busy season in 2005. New shops in the United Kingdom increased our overhead by $1.9 million, and the development of a new global web shop cost us $0.9 million.

We have continued a program to focus on optimal store location. This includes closing or relocating low performing stores, and opening new stores in Europe. We have also redesigned several stores to better present our products to customers. In fiscal 2007, we have plans to open a new store in Amsterdam, relocate a store in Paris, and we are considering other opportunities for store optimization. In fiscal 2006, we have taken action to significantly reduce our operating costs, including staffing, at Fairchild Sports USA and focus its future efforts on designing for private labels and its licensing business.

Aerospace Segment

Our Aerospace segment has five locations in the United States, and is an international supplier to the aerospace industry. Four locations specialize in the distribution of avionics, airframe accessories, and other components, and one location provides overhaul and repair capabilities. The products distributed include: navigation and radar systems; instruments and communication systems; flat panel technologies; and rotables. Our location in Titusville, Florida overhauls and repairs landing gear, pressurization components, instruments, and avionics. Customers include original equipment manufacturers, commercial airlines, corporate aircraft operators, fixed-base operators, air cargo carriers, general aviation suppliers, and the military. Sales in our Aerospace segment decreased by $4.9 million, or 5.8%, for fiscal 2006 compared to fiscal 2005. Sales in our Aerospace segment benefited in 2005 from the delivery of several unusually large orders. Sales in our Aerospace segment increased by $9.1 million, or 12.1%, for fiscal 2005 compared to fiscal 2004. The improvement in sales reflected the delivery of several unusually large orders delivered in 2005.

Operating income remained flat at $6.0 million for fiscal 2006, as compared to fiscal 2005. The stable operating income resulted from a 3.0% improvement in gross margin for fiscal 2006, as compared to fiscal 2005, which offset the decrease in sales over the same period. Operating income increased by $2.1 million, or 51.2%, for fiscal 2005 compared to fiscal 2004, reflecting the increase in sales volume and a 1.8% increase in gross margin.

Corporate and Other

Our other operations consist of a 208,000 square foot manufacturing facility located in Fullerton, California that we own and lease to Alcoa, and a 58,000 square foot manufacturing facility located in Huntington Beach, California that we own and lease to PCA Aerospace. The Fullerton property is leased to Alcoa through October 2007, and is expected to generate revenues and operating income in excess of $0.5 million per year. The Huntington Beach property is leased to PCA Aerospace through October 2007, and is expected to generate revenues and operating income of $0.4 million per year. We can cause PCA Aerospace to purchase the Huntington Beach property at the greater of fair market value or $6.0 million under a put option we hold which can be exercised upon the earlier of the time when a mortgage loan, which encumbers the property, is paid off (currently due in October 2007, but with extension options) or January 31, 2012. PCA Aerospace also holds a similar purchase option. At September 30, 2006, the book value of the Huntington Beach property was $2.9 million and we believe the current fair market value is in excess of $5.5 million.

The operating loss at corporate was reduced by $6.4 million in fiscal 2006 compared to fiscal 2005, due primarily to the settlement of shareholder derivative litigation. We recognized a net reduction in general and administrative expenses of $5.1 million in fiscal 2006 from net proceeds we received as a result of settlement of shareholder derivative litigation. The operating loss increased by $3.7 million in fiscal 2005 compared to fiscal 2004, due primarily to the added costs of complying with the Sarbanes-Oxley Act of 2002.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Our combined debt, which includes debt of discontinued operations, and equity (“capitalization”) as of September 30, 2006 and 2005 was $181.0 million and $234.2 million, respectively. The fiscal 2006 change in capitalization included a net decrease of $31.9 million in debt resulting from assumption of our $53.5 million mortgage loan on Airport Plaza by the acquirer of the property, obtaining the $30.0 million Golden Tree term loan, and approximately $10.5 million of debt repayments, net of additional borrowings. Stockholders' equity decreased by $21.3 million, due primarily to our $37.3 million reported net loss, offset partially by $3.8 million unrealized gain on available for sale securities as well as $8.1 million decrease in minimum pension liability. Our combined cash and investment balances totaled $130.4 million on September 30, 2006, compared to $97.9 million on September 30, 2005, and included restricted investments of $67.0 million and $64.4 million at September 30, 2006 and September 30, 2005, respectively. Total capitalization as of September 30, 2005 and 2004 was $234.2 million and $277.1 million, respectively. The fiscal 2005 change in capitalization included a net decrease of $15.3 million in debt resulting from approximately $14.1 million of debt repayments net of additional borrowings, and a $1.2 million decrease due to the foreign currency effect on debt denominated in Euros. Stockholders' equity decreased by $27.6 million, due primarily to our $19.4 million reported net loss, offset partially by $1.0 million received on the repayment of shareholder loans. Our combined cash and investment balances totaled $97.9 million on September 30, 2005, as compared to $109.4 million on September 30, 2004, and included restricted investments of $64.4 million and $75.0 million at September 30, 2005 and 2004, respectively.

Net cash used for operating activities for fiscal 2006 was $71.8 million. The working capital uses of cash in 2006 included a $33.0 million increase in investments classified as "trading securities", $15.9 million increase in inventory, and a $2.7 million increase in other current assets, offset partially by a $16.0 million increase in accounts payable and other accrued liabilities, and a $1.8 million decrease in accounts receivable. The working capital uses of cash were also affected by our $28.6 million net loss before depreciation and amortization and $11.9 million of non-cash charges and working capital changes provided from discontinued operations, including the gain recognized from the Alcoa earnout. Net cash used for operating activities for fiscal 2005 was $13.1 million. The working capital sources of cash in 2005 included a $10.0 million decrease in accounts receivable, a $4.5 million decrease in inventory, a $0.5 million decrease in other current assets, and a $1.0 million decrease in other non-current assets, offset partially by an $8.2 million decrease in accounts payable and other accrued liabilities. The working capital sources of cash were offset by our $10.2 million net loss before depreciation and amortization and $8.5 million of non-cash charges and working capital changes provided from discontinued operations. Net cash used for operating activities for fiscal 2004 was $13.1 million. The primary use of cash for operating activities in 2004 was a $16.5 million increase in inventories, and a $16.8 million increase in accounts receivable, offset partially by a $32.5 million decrease in trading securities, a $9.2 million increase in accounts payable and other accrued liabilities, and our $7.7 million net income before depreciation and amortization.

Net cash provided by investing activities for fiscal 2006 was $55.0 million, and included primarily $40.7 million of proceeds received from the sale of our shopping center, $12.5 million received from Alcoa as additional earn-out proceeds from our December 2002 sale of our former fastener business, and $1.4 million of proceeds received from the sale of a landfill development partnership, offset partially by $7.8 million of capital expenditures. Net cash provided by investing activities for fiscal 2005 was $26.8 million, and included $12.5 million received from Alcoa as additional earn-out proceeds from our December 2002 sale of our fastener business, $9.5 million of proceeds received from investment securities, $10.5 million of net proceeds received from the sale of non-core property, and $6.0 million received from the sale of Fairchild Aerostructures in June 2005, offset by $11.7 million of capital expenditures. Net cash used for investing activities was $97.3 million in fiscal 2004 and included our payments for acquisition of $75.5 million, net of $15.0 million of cash included in the businesses we acquired, as well as $12.2 million of capital expenditures.

Net cash provided by financing activities for fiscal 2006 was $12.3 million, which reflected a $19.5 million net increase in debt from additional borrowings, offset partially by $4.3 million in settlement of our interest rate contract and $0.5 million of term loan repayments associated with our shopping center prior to its sale. Net cash used for financing activities was $13.8 million for fiscal 2005, which reflects $13.5 million of net debt repayments, offset partially by $1.0 million received on repayment of shareholder loans. Net cash provided by financing activities was $116.6 million for fiscal 2004, which reflected $51.4 million of net borrowings from discontinued operations, the long-term financing of $43.4 million for our acquisition of Hein Gericke, PoloExpress, and Fairchild Sports USA, $13.0 million borrowed to finance property, and $9.0 million borrowed from a revolving credit facility at our Aerospace segment, offset partially by $3.2 million of loan fees.

Our principal cash requirements include supporting our current operations, general and administrative expenses, capital expenditures, and the payment of other liabilities including pension and postretirement benefits, environmental investigation and remediation costs, and litigation related costs. We expect that cash on hand, cash available from lines of credit, and proceeds received from dispositions of short-term investments and other non-core assets, will be adequate to satisfy our cash requirements through December 2007.

In order to improve our liquidity, on December 21, 2005, we signed a definitive agreement to sell our shopping center, Airport Plaza, located in Farmingdale, New York, to an affiliate of Kimco Realty Corporation. On July 6, 2006, we completed the sale of Airport Plaza. 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. The sale does not include several other undeveloped parcels of real estate that we own in Farmingdale, New York, the largest of which is under contract of sale to the market chain, Stew Leonards.

On May 3, 2006, we decided to borrow $30.0 million from GoldenTree Capital Opportunities, L.P. and GoldenTree Capital Solutions Fund Financing to further improve our liquidity and provide us with flexible opportunities to:

- Invest in our existing operations;
- Pursue acquisition opportunities;
- Provide a guarantee for any additional cash needed by our Hein Gericke segment and corporate needs; or
- Consider the repurchase of our outstanding stock.

Our cash needs are generally the highest during our second and third quarters of our fiscal year, when our Hein Gericke and PoloExpress segments purchase inventory in advance of the spring and summer selling seasons. In November 2006, we obtained a financing commitment from a second bank to participate in our seasonal credit facility. Accordingly, €10.0 million was available and utilized to finance the fiscal 2007 seasonal trough to support our PoloExpress operations, and €9.0 million will be available to finance the fiscal 2008 season.

Although we believe that our relationship with the principal lenders to our PoloExpress and Hein Gericke segments is strong, a significant portion of our debt facilities are subject to annual renewal. We expect that the facilities will be renewed annually in the normal course of business. Should the lenders decide not to renew the facilities, we believe that we could secure alternative funding sources on commercially reasonable terms.

The costs of being a small to mid-sized public company have increased substantially with the introduction and implementation of controls and procedures mandated by the Sarbanes-Oxley Act of 2002. Audit and corporate governance related fees have significantly increased over the past two years. Our increased costs also include the effects of acquisitions and additional costs related to compliance with various financing agreements. The costs to comply with Section 404 of the Sarbanes-Oxley Act of 2002 alone substantially increased our audit and related costs to approximately $3.1 million in fiscal 2005, as compared to only $1.6 million in fiscal 2004. This increase is significant for a company of our size. However, on March 31, 2006, our market capitalization was below the $50.0 million threshold and accordingly, on September 30, 2006, we ceased to be deemed an accelerated filer in accordance with the United States Securities and Exchange Commission regulations and were not required to have an external audit of our internal controls under Section 404 of the Sarbanes-Oxley Act of 2002 in fiscal 2006. We did not have an external audit of our internal controls resulting in a reduction in our audit fees in fiscal 2006. However, audit expenses associated with the restatement are expected to lead to a substantial increase in 2006 audit fees.

We considered additional options for reducing our public costs, including opportunities to take our company private, or “going dark”. An offer to take our company private at $2.73 per share, led by Jeffrey Steiner, our Chairman and Chief Executive Officer, and Philip Sassower, was terminated. As of this date, no further discussions are on-going. However, our senior management will continue to pursue opportunities to reduce our public costs and our corporate expenses and consider any other opportunities to restructure our existing debt and pursue additional merger, acquisition, and divestiture opportunities.

In February 2005, we announced our intention to purchase up to 500,000 shares of our outstanding Class A Common Stock. Through September 30, 2006, we acquired 61,800 shares at an average price of $3.12 per share, and have not purchased any shares since May 11, 2005. We may purchase additional shares in the future. Under the terms of the Golden Tree loan, in order to repurchase shares, our Minimum Liquidity, as defined in the Golden Tree agreement, must exceed $10.0 million. As of September 30, 2006, our Minimum Liquidity was $53.3 million.

In the event that our cash needs are substantially higher than projected, particularly during the fiscal 2008 seasonal trough, we will take additional actions to generate the required cash. These actions may include one or any combination of the following:

- Liquidating investments and other non-core assets.
- Refinancing existing debt and borrowing additional funds which may be available to us from improved performances at our Aerospace and PoloExpress operations or increased values of certain real estate we own.
- Eliminating, reducing, or delaying all non-essential services provided by outside parties, including consultants.
- Significantly reducing overhead expenses at certain operations and our corporate headquarters.
- Delaying purchases of inventory.

However, if we need to implement one or more of these actions, there nevertheless remains some uncertainty that we will actually receive a sufficient amount of cash in time to meet all of our needs during the fiscal 2008 seasonal trough. Even if sufficient cash is realized, any or all of these actions may have adverse affects on our operating results and/or businesses.

We may also consider raising cash to meet the subsequent needs of our operations by issuing additional stock or debt, entering into partnership arrangements, liquidating assets, or other means. Should these actions be insufficient, we may be forced to liquidate other non essential assets, and significantly reduce overhead expenses.

Off Balance Sheet Items

On September 30, 2006, approximately $1.5 million of bank loans received by retail shop partners in the PoloExpress segment were guaranteed by our subsidiaries and are not reflected on our balance sheet because these loans have not been assumed by us. These guarantees were assumed by us when we acquired the PoloExpress business. We have guaranteed loans to shop partners for the purchase of store fittings in certain locations where we sell our products. The loans are secured by the store fittings purchased to outfit these retail stores.

Contractual Obligations

At September 30, 2006, we had contractual commitments to repay debt, to make payments under operating and capital lease obligations, to make pension contribution payments, and to purchase the remaining 7.5% interest in PoloExpress. Payments due under these long-term obligations are as follows:

(In thousands)	2007	2008	2009	2010	2011	Thereafter	Total
Debt	$ 23,546	$ 31,141	$ 2,711	$ 30,377	$ 589	$ -	$ 88,364
Estimated interest costs	6,972	4,827	4,013	1,981	49	-	17,842
Capital lease obligations	1,945	428	204	-	-	-	2,577
Operating lease commitments	22,115	17,549	13,162	9,663	7,246	23,676	93,411
Pension contributions	1,900	8,000	7,300	7,400	8,000	15,600	48,200
Postretirement benefits	2,962	2,856	2,794	2,735	2,668	11,654	25,669
Acquire remaining interest in PoloExpress	-	13,912	-	-	-	-	13,912
Total contractual cash obligations	$ 59,440	$ 78,713	$ 30,184	$ 52,156	$ 18,552	$ 50,930	$ 289,975

We have entered into standby letter of credit arrangements with insurance companies and others, issued primarily to guarantee our payments of workers compensation. At September 30, 2006, we had contingent liabilities of $3.0 million on commitments related to outstanding letters of credit.

Our operations enter into purchase commitments in the normal course of business.

We have $31.8 million classified as other long-term liabilities at September 30, 2006, including $13.9 million due to purchase the remaining 7.5% interest in PoloExpress in April 2008. The remaining $17.9 million of other long-term liabilities includes environmental and other liabilities, which do not have specific payment terms or other similar contractual arrangements.

Currently, we are not being audited by the Internal Revenue Service for any years. However, we are currently being audited in Germany for 1997 through 2002. Our noncurrent tax liability was $46.0 million at September 30, 2006. However, based on tax planning strategies, we do not anticipate having to satisfy the tax liability over the short-term. In March 2007, our tax liability was reduced by approximately $26.2 million due to the expiration of the related statute of limitations and closure of the related tax period.

At September 30, 2006, we have $4.8 million of unused alternative minimum tax credit carryforwards that do not expire and $187.6 million of federal operating loss carryforwards expiring as follows: $12.5 million in 2018; $60.9 million in 2019; $51.3 million in 2020; $4.2 million in 2021; $11.4 million in 2023; $21.9 million in 2024; and $25.4 million in 2025. As the periods of assessment for 1995 to 2003 have expired during 2007, additional tax may be collected from us only for 2004 to 2006. Tax losses of $204.8 million arising in years prior to 2006 may still be reduced for determining the proper amount of net operating loss available to be carried forward to years after 2003. The Company also has approximately $20.6 million of foreign income tax and $18.8 million of foreign trade tax loss carryforwards that have no expiration period. The Company's policy is to include deductions that are subject to contingencies in its disclosed net operating losses. The gains on the disposal of discontinued operations we reported between 1995 to 2006, for federal income tax, may be significantly increased if our tax position is not sustained with respect to the sales of several businesses; and the repayment with property, of debt under a bank credit agreement in which both we and our subsidiaries were liable, is not treated as tax free under Section 361 of the Internal Revenue Code of 1986, as amended. If all of these adjustments were made for 1995 to 2006, the federal income tax loss carryforwards might be substantially reduced, and we may be required to pay additional U.S. tax and interest of up to $26.2 million, which has already been provided. The amount of additional tax and interest to be paid by us depends on the amount of income tax audit adjustments, which are made and sustained for 2004 to 2006. These adjustments, if any, would be made at a future date, which is presently uncertain, and therefore we cannot predict the timing of cash outflows. To the extent a favorable final determination of the recorded income tax liabilities occurs, appropriate adjustments will be made to decrease the recorded tax liability in the year such favorable determination occurs.

Should any of these liabilities become immediately due, we may be obligated to obtain financing, raise capital, and/or liquidate assets to satisfy our obligations.

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 Liabilities*. SFAS No. 159 provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities, with changes in fair value recognized in earnings as they occur. SFAS No. 159 permits the fair value option election on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are currently evaluating the impact this new standard will have on our future results of operations and financial position.

In September 2006, the FASB published SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Pension Plans*, which amends SFAS No. 87, SFAS No. 88, SFAS No. 106, and SFAS No. 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. Statement 158 is effective for fiscal years ending after December 15, 2006. 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 accumulated comprehensive income (loss) of $17.0 million.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which is intended to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact this new standard will have on our future results of operations and financial position.

In July 2006, the FASB issued Interpretation No. (“FIN”) 48, *Accounting for Uncertainty in Income Taxes.* FIN 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 48 effective October 1, 2007. The cumulative effect of initially adopting FIN 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 48. We are currently evaluating the impact this new standard will have on our future results of operations and financial position.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* SFAS No. 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the entire instrument on a fair value basis. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. We are currently assessing the possible impact, if any, of implementing this standard.

In June 2005, the FASB published SFAS No. 154, *Accounting Changes and Error Corrections,* which requires retrospective application to prior periods' financial statements of every voluntary change in accounting principle unless it is impracticable. The Statement replaces Accounting Principles Board Opinion ("APB") No. 20, *Accounting Changes,* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements,* although it carries forward some of their provisions. The FASB believes that the Statement's requirements will enhance the consistency of financial information between periods and is the result of the FASB's efforts to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board toward development of a single set of high-quality accounting standards. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not anticipate any impact from adopting this new standard.

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations*. FIN 47 clarifies the term "conditional" as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*. This interpretation refers to a legal obligation to perform an asset retirement activity even if the timing and/or settlement is conditional on a future event that may or may not be within the control of an entity. Accordingly, the entity must record a liability for the conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. The adoption of FIN 47 did not have a material impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our ongoing business operations, including risks from changes in interest rates and foreign currency exchange rates that could impact our financial condition, results of operations and cash flows. We manage our exposure to these and other market risks through regular operating and financing activities. We may use derivative financial instruments on a limited basis as additional risk management tools and not for speculative investment purposes.

Interest Rate Risk: In May 2004, we issued a floating rate note with a principal amount of €25.0 million. Embedded within the promissory note agreement is an interest rate cap protecting one half of the €25.0 million borrowed. The embedded interest rate cap limits to 6% the 3-month EURIBOR interest rate that we must pay on the promissory note. We paid approximately $0.1 million to purchase the interest rate cap. In accordance with SFAS No. 133, the embedded interest rate cap is considered to be clearly and closely related to the debt of the host contract and is not required to be separated and accounted for separately from the host contract. We are accounting for the hybrid contract, comprised of the variable rate note and the embedded interest rate cap, as a single debt instrument. At September 30, 2006, the fair value of this instrument is nominal.

Essentially all of our other outstanding debt is variable rate debt. We are exposed to risks of rising interest rates, which could result in rising interest costs.

Foreign Currency Risk: We are exposed to foreign currency risks that arise from normal business operations. These risks include the translation of local currency balances of our foreign subsidiaries, intercompany loans with foreign subsidiaries and transactions denominated in foreign currencies. Our objective is to minimize our exposure to these risks through our normal operating activities and, if we deem it appropriate, we may consider utilizing foreign currency forward contracts in the future. For fiscal 2006, we estimate that approximately 74% of our total revenues were derived from customers outside of the United States, with approximately 71% of our total revenues denominated in currencies other than the U.S. dollar. We estimate that revenue and operating expenses for fiscal 2006 were lower by $4.3 million and $2.1 million, respectively, as a result of changes in exchange rates compared to fiscal 2005. At September 30, 2006, we had $41.9 million of working capital denominated in foreign currencies. At September 30, 2006, we had no outstanding foreign currency forward contracts. The following table shows the approximate split of these foreign currency exposures by principal currency at September 30, 2006:

	Euro	British Pound	Swiss Franc	Total Exposure
Revenues	80%	18%	2%	100%
Operating Expenses	82%	17%	1%	100%
Working Capital	85%	13%	2%	100%

A hypothetical 10% strengthening of the U.S. dollar during fiscal 2006 versus the foreign currencies in which we have exposure would have reduced revenue by approximately $20.0 million and reduced operating expenses by approximately $9.8 million, resulting in a $10.2 million improvement in our operating loss as compared to what was actually reported. Working capital at September 30, 2006, would have been approximately $3.8 million lower than actually reported, if we had used this hypothetical stronger U.S. dollar. These numbers were estimated using the different hypothetical rate for the entire year and applying it evenly to all non U.S. dollar transactions.

Inflation: We believe that inflation has not had a material impact on our results of operations for fiscal 2006. However, we cannot assure you that future inflation would not have an adverse impact on our operating results and financial condition.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

	Page
Report of KPMG LLP, Independent Registered Public Accounting Firm	33
Consolidated Balance Sheets as of September 30, 2006 and 2005	34
Consolidated Statements of Operations for the years ended September 30, 2006, 2005, and 2004	36
Consolidated Statements of Stockholders' Equity for the years ended September 30, 2006, 2005, and 2004	37
Consolidated Statements of Cash Flows for the years ended September 30, 2006, 2005, and 2004	38
Notes to Consolidated Financial Statements	39

Supplementary information regarding “Quarterly Financial Data (Unaudited)” is set forth under Item 8 in Note 18 to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
The Fairchild Corporation:

We have audited the accompanying consolidated balance sheets of The Fairchild Corporation and subsidiaries (the "Company") as of September 30, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended September 30, 2006. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule listed in Item 15(a)(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Fairchild Corporation and subsidiaries as of September 30, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth herein.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its consolidated financial statements as of September 30, 2005 and for each of the years ended September 30, 2005 and 2004.

/s/ KPMG LLP

McLean, Virginia
August 13, 2007

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

ASSETS	September 30, 2006	September 30, 2005 Restated
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,541	$ 12,582
Short-term investments - unrestricted	50,510	10,733
Short-term investments - restricted	6,002	4,965
Accounts receivable-trade, less allowances of $1,083 and $2,679	16,927	18,475
Inventories, less reserves for obsolescence of $15,223 and $15,118	106,718	90,856
Current assets of discontinued operations	-	1,509
Prepaid expenses and other current assets	10,795	8,122
Total Current Assets	199,493	147,242
Property, plant and equipment, net of accumulated depreciation of $24,989 and $18,453	58,698	57,468
Noncurrent assets of discontinued operations	-	79,373
Goodwill	14,128	13,961
Amortizable intangible assets, net of accumulated amortization of $1,673 and $1,073	1,279	1,729
Non-amortizable intangible assets	30,969	29,424
Prepaid pension assets	33,373	31,239
Deferred loan costs	3,170	1,839
Long-term investments - restricted	60,949	59,419
Long-term investments - unrestricted	4,370	10,233
Notes receivable	5,396	9,765
Other assets	3,304	6,947
TOTAL ASSETS	**$ 415,129**	**$ 448,639**

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2006	September 30, 2005 Restated
CURRENT LIABILITIES:		
Bank notes payable and current maturities of long-term debt	$ 25,492	$ 20,902
Accounts payable	26,325	22,602
Accrued liabilities:		
Salaries, wages and commissions	10,044	10,187
Insurance	7,357	7,335
Interest	1,810	443
Other accrued liabilities	28,304	18,588
Income taxes	2,314	1,029
Current liabilities of discontinued operations	62	1,540
Total Current Liabilities	101,708	82,626
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities	65,450	47,990
Fair value of interest rate contract	-	5,146
Other long-term liabilities	31,750	27,669
Pension liabilities	40,622	51,099
Retiree health care liabilities	26,008	27,459
Deferred tax liabilities	4,530	3,438
Noncurrent income taxes	39,923	38,385
Noncurrent liabilities of discontinued operations	16,120	53,481
TOTAL LIABILITIES	**326,111**	**337,293**
STOCKHOLDERS' EQUITY:		
Class A common stock, $0.10 par value; 40,000 shares authorized, 30,480 (30,480 in Sept. 2005) shares issued and 22,605 (22,605 in Sept. 2005); shares outstanding; entitled to one vote per share	3,047	3,047
Class B common stock, $0.10 par value; 20,000 shares authorized, 2,621 (2,621 in Sept. 2005) shares issued and outstanding; entitled to ten votes per share	262	262
Paid-in capital	232,612	232,457
Treasury stock, at cost, 7,875 (7,875 in Sept. 2005) shares of Class A common stock	(76,352)	(76,352)
Retained earnings (accumulated deficit)	(15,680)	21,619
Notes due from stockholders	(43)	(109)
Accumulated other comprehensive loss	(54,828)	(69,578)
TOTAL STOCKHOLDERS' EQUITY	**89,018**	**111,346**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 415,129**	**$ 448,639**

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

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

		Years Ended September 30,	
	2006	2005	2004
		Restated	Restated
REVENUE:			
Net sales	$ 308,641	$ 341,587	$ 318,132
Rental revenue	950	656	930
	309,591	342,243	319,062
COSTS AND EXPENSES:			
Cost of goods sold	185,712	211,582	196,409
Cost of rental revenue	238	169	163
Selling, general & administrative	155,364	163,734	145,136
Other income, net	(5,336)	(5,497)	(9,647)
Amortization of intangibles	542	560	537
Restructuring charges	-	-	563
	336,520	370,548	333,161
OPERATING LOSS	(26,929)	(28,305)	(14,099)
Interest expense	(11,498)	(13,143)	(12,154)
Interest income	2,997	1,716	1,555
Net interest expense	(8,501)	(11,427)	(10,599)
Investment income	2,923	5,920	3,733
Fair market value increase in interest rate contract	836	5,942	4,924
Loss from continuing operations before income taxes	(31,671)	(27,870)	(16,041)
Income tax (provision) benefit	(2,176)	1,048	8,953
Equity in loss of affiliates, net	(43)	(487)	(300)
Loss from continuing operations	(33,890)	(27,309)	(7,388)
Net loss from discontinued operations	(14,405)	(4,806)	(13,913)
Net gain on disposal of discontinued operations	13,600	13,575	9,522
Income tax (provision) benefit from discontinued operations	(2,604)	(825)	14,010
NET EARNINGS (LOSS)	$ (37,299)	$ (19,365)	$ 2,231
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE:			
Loss from continuing operations	$ (1.34)	$ (1.08)	$ (0.29)
Loss from discontinued operations, net	(0.58)	(0.19)	(0.56)
Gain on disposal of discontinued operations, net	0.54	0.54	0.38
Income tax (provision) benefit from discontinued operations	(0.10)	(0.03)	0.56
NET EARNINGS (LOSS)	$ (1.48)	$ (0.76)	$ 0.09
Weighted average shares outstanding:			
Basic and Diluted	25,226	25,224	25,192

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

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

	Class A Common Stock	Class B Common Stock	Paid-in Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Notes Due From Stockholders	Accumulated Other Comprehensive Loss	Total
lance, October 1, 03	$ 3,037	$ 262	$ 232,741	$ (76,459)	$ 38,129	$ (1,508)	$ (60,687)	$ 135,51
fect of restatement	-	-	-	-	624	-	-	62
stated balance, tober 1, 2003	3,037	262	232,741	(76,459)	38,753	(1,508)	(60,687)	136,13
mprehensive come:								
stated net earnings	-	-	-	-	2,231	-	-	2,23
mulative nslation justment	-	-	-	-	-	-	517	51
ange in fair rket value of cash w hedges	-	-	-	-	-	-	105	10
cess of additional nsion liability over recognized prior rvice cost	-	-	-	-	-	-	(1,811)	(1,81
t unrealized lding changes on ailable-for-sale curities	-	-	-	-	-	-	1,242	1,24
tal restated mprehensive come								2,28
oceeds from ckholders loan payments	-	-	-	-	-	447	-	44
oceeds received om stock options ercised	1	-	25	-	-	-	-	2
stated balance, ptember 30, 2004	3,038	262	232,766	(76,459)	40,984	(1,061)	(60,634)	138,89
mprehensive come (loss):								
stated net loss	-	-	-	-	(19,365)	-	-	(19,36
mulative nslation justment	-	-	-	-	-	-	(1,366)	(1,36
ange in fair rket value of cash w hedges	-	-	-	-	-	-	114	11

cess of additional nsion liability over recognized prior rvice cost	-	-	-	-	-	-	(7,457)	(7,45
t unrealized lding changes available-for-sale curities	-	-	-	-	-	-	(235)	(23
tal restated mprehensive loss								(28,30
oceeds received om deferred mpensation units ercised	9	-	(309)	300	-	-	-	
rchase of treasury ares	-	-	-	(193)	-	-	-	(19
oceeds from ockholders loan payments	-	-	-	-	-	952	-	95
stated balance, ptember 30, 2005	3,047	262	232,457	(76,352)	21,619	(109)	(69,578)	111,34
mprehensive come (loss):								
t loss	-	-	-	-	(37,299)	-	-	(37,29
mulative nslation justment	-	-	-	-	-	-	2,591	2,59
ange in fair rket value of cash w hedges	-	-	-	-	-	-	298	29
cess of additional nsion liability over recognized prior rvice cost	-	-	-	-	-	-	8,051	8,05
t unrealized lding changes available-for-sale curities	-	-	-	-	-	-	3,810	3,81
tal mprehensive loss								(22,54
mpensation pense from stock tions	-	-	155	-	-	-	-	15
oceeds from ockholders loan payments	-	-	-	-	-	66	-	6
lance, September , 2006	$ 3,047	$ 262	$ 232,612	$ (76,352)	$ (15,680)	$ (43)	$ (54,828)	$ 89,01

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

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

	Years Ended September 30,		
	2006	2005 Restated	2004 Restated
Cash flows from operating activities:			
Net earnings (loss)	$ (37,299)	$ (19,365)	$ 2,231
Depreciation and amortization	7,523	7,873	5,011
Deferred loan fee amortization	1,138	1,329	412
Gain on sale of property, plant, and equipment, net	(8)	(645)	(39)
Compensation expense from stock options	155	-	-
Equity in loss of affiliates, net of distributions	43	487	300
Unrealized holding gain on interest rate contract	(836)	(5,942)	(4,924)
Loss from impairments	-	2,894	1,206
Realized gain from sale and impairment of investments	(1,812)	(7,022)	(4,263)
Change in trading securities	(33,048)	8,097	32,518
Change in accounts receivable	1,798	9,975	(16,805)
Change in inventories	(15,862)	4,456	(16,520)
Change in prepaid expenses and other current assets	(2,673)	513	(3,613)
Change in other non-current assets	5,053	978	(19,956)
Change in accounts payable, accrued liabilities and other long-term liabilities	15,970	(8,226)	9,219
Non-cash charges and working capital changes of discontinued operations	(11,915)	(8,462)	2,122
Net cash used for operating activities	(71,773)	(13,060)	(13,101)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(7,777)	(11,668)	(12,260)
Proceeds from sale of plant, property and equipment	61	10,502	4,264
Change in available-for-sale investment securities, net	4,239	9,532	(18,577)
Equity investment in affiliates	-	(400)	-
Acquisitions, net of cash acquired	-	-	(75,495)
Net proceeds received from the sale of discontinued operations	54,561	18,500	5,736
Changes in notes receivable	4,001	963	152
Investing activities of discontinued operations	(98)	(627)	(1,104)
Net cash provided by (used for) investing activities	54,987	26,802	(97,284)
Cash flows from financing activities:			
Proceeds from issuance of debt	50,068	29,894	171,493
Debt repayments	(30,589)	(43,395)	(103,507)
Issuance of Class A common stock	-	-	26
Purchase of treasury stock	-	(193)	-
Payment of financing fees	(2,403)	(377)	(3,246)
Proceeds from stockholder loan repayments	66	952	447
Payment of interest rate contract	(4,310)	-	-
Financing activities of discontinued operations	(504)	(688)	51,409
Net cash provided by (used for) financing activities	12,328	(13,807)	116,622
Net change in cash and cash equivalents	(4,458)	(65)	6,237
Effect of exchange rate changes on cash	417	(202)	11

Cash and cash equivalents, beginning of the period		12,582		12,849		6,601
Cash and cash equivalents, end of the period	$	8,541	$	12,582	$	12,849

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

THE FAIRCHILD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Corporate Structure: The Fairchild Corporation was incorporated in October 1969, under the laws of the State of Delaware. We have 100% ownership interests, directly and indirectly, in Fairchild Holding Corp. and Banner Aerospace Holding Company I, Inc. Effective November 1, 2003 and January 2, 2004, Fairchild Holding Corp. acquired ownership interests in Hein Gericke, PoloExpress, and Fairchild Sports USA. Our principal operations are conducted through these entities. Our consolidated financial statements present the results of our former fastener business, Airport Plaza shopping center, Royal Oaks landfill, Fairchild Aerostructures, and APS as discontinued operations.

Nature of Business Operations: 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 such apparel in the United States. Our Aerospace segment stocks a wide variety of aircraft parts and distributes them to commercial airlines, and air cargo carriers, fixed-base operators, corporate aircraft operators and other aerospace companies worldwide.

Fiscal Year: Our fiscal year ends September 30. All references herein to "2006", "2005", or "2004" mean the fiscal years ended September 30, respectively.

Basis of Presentation: The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and include our accounts and all of the accounts of our subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts in our prior years' consolidated financial statements have been reclassified to conform to the 2006 presentation.

As more fully discussed in Note 2, the 2005 and 2004 consolidated financial statements presented herein have been restated.

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.

Revenue Recognition: Revenues in our PoloExpress and Hein Gericke segments are recognized immediately upon the sale of merchandise by our retail stores. Sales and related costs in our Aerospace segment are recognized on shipment of products and/or performance of services, when collection is probable. Shipping and handling amounts billed to customers are classified as revenues.

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

Concentration of Credit Risk: Financial instruments that potentially subject us to a concentration of credit risk consist principally of cash, cash equivalents, and trade receivables. We sell approximately 26% of our products throughout the world to a large number of customers, primarily in the aerospace industry. To reduce credit risk, we perform ongoing credit evaluations of our customers' financial condition. Generally, we do not require collateral. We invest available cash in money market securities of financial institutions with high credit ratings and United States treasury securities. We also invest restricted funds in longer term opportunities, which we believe will result in better rates of return. Investment portfolios are subject to fluctuations in market value.

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

(In thousands)	2006	2005	2004
Interest	$ 10,131	$ 13,488	$ 12,052
Income taxes	260	520	263

Restricted Cash and Investments: On September 30, 2006 and September 30, 2005, we had restricted investments of $67.0 million and $64.4 million, respectively, all of which are maintained as collateral for certain debt facilities, our interest rate contract, environmental matters, and escrow arrangements. The restricted funds are invested in money market funds, equity securities, U.S. government securities, or high investment grade corporate bonds. Restricted cash and investments are classified as short-term and long-term investments on September 30, 2006 and 2005 depending upon the length of the restriction period and are classified as available-for-sale securities.

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, net of tax, 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.

Accounts Receivable: Accounts receivable is stated at the amount we expect to collect. We provide an allowance for doubtful accounts equal to the estimated uncollectible amounts. Our estimate is based on historical collection experience and a review of the current status of trade accounts receivable. Account balances are charged against the allowance after collection efforts have been exhausted and the potential recovery is considered remote. It is reasonably possible that our estimate of allowance for doubtful accounts will change in the future. Changes in the allowance for doubtful accounts are as follows:

(In thousands)	2006	2005	2004
Beginning balance	$ 2,679	$ 2,775	$ 1,221
From acquired companies	-	-	1,983
Charges to cost and expenses	1,002	629	48
Charges to other accounts (a)	41	(183)	161
Amounts written off	(2,639)	(542)	(638)
Ending balance	$ 1,083	$ 2,679	$ 2,775

(a) Represent recoveries of amounts written off in prior periods and foreign currency translation adjustments.

Inventories: Inventories, all of which are finished goods, are stated at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excess quantities, and other factors in evaluating net realizable value. Changes in the reserve for obsolescence are as follows:

(In thousands)		2006		2005		2004
Beginning balance	$	15,118	$	13,681	$	7,765
From acquired companies		-		-		2,107
Charges to cost and expenses		768		3,378		4,320
Charges to other accounts (a)		196		(616)		155
Amounts written off		(859)		(1,325)		(666)
Ending balance	$	15,223	$	15,118	$	13,681

(a) Represent recoveries of amounts written off in prior periods and foreign currency translation adjustments.

Properties and Depreciation: The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. The cost of leasehold improvements is depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets. Our machinery and equipment is depreciated over a 5 to 10 year range. Depreciation is computed using the straight-line method for financial reporting purposes. Ordinary repairs and maintenance are expensed as incurred and major replacements and improvements are capitalized. Building and improvements are depreciated on a straight-line basis over an estimated useful life of 30 years. Depreciation expense was $7.0 million in fiscal 2006, $7.4 million in fiscal 2005, and $4.5 million in fiscal 2004. Property, plant and equipment consisted of the following:

	September 30,			
(In thousands)		2006		2005
Land	$	21,606	$	21,605
Building and improvements		11,482		11,616
Machinery and equipment		14,866		13,442
Transportation vehicles		7,134		6,471
Furniture and fixtures		24,838		19,237
Construction in progress		3,761		3,550
Property, plant and equipment, at cost		83,687		75,921
Less: Accumulated depreciation		24,989		18,453
Net property, plant and equipment	$	58,698	$	57,468

Leases: We recognize rental income and rental expense on a straight-line basis over the minimum contractual lease term. Lease incentives, if any, including free rent are also recognized on a straight line basis.

Goodwill and Intangible Assets: Goodwill and intangible assets deemed to have an indefinite life are tested for impairment annually, or immediately if conditions indicate that such an impairment could exist. We allocated to goodwill and intangible assets $36.0 million, as restated, of our purchase price associated with our fiscal 2004 acquisition of Hein Gericke, PoloExpress and Fairchild Sports USA. Approximately $33.6 million, as restated, of the intangible assets we acquired were determined to have indefinite lives. Acquired finite-lived intangibles are generally amortized on a straight-line basis over two to five years. In 2006, 2005, and 2004, we recognized $0.5 million, $0.6 million, and $0.5 million, respectively, of amortization expense for intangible assets with definite lives. We expect annual amortization expense will be approximately $0.5 million in each of the next two fiscal years.

Deferred Loan Costs: Costs incurred in connection with the issuance of debentures and credit facilities are deferred and amortized, using the effective interest method over the term of the agreements. Amortization expense of these loan costs was $1.1 million in 2006, $1.3 million in 2005, and $0.4 million in 2004.

Valuation of Long-Lived Assets: We review our long-lived assets for impairment, including property, plant and equipment, and identifiable intangibles with definite lives, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of our long-lived assets, we evaluate the probability that future undiscounted net cash flows will be greater than the carrying amount of our assets. Impairment is measured based on the difference between the carrying amount of our assets and their estimated fair value. Impairment charges of $2.9 million and $1.2 million were recorded in 2005 and 2004, respectively. Our decision in the fourth quarter of 2005 to no longer provide funds to our landfill development partnership caused impairment recognition of $2.9 million in fiscal 2005. The 2004 impairment charges included $1.2 million to write down the long-lived assets of a limited partnership interest which we are required to consolidate in accordance with Financial Accounting Standards Board Interpretation (“FIN”) No. 46R. The impairment charges in fiscal 2005 and fiscal 2004 were reclassified to Loss from discontinued operations, net as the amounts pertained to businesses we sold.

Environmental Liabilities: We recognize environmental cleanup liabilities when a loss is probable and can be reasonably estimated for liabilities that are not subject to insurance coverage. We estimate the cost of each environmental cleanup based on consultation with external specialists, based on current law, considering the estimated cost of investigation and remediation required and the likelihood that, where applicable, other potentially responsible parties will be able to fulfill their commitments at the sites where we may be jointly and severally liable. The process of estimating environmental cleanup liabilities is complex and dependent primarily on the nature and extent of historical information and physical data relating to a contaminated site, the complexity of the site, the uncertainty as to what remediation will be required and what technology will be employed therefor, and the outcome of discussions with regulatory agencies and other potentially responsible parties, at multi-party sites. In future periods, new laws or regulations, advances in cleanup technologies and additional information about the ultimate cleanup remediation methodology to be used could significantly change our estimates.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates would be recognized in income in the period that includes the enactment date. The Company maintains contingency reserves, including interest and penalties, for potential cash tax assessments made by federal, state and foreign taxing authorities as a component of its income tax expense. These amounts are computed based on the company's estimate of the tax liability associated with the settlement of various tax issues taken in various tax filings. The Company reassesses existing requirements, establishes new requirements for current year tax positions and releases existing requirements upon settlement of the requirement or expiration of the statute of limitations for a given tax year on a quarterly basis.

Other Obligations: We have $31.8 million classified as other long-term liabilities at September 30, 2006, including $13.9 million due to purchase the remaining 7.5% interest in PoloExpress in April 2008. The remaining $17.9 million of other long-term liabilities includes environmental and other liabilities, which do not have specific payment terms or other similar contractual arrangements.

Foreign Currency Translation: The financial position and operating results of our foreign operations are consolidated using the local currencies of the countries in which they are located as the functional currency. The balance sheet accounts are translated at exchange rates in effect at the end of the period, and income statement accounts are translated at average exchange rates during the period. The resulting translation gains and losses are included as a separate component of stockholders' equity. Foreign currency transaction gains and losses are included in other (income) expense, net in our statement of operations in the period in which they occur. In 2006 and 2004, we recognized $0.7 million and $1.1 million, respectively, of foreign currency transaction gains. In 2005, we recognized $0.1 million of foreign currency transaction losses.

Advertising Expense: We expense the production costs of advertising the first time the advertising takes place, except for direct response advertising. Direct response advertising consists primarily of catalog book production, printing, and postage costs, which is capitalized and amortized over its expected period of future benefits, not to exceed the remainder of the fiscal year when it is incurred. Advertising expense was $15.0 million for 2006, $18.6 million for 2005, and $16.2 million for 2004.

Research and Development: Company-sponsored research and development expenditures are expensed as incurred and were insignificant in 2006, 2005, and 2004.

Stock-Based Compensation: In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123R, *Share-Based Payment*. SFAS No. 123R amends certain aspects of SFAS No. 123, *Accounting for Stock-Based Compensation*, and now requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. In accordance with SFAS No. 123R, we have elected to implement SFAS No. 123R on a modified prospective basis, and to use the Black-Scholes valuation model in calculating fair value of the cost of stock-based employee compensation plans. That cost will be recognized on a straight-line basis over the period during which an employee is required to provide service in exchange for the award, (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. We adopted SFAS No. 123R on October 1, 2005, and accordingly, we recognized $0.2 million of compensation cost in fiscal 2006. No tax benefit and deferred tax asset were recognized on the compensation cost because of our domestic full valuation allowance against deferred tax assets. As of September 30, 2006, there was $0.1 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under our stock option plans. The cost is expected to be recognized over a weighted-average period of 3.8 years.

As permitted by SFAS No. 123 and prior to adoption of SFAS No. 123R, we used the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion ("APB") No. 25, for our stock-based employee compensation plans. Since the exercise price and the fair value of the underlying stock were the same on the grant date, no compensation cost was recognized for the granting of stock options to our employees in fiscal 2005 and 2004. If stock options previously granted were accounted for based on their fair value as determined under SFAS No. 123, our pro forma results for fiscal 2005 and 2004 would have been as follows:

(In thousands, except per share data)		2005		2004
Net earnings (loss), as restated	$	(19,365)	$	2,231
Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax		(150)		(334)
Pro forma	$	(19,515)	$	1,897
Basic and diluted earnings (loss) per share:				
As restated	$	(0.76)	$	0.09
Pro forma		(0.77)		0.08

The weighted average grant date fair value of options granted during 2006, 2005, and 2004, was $1.22, $1.42, and $3.12, respectively. The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model. The following significant assumptions were made in estimating fair value:

	2006	2005	2004
Risk-free interest rate	4.6%-5.0%	3.6%-4.2%	3.4%
Expected life in years	4.94	4.94	4.92
Expected volatility	60%-61%	61%-63%	72%
Expected dividends	None	None	None

For additional information on stock options see Note 10.

Derivative Instruments and Hedging Activities: The fair market value adjustment of our position in a ten-year $100 million interest rate contract improved by $0.8 million in fiscal 2006, $5.9 million in fiscal 2005, and $4.9 million in fiscal 2004. The fair market value adjustment of this agreement reflected increased interest rates in each period based upon the 3-month LIBOR implied forward interest rate curve, which caused the favorable change in fair market value of the interest rate contract in these periods. We settled the interest rate contract at the end of December 2005, and accordingly we will have no further income or loss from this contract.

Fair Value of Financial Instruments: The carrying amount reported in the consolidated balance sheets approximates the fair value for our cash and cash equivalents, investments, specified hedging agreements, short-term borrowings, current maturities of long-term debt, and all other variable rate debt (including borrowings under our credit agreements). The carrying amount of our other fixed rate long-term debt approximates fair value as determined by the market value of recent trades, or is estimated using discounted cash flow analyses, based on our current incremental borrowing rates for similar types of borrowing arrangements (See Note 6). Fair values of our other off-balance-sheet instruments (letters of credit, commitments to extend credit, and lease guarantees) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the other parties' credit standing.

Discontinued Operations: In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, which supersedes SFAS No. 121. Though it retains the basic requirements of SFAS No. 121 regarding when and how to measure an impairment loss, SFAS No. 144 provides additional implementation guidance. SFAS No. 144 applies to long-lived assets to be held and used or to be disposed of, including assets under capital leases of lessees; assets subject to operating leases of lessors; and prepaid assets. SFAS No. 144 also expands the scope of a discontinued operation to include a component of an entity, and eliminates the current exemption to consolidation when control over a subsidiary is likely to be temporary. This Statement was effective for our fiscal year beginning on July 1, 2002. Accordingly, we have accounted for the sales of the Airport Plaza shopping center, the Royal Oaks landfill, the fastener business, Fairchild Aerostructures, and APS as discontinued operations (See Note 21).

We include within discontinued operations interest expense attributable to debt directly related to operations included within discontinued operations.

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

Recently Issued Accounting Pronouncements: In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities*. SFAS No. 159 provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities, with changes in fair value recognized in earnings as they occur. SFAS No. 159 permits the fair value option election on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are currently evaluating the impact this new standard will have on our future results of operations and financial position.

In September 2006, the FASB published SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Pension Plans*, which amends SFAS No. 87, SFAS No. 88, SFAS No. 106, and SFAS No. 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. Statement 158 is effective for fiscal years ending after December 15, 2006. 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 accumulated other comprehensive income (loss) of $17.0 million.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which is intended to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact this new standard will have on our future results of operations and financial position.

In July 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes*. 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 separately presented. 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 and financial position.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* SFAS No. 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the entire instrument on a fair value basis. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. We do not expect a material impact from implementing this standard.

In June 2005, the FASB published SFAS No. 154, *Accounting Changes and Error Corrections,* which requires retrospective application to prior periods' financial statements of every voluntary change in accounting principle unless it is impracticable. The Statement replaces APB No. 20, *Accounting Changes,* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements,* although it carries forward some of their provisions. The FASB believes that the Statement's requirements will enhance the consistency of financial information between periods and is the result of the FASB's efforts to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board toward development of a single set of high-quality accounting standards. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not anticipate any impact from adopting this new standard.

2. RESTATEMENT

In January 2007, we announced that we would restate our previously filed consolidated financial statements because those financial statements were prepared applying accounting practices that did not comply with GAAP. Since the time of our announcement, we have devoted substantial efforts towards the completion of our restatement.

In this Annual Report on Form 10-K, we have restated our previously filed audited consolidated financial statements for fiscal 2005 and 2004, and our unaudited consolidated financial statements for the quarters ended June 30, 2006, March 31, 2006, and December 31, 2005. The restatement adjustments resulted in a cumulative net increase in retained earnings of $2.7 million as of June 30, 2006. This amount includes:

- A $0.6 million increase in earnings for periods prior to October 1, 2003 (as reflected in beginning retained earnings as of October 1, 2003);
- A $1.1 million decrease in earnings for fiscal 2004;
- A $1.9 million decrease in net loss for fiscal 2005; and
- A $1.3 million decrease in net loss for the nine months ended June 30, 2006 (see Note 18).

The cumulative restatement period extended through June 30, 2006, which is the last period for which we filed a periodic report with the SEC. We have classified our restatement adjustments into the three primary categories as set forth in the table below. These categories involve subjective judgments by management regarding classification of amounts and particular accounting errors that may fall within more than one category. While such classifications are not required under GAAP, management believes these classifications may assist investors in understanding the nature and impact of the corrections made in completing the restatement.

The following table summarizes the impact of the restatement adjustments on net income (loss) and basic and diluted income (loss) per share for fiscal 2005 and 2004.

	Years Ended September 30,	
(In thousands, except per share data)	2005	2004
Net income (loss), as previously reported	$ (21,284)	$ 3,361
Restatement adjustments for:		
Commitments and contingencies	1,565	(36)
Long-term investments	(833)	139
Income taxes	1,187	(1,233)
Net income (loss), as restated	$ (19,365)	$ 2,231
Basic and diluted earnings (loss) per share:		
As previously reported	$ (0.84)	$ 0.13
Total impact of restatement adjustments	0.08	(0.04)
As restated	$ (0.76)	$ 0.09

Income Taxes

We identified errors and omissions in the reporting of income tax for foreign operations, domestic operations, and tax contingencies.

Foreign Taxes

Upon the acquisition of Hein Gericke and PoloExpress in fiscal year 2004, we did not properly establish all necessary deferred tax balances required in purchase accounting. In addition, we did not accrue the deferred tax expense associated with a change in German tax law enacted in December 2003, which limits our ability to fully offset certain indefinite lived deferred tax liabilities with tax loss carryforwards. In addition, we improperly treated the recovery of acquired deferred tax assets previously reserved through a valuation allowance as a tax benefit as opposed to a change in goodwill and failed to disclose the deferred taxes, tax loss carryforwards, and associated valuation allowances related to foreign operations in our footnotes. These errors resulted in establishment of a net deferred tax liability and additional goodwill of $3.0 million as of November 1, 2003 and an additional tax expense of $1.2 million for the year ending September 30, 2004, and an additional tax benefit of $0.2 million for the year ending September 30, 2005. As of September 30, 2005, the restatement adjustments associated with this error resulted in a $1.1 million decrease in retained earnings, an increase in total liabilities of $3.4 million, and a $2.3 million increase in total assets.

Domestic Taxes

The Company had accounted for its domestic deferred taxes using only the Federal tax rate. The Company is restating to include an appropriate state tax rate, net of federal tax effect. This change will impact only the disclosure of deferred taxes as a result of the application of a full valuation allowance to the net deferred tax asset related to domestic operations.

The company had not appropriately allocated its fiscal 2005 income tax provision between continuing operations and discontinued operations. This reduced the income tax provision from continuing operations by $3.2 million, resulting in an income tax benefit, and reduced the income tax benefit from discontinued operations by $3.2 million, resulting in an income tax provision from discontinued operations. This did not impact the Company's financial position, cash flows, or net income.

Tax Contingencies

We identified errors and omissions in the reporting of noncurrent income tax liabilities. Items affecting noncurrent income tax liability related to a reserve for potential deduction disallowance, which was not necessary. This resulted in an increase to retained earnings and a related decrease to noncurrent income tax liabilities of $2.3 million as of October 1, 2003 and a decrease to loss from discontinued operations of $0.2 million for each of the years ending September 30, 2004 and September 30, 2005. As of September 30, 2005, the restatement adjustments associated with these errors resulted in a $2.6 million increase in retained earnings and a corresponding decrease in total liabilities.

We also identified errors regarding the interest rates used to calculate interest on potential tax liabilities. These related to interest on taxes and certain tax income and loss items, resulting in increased retained earnings and decreased noncurrent tax liability of $0.5 million as of October 1, 2003. Additionally, the restatement adjustments associated with these errors resulted in an increase of $0.6 million to tax provision and a decrease of $0.4 million to loss from discontinued operations for the year ending September 30, 2004 and a decrease of $0.8 million in loss from discontinued operations for the year ending September 30, 2005. The restatement adjustments associated with these errors resulted in a cumulative increase in retained earnings and a decrease in total liabilities of $1.2 million as of September 30, 2005.

The Company's net operating loss carryforward previously included an amount related to a tax benefit which required the Company to make an investment within a stated period of time. The Company did not make the required investment and therefore the benefit and corresponding valuation allowance should have been removed from its deferred taxes. As a result, the Company has corrected its disclosure to reduce its net operating loss carryforward and the valuation allowance at June 30, 2006 by $3.5 million to remove this tax benefit. The correction of this error had no impact on the financial position, results of operation or cash flows for any of the periods presented.

Commitments and Contingencies

We identified three errors associated with our commitments and contingencies. The first of these errors was that we did not record a liability for our death benefit payment obligation for retirees of businesses that were shut down approximately 22 years ago by a previous owner. This resulted in a $2.0 million decrease to retained earnings and a related increase in liabilities as of October 1, 2003. The restatement adjustments associated with this error resulted in a decrease in retained earnings and an increase in total liabilities of $1.9 million as of September 30, 2005. Additionally, the restatement adjustments associated with this error resulted in a decrease to interest expense of $0.2 million and an increase of $0.1 million to loss from discontinued operations for the year ended September 30, 2004 as well as a decrease to interest expense and an increase to loss from discontinued operations of $0.1 million for the year ended September 30, 2005, respectively.

Additionally, we incorrectly applied SFAS No. 5, *Accounting for Contingencies*, in recording our potential liability related to claims by the Ohio Workers Compensation Bureau for reimbursement of workers compensation costs related to a business we sold more than 20 years ago, about which we received no communication for 9 years prior to 2005. The restatement adjustments associated with this error resulted in a increase in retained earnings and a decrease in total liabilities of $1.5 million as of September 30, 2005. Additionally, the restatement adjustments associated with this error resulted in a decrease to loss from discontinued operations of $1.5 million for the year ended September 30, 2005.

Finally, we incorrectly applied SFAS No. 13, *Accounting for Leases*, as we previously had not straight-lined our rent expense for all our facility leases associated with our PoloExpress and Hein Gericke segments. The restatement adjustments associated with this error resulted in a decrease in retained earnings and an increase in total liabilities of $0.1 million as of September 30, 2005. Additionally, the restatement adjustments associated with this error resulted in an increase to operating expenses of $0.1 million for the year ended September 30, 2004.

Long-Term Investments

We identified two errors associated with our long-term investments. The first of these errors was that we inappropriately characterized our investment in the operator of a hotel and casino located in Northern Cyprus ("Voyager Kibris") as an equity investment after a note receivable due to us from a partial owner of Voyager Kibris was restructured and exchanged for a 30% investment interest in Voyager Kibris and a consulting arrangement. The Company previously recognized its share of the Voyager Kibris net losses as well as the cash received under the consulting arrangement as Equity in loss of affiliates. This investment should have been accounted for as a note receivable due to rights we retained. Additionally, the cash received from Voyager Kibris should have been recorded as a collection against our note receivable. This resulted in a $0.2 million decrease to retained earnings and a related decrease in assets as of October 1, 2003. The balance sheet restatement adjustments associated with this error resulted in a decrease in retained earnings and a decrease in total assets of $0.4 million as of September 30, 2005. The statement of operations restatement adjustments associated with this error resulted in a decrease to equity in loss of affiliates of $0.1 million for the year ended September 30, 2004 and an increase to equity in loss of affiliates of $0.3 million for the year ended September 30, 2005.

Secondly, the Company received a note receivable in a structured settlement related to an existing receivable. We did not appropriately discount the note receivable for imputed interest. The balance sheet restatement adjustments associated with this error resulted in a decrease in retained earnings and a decrease in total assets of $0.4 million as of September 30, 2005. The statement of operations restatement adjustments associated with this error resulted in a decrease to other income of $0.4 million for the year ended September 30, 2005.

Financial Statement Impact

The following tables display the net impact of restatement adjustments in the previously issued consolidated financial statements. The following consolidated financial statements are presented in a condensed format.

Balance Sheet Impact

The following table displays the cumulative impact of the restatement on the condensed consolidated balance sheet as of September 30, 2005.

		Restatement Adjustments for:				
(In thousands)	As Previously Reported (a)	Income Taxes	Commitments and Contingencies	Long-Term Investments	Total Restatement Adjustments	As Restated
Assets:						
Cash, cash equivalents, and investments	$ 97,932	-	-	-	$ -	$ 97,932
Accounts receivable-trade, net	18,475	-	-	-	-	18,475
Inventories, net	90,856	-	-	-	-	90,856
Property, plant, and equipment, net	57,468	-	-	-	-	57,468
Intangible assets, net	42,665	2,449	-	-	2,449	45,114
Prepaid pension assets	31,239	-	-	-	-	31,239
Assets of discontinued operations	80,882	-	-	-	-	80,882
Other assets	27,543	(68)	-	(802)	(870)	26,673
Total assets	$ 447,060	$ 2,381	$ -	$ (802)	$ 1,579	$ 448,639
Liabilities and Stockholders' Equity						
Liabilities:						
Debt	$ 68,892	$ -	$ -	$ -	$ -	$ 68,892
Accounts payable and accrued liabilities	58,944	-	122	89	211	59,155
Postretirement liabilities	78,558	-	-	-	-	78,558

Tax liabilities	43,267	(415)	-	-	(415)	42,852
Liabilities of discontinued operations	55,021	-	-	-	-	55,021
Other liabilities	32,460	-	355	-	355	32,815
Total liabilities	337,142	(415)	477	89	151	337,293
Stockholders' equity:						
Paid-in-capital	232,457	-	-	-	-	232,457
Retained earnings (accumulated deficit)	20,206	2,781	(477)	(891)	1,413	21,619
Accumulated other comprehensive loss	(69,593)	15	-	-	15	(69,578)
Other stockholders' equity	(73,152)	-	-	-	-	(73,152)
Total stockholders' equity	109,918	2,796	(477)	(891)	1,428	111,346
Total liabilities and stockholders' equity	$ 447,060	$ 2,381	$ -	$ (802)	$ 1,579	$ 448,639

(a) *Certain previously reported balances have been reclassified to conform to the current condensed consolidated balance sheet presentation, including reclassification to discontinued operations 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 stockholders' equity in the condensed consolidated balance sheet as of September 30, 2003.

(In thousands)	Retained Earnings	Accumulated Other Comprehensive Loss	Other Stockholders' Equity	Total Stockholders' Equity
September 30, 2003 balance, as previously reported	$ 38,129	$ (60,687)	$ 158,073	$ 135,515
Restatement adjustments for:				
Commitments and contingencies	(2,005)	-	-	(2,005)
Long-term investments	(199)	-	-	(199)
Pre-tax total impact of restatement adjustments	(2,204)	-	-	(2,204)
Restatement adjustments for income taxes	2,828	-	-	2,828
Tax impact (benefit) of restatement adjustments	-	-	-	-
Total impact of restatement adjustments	624	-	-	624
September 30, 2003 balance, as restated	$ 38,753	$ (60,687)	$ 158,073	$ 136,139

Statement of Operations Impact

The following table displays the cumulative impact of the restatement on the condensed consolidated statements of operations for fiscal 2005.

		Restatement Adjustments for:				
(In thousands)	As Previously Reported (a)	Income Taxes	Commitments and Contingencies	Long-term Investments	Total Restatement Adjustments	As Restated
Revenues	$ 342,243	$ -	$ -	$ -	$ -	$ 342,243
Cost of revenues	211,751	-	-	-	-	211,751
Other operating expenses	158,300	-	85	412	497	158,797
Operating loss	(27,808)	-	(85)	(412)	(497)	(28,305)
Interest expense, net	(11,577)	-	150	-	150	(11,427)
Investment income	6,009	-	-	(89)	(89)	5,920
Fair market value increase in interest rate contract	5,942	-	-	-	-	5,942
Loss from continuing operations before income taxes	(27,434)	-	65	(501)	(436)	(27,870)
Income tax (provision) benefit	(2,294)	3,342	-	-	3,342	1,048
Equity in loss of affiliates, net	(155)	-	-	(332)	(332)	(487)
Loss from continuing operations	(29,883)	3,342	65	(833)	2,574	(27,309)
Loss from discontinued operations, net	(6,306)	-	1,500	-	1,500	(4,806)
Gain on disposal of discontinued operations, net	13,575	-	-	-	-	13,575
Income tax benefit from discontinued operations	1,330	(2,155)	-	-	(2,155)	(825)
Net earnings (loss)	$ (21,284)	$ 1,187	$ 1,565	$ (833)	$ 1,919	$ (19,365)

(a) Certain previously reported balances have been reclassified to conform to the current condensed consolidated balance sheet presentation, including reclassification to discontinued operations 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 fiscal 2004.

		Restatement Adjustments for:				
(In thousands)	As Previously Reported (a)	Income Taxes	Commitments and Contingencies	Long-term Investments	Total Restatement Adjustments	As Restated
Revenues	$ 319,062	$ -	$ -	$ -	$ -	$ 319,062
Cost of revenues	196,572	-		-	-	196,572
Other operating expenses	136,383	-	206	-	206	136,589
Operating loss	(13,893)	-	(206)	-	(206)	(14,099)
Interest expense, net	(10,768)	-	169	-	169	(10,599)
Investment income	3,733	-	-	-	-	3,733
Fair market value increase in interest rate contract	4,924	-	-	-	-	4,924
Loss from continuing operations before income taxes	(16,004)	-	(37)	-	(37)	(16,041)
Income tax (provision) benefit	10,761	(1,808)	-	-	(1,808)	8,953
Equity in loss of affiliates, net	(439)	-	-	139	139	(300)
Loss from continuing operations	(5,682)	(1,808)	(37)	139	(1,706)	(7,388)
Loss from discontinued operations, net	(13,914)	-	1	-	1	(13,913)
Gain on disposal of discontinued operations, net	9,522	-	-	-	-	9,522
Income tax benefit from discontinued operations	13,435	575	-	-	575	14,010
Net earnings (loss)	$ 3,361	$ (1,233)	$ (36)	$ 139	$ (1,130)	$ 2,231

(a) *Certain previously reported balances have been reclassified to conform to the current condensed consolidated balance sheet presentation, including reclassification to discontinued operations 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 cash flows for fiscal 2005 and 2004.

	For the Year Ended September 30, 2005			For the Year Ended September 30, 2004		
(In thousands)	As Previously Reported	Total Restatement Adjustments (a)	As Restated	As Previously Reported	Total Restatement Adjustments (b)	As Restated
Net cash flows used in operating activities	$ (13,959)	$ 899	$ (13,060)	$ (15,559)	$ 2,458	$ (13,101)
Net cash flows provided by investing activities	27,701	(899)	26,802	(94,826)	(2,458)	(97,284)
Net cash flows provided by financing activities	(13,807)	-	(13,807)	116,622	-	116,622
Net increase (decrease) in cash and cash equivalents	(65)	-	(65)	6,237	-	6,237

Effect of exchange rate changes on cash	(202)	-	(202)	11	-	11
Cash and cash equivalents, beginning of the period	12,849	-	12,849	6,601	-	6,601
Cash and cash equivalents, end of the period	$ 12,582	$ -	$ 12,582	$ 12,849	$ -	$ 12,849

(a) The primary impact to both operating and investing cash flows in fiscal 2005 resulted from the restatement adjustment associated with our investment in Voyager Kibris.

(b) The primary impact to both operating and investing cash flows in fiscal 2004 resulted from the restatement adjustment associated with the additional goodwill related to the establishment of the necessary deferred taxes as part of the acquisition of Hein Gericke and PoloExpress.

3. ACQUISITIONS

On November 1, 2003, we acquired for $45.5 million (€39.0 million) substantially all of the worldwide business of Hein Gericke and the capital stock of Fairchild Sports USA from the Administrator for Eurobike AG in Germany. Also on November 1, 2003, we acquired for $23.4 million (€20.0 million) from the Administrator for Eurobike AG and from two subsidiaries of Eurobike AG all of their respective ownership interests in PoloExpress and receivables owed to them by PoloExpress. We used available cash from investments that were sold to pay the Administrator $14.8 million (€12.5 million) on November 1, 2003, and borrowed $54.1 million (€46.5 million) from the Administrator at a rate of 8%, per annum. On May 5, 2004 we received financing from two German banks and paid the note due to the Administrator. The aggregate purchase price for these acquisitions was approximately $68.9 million (€59.0 million), including $15.0 million (€12.9 million) of cash acquired.

On January 2, 2004, we acquired for $18.8 million (€15.0 million) all but 7.5% of the interest owned by Mr. Klaus Esser in PoloExpress. Mr. Esser retained a 7.5% ownership interest in PoloExpress, but Fairchild has the right to call this interest at any time from March 2007 to October 2008, for a fixed purchase price of €12.3 million ($15.6 million at September 30, 2006). Mr. Esser has the right to put such interest to us at any time during April of 2008 for €12.0 million ($15.2 million at September 30, 2006). On January 2, 2004, we used available cash to pay Mr. Esser $18.8 million (€15.0 million) and provided collateral of $15.0 million (€12.0 million) to a German bank to issue a guarantee to Mr. Esser to secure the price for the put Mr. Esser has a right to exercise in April of 2008. The transaction includes an agreement with Mr. Esser under which he agrees with us not to compete with PoloExpress for two years. We also signed an employment agreement with Mr. Esser through December 31, 2008. Through September 30, 2006, in addition to his base salary, Mr. Esser received a profit distribution of approximately €1.0 million, which reduces, on a Euro for Euro basis, the call or put option price we must pay for his interest. As of September 30, 2006, the €11.0 million ($14.7 million) collateralized obligation for the put option, net of distributions, was included in other long-term liabilities. The €11.0 million ($14.7 million) restricted cash is invested in a capital protected investment and money market funds, and is included in long-term investments.

The total purchase price exceeded the estimated fair value of the net assets acquired by approximately $36.0 million, as restated. The excess of the purchase price over net tangible assets was all allocated to identifiable intangible assets, including brand names “Hein Gericke” and “Polo”, and is reflected in goodwill and intangible assets in the consolidated financial statements as of September 30, 2006. Since their acquisition on November 1, 2003, we have consolidated the results of Hein Gericke, PoloExpress and Fairchild Sports USA into our financial statements.

Hein Gericke, including Fairchild Sports USA, and PoloExpress are highly seasonal businesses with an historic trend for higher volumes of sales and profits during March through September, when the weather in Europe is more favorable for individuals to use their motorcycles than during October to February. We acquired these companies because we believe they have potential upside, and may provide a platform for other entrees into related leisure businesses. The acquired companies are European leaders of their industry, and opportunities for expansion are significant in Europe and the United States. At September 30, 2006, Hein Gericke operated 145 retail shops in Austria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Turkey, and the United Kingdom and PoloExpress operated 91 retail shops in Germany and two shops in Switzerland. Fairchild Sports USA, located in Tustin, California, is a designer and distributor of motorcycle clothing and other apparel under several labels, including Hein Gericke. In addition, Fairchild Sports USA designs and sells apparel under private labels for third parties. This acquisition has lessened our dependence on the aerospace industry.

4. GOODWILL AND INTANGIBLE ASSETS

Intangible assets with finite lives are amortized over their estimated useful lives. Instead of amortizing goodwill and intangible assets deemed to have an indefinite life, goodwill is tested for impairment annually, or immediately if conditions indicate that such impairment could exist. We have selected to perform our annual assessment for impairment in our fourth quarter. The determination of impairment is a two-step process. The first step compares the carrying value of a reporting unit to the fair value of a reporting unit with goodwill. If the fair value of the reporting unit is less than the carrying value, a second step is performed to determine the amount of goodwill impairment. The second step allocates the fair value of the reporting unit to the reporting unit’s net assets other than goodwill. The excess of the fair value of the reporting unit over the amounts assigned to its net assets other than goodwill is considered the implied fair value of the reporting unit’s goodwill. The implied fair value of the reporting unit’s goodwill is then compared to the carrying value of its goodwill and any shortfall represents the amount of goodwill impairment. The fair market value of a reporting unit is determined by considering the market prices of comparable businesses and the present value of cash flow projections.

Changes in the carrying amount of goodwill by segment were as follows:

(In thousands)		September 30, 2004	Translation Adjustment	September 30, 2005	Translation Adjustment		September 30, 2006
PoloExpress, restated	$	3,221	(81)	3,140	167	$	3,307
Aerospace		10,821	-	10,821	-		10,821
Total	$	14,042	(81)	13,961	167	$	14,128

The components of intangible assets, all of which pertain to our PoloExpress and Hein Gericke segments, were as follows:

(In thousands)	September 30, 2004	Amortization	Translation Adjustment	September 30, 2005	Amortization	Translation Adjustment	September 30, 2006
Trademarks	$ 30,398	-	(974)	29,424	-	1,545	$ 30,969
Customer relationships	2,312	(519)	(72)	1,721	(533)	91	1,279
Other	53	(41)	(4)	8	(8)	-	-
Total	$ 32,763	(560)	(1,050)	31,153	(541)	1,636	$ 32,248

5. CASH EQUIVALENTS AND INVESTMENTS

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

	September 30, 2006		September 30, 2005	
	Aggregate		Aggregate	
(In thousands)	Fair Value	Cost Basis	Fair Value	Cost Basis
Cash and cash equivalents:				
U.S. government securities	$ -	$ -	$ 16	$ 16
Money market and other cash funds	8,541	8,541	12,566	12,566
Total cash and cash equivalents	8,541	8,541	12,582	12,582
Short-term investments:				
Money market funds – available-for-sale – restricted	6,002	6,002	4,965	4,965
Corporate bonds – trading securities	42,919	42,919	-	-
Equity securities – trading securities	2,459	2,459	10,733	10,733
Equity and equivalent securities – available-for-sale	5,132	825	-	-
Total short-term investments	56,512	52,205	15,698	15,698
Long-term investments:				
U.S. government securities – available-for-sale – restricted	512	512	9,547	9,547
Money market funds – available-for-sale – restricted	10,313	10,313	10,438	10,438
Corporate bonds – available-for-sale – restricted	28,934	29,326	23,741	24,319
Equity and equivalent securities – available-for-sale – restricted	9,275	7,984	4,247	3,500
Other securities – available-for-sale - restricted	11,915	11,565	11,446	11,565
Equity and equivalent securities – available-for-sale	-	-	5,309	3,612
Other investments, at cost	4,370	4,370	4,924	4,924
Total long-term investments	65,319	64,070	69,652	67,905
Total cash equivalents and investments	$ 130,372	$ 124,816	$ 97,932	$ 96,185

On September 30, 2006 and 2005, we had restricted investments of $67.0 million and $64.4 million, respectively, all of which are maintained as collateral for certain debt facilities, our interest rate contract, the Esser put option, environmental matters, and escrow arrangements. On September 30, 2006 and 2005, cash of $3.4 million and $9.1 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 6.

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. On September 30, 2005, we had gross unrealized holding gains from available-for-sale securities of $2.4 million and gross unrealized losses from available-for-sale securities of $0.7 million. We use the specific identification method to determine the gross realized gains (losses) from sales of available-for-sale securities. Investment income (loss) is summarized as follows:

(In thousands)	2006	2005	2004
Gross realized gain from sales of available-for-sale securities	$ 873	$ 262	$ 42
Gross realized loss from sales of available-for-sales securities	-	(191)	(141)
Gross realized gain from sales of trading securities	667	183	411
Gross realized loss from sales of trading securities	(200)	(6)	(35)
Change in unrealized holding gain (loss) from trading securities	475	746	(479)
Gross realized loss from impairments	-	(825)	-
Dividend income, restated	1,108	5,751	3,935
	$ 2,923	$ 5,920	$ 3,733

The maturities of debt securities, including fixed maturity securities, at September 30, 2006 were as follows:

(In thousands)	Fair Value	Cost Basis
Due in one year or less	$ 29,065	$ 29,457
Due after ten years	43,300	43,300
	$ 72,365	$ 72,757

6. NOTES PAYABLE AND LONG-TERM DEBT

At September 30, 2006 and 2005, notes payable and long-term debt consisted of the following:

	September 30,			
	2006		2005	
(In thousands)	Amount	Average Rate	Amount	Average Rate
Revolving credit facilities – Fairchild Sports	$ 11,425	6.9%	$ 8,917	5.6%
Current maturities of long-term debt	14,067		11,985	
Total notes payable and current maturities of long-term debt	25,492		20,902	
Golden Tree term loan – Corporate	30,000	12.8%	-	-
Term loan agreement – Fairchild Sports	17,382	4.6%	25,301	3.7%
Promissory note – Corporate	13,000	11.5%	13,000	10.3%
CIT revolving credit facility – Aerospace	9,603	9.3%	8,164	7.8%
GMAC credit facility – Fairchild Sports	3,118	7.0%	3,650	6.8%
Other notes payable, collateralized by assets	3,837	6.7%	5,263	4.1%
Capital lease obligations	2,577	8.9%	4,597	9.0%
Less: current maturities of long-term debt	(14,067)		(11,985)	
Net long-term debt	65,450		47,990	
Total debt	$ 90,942		$ 68,892	

Term Loan at Corporate

On May 3, 2006, we entered 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 the initial interest rate of 12.75% fixed for the first nine months. 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 secured 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% 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% in year one, 2% in year two, or 1% 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 PoloExpress or Hein Gericke segments (with an exception for the existing loans); and repurchases by us of our outstanding stock. The Available Amount was $57.7 million at September 30, 2006.

During the term of the loan:

- We must maintain cash, cash equivalents, or public securities that meet or exceed a minimum liquidity threshold between $10 million and $20 million. At September 30, 2006, 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.

Subsequent to September 30, 2006, and directly resulting from the financial statement restatement process, we were unable to provide to the lenders timely financial statements for the year ended September 30, 2006, and the quarters ended December 31, 2006, March 31, 2007, and June 30, 2007, as required by the credit agreement. Our lenders have waived certain provisions in the credit agreement and granted us an extension in time to provide these financial statements.

Credit Facilities at Hein Gericke

On March 1, 2006, our Hein Gericke segment entered into an €11.0 million ($14.0 million at September 30, 2006) 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 2.75% over the three-month Euribor rate (6.13% at September 30, 2006) and 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 facility €10.0 million ($12.7 million) for the 2007 season. The seasonal financing facility is 80% guaranteed by the German State of North Rhine-Westphalia.

At September 30, 2006, our German subsidiary, Hein Gericke Deutschland GmbH, and its German subsidiary, PoloExpress, had outstanding borrowings of $28.8 million due under its credit facilities with Stadtsparkasse Düsseldorf and HSBC Trinkaus & Burkhardt AG. The revolving credit facility provides a credit line of €10.0 million ($11.4 million outstanding, and $1.3 million available at September 30, 2006), at interest rates of 3.5% over the three-month Euribor (6.9% at September 30, 2006), and matures annually. Outstanding borrowings under the term loan facility have blended interest rates, with $15.0 million (€11.8 million) bearing interest at 1% over the three-month Euribor rate (4.4% at September 30, 2006), with an interest rate cap protection in which our interest expense would not exceed 6% on 50% of debt, and the remaining $2.4 million (€1.9 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. On November 30, 2006, HSBC Trinkaus & Burkhardt AG formally committed to provide one half of the seasonal facility on a permanent basis. Accordingly, €10.0 million will be available from the seasonal facility and utilized to finance the fiscal 2007 seasonal trough to support our PoloExpress operations.

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 ($56.5 million at September 30, 2006), as defined in the loan contracts. 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 September 30, 2006, Hein Gericke borrowed approximately $4.2 million (€3.3 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. At September 30, 2006, inventory and accounts receivable at Hein Gericke Deutschland and PoloExpress were €65.1 million, which exceeded by €15.1 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 its net debt position. At September 30, 2006, we were in compliance with the loan covenants.

At September 30, 2006, our subsidiary, Hein Gericke UK Ltd had outstanding borrowings of $3.1 million (£1.7 million) on its £5.0 million ($9.4 million) credit facility with GMAC. The loan bears interest at 2.25% above the base rate of Lloyds TSB Bank Plc (7.0% at September 30, 2006) and matures on April 30, 2007. 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 $4.5 million at September 30, 2006. The most restrictive covenant requires Hein Gericke UK to maintain a minimum earnings before interest, taxes, depreciation, and amortization ("EBITDA") as defined. At September 30, 2006, Hein Gericke UK missed its EBITDA target by approximately £0.3 million ($0.5 million). GMAC granted a waiver of the covenant violation as of September 30, 2006 and revised the future covenant requirements.

Credit Facility at Aerospace Segment

At September 30, 2006, we had outstanding borrowings of $9.6 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 $4.0 million was available for future borrowings at September 30, 2006. 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 September 30, 2006) and we pay a non-usage fee of 0.5%. The credit facility matures in January 2008.

Promissory Note – Corporate

At September 30, 2006, 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 CA, Fullerton CA, and Wichita KS. Interest on the note is at the rate of one-year LIBOR (determined on an annual basis), plus 6% (11.47% at September 30, 2006), 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 5% if prepaid between September 2005 and September 2006, and 3% if prepaid between September 2006 and October 30, 2007. On September 30, 2006, approximately $1.2 million of the loan proceeds were held in escrow to fund specific improvements to the mortgaged property.

Guarantees

At September 30, 2006, we included $1.2 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 Hein Gericke segment and are collateralized by the fittings in the stores of the shop partners for whom we have guaranteed indebtedness. In addition, at September 30, 2006, approximately $1.5 million of bank loans received by retail shop partners in the Hein Gericke segment were guaranteed by our subsidiaries prior to our acquisition of the PoloExpress and Hein Gericke businesses 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 September 30, 2006, we had contingent liabilities of $3.0 million, on commitments related to outstanding letters of credit which were secured by restricted cash collateral.

Debt Maturity Information

The annual maturity of our bank notes payable and long-term debt obligations (exclusive of capital lease obligations) for each of the five years following September 30, 2006, are as follows: $23.5 million for 2007; $31.1 million for 2008; $2.7 million for 2009; $30.4 million for 2010; and $0.6 million for 2011; and none thereafter.

7. PENSIONS AND POSTRETIREMENT BENEFITS

Defined Benefit Plans

The Company and its subsidiaries sponsor three qualified defined benefit pension plans, one supplemental executive retirement plan, and several other postretirement benefit plans. We use a September 30 measurement date for all of our plans. The following table sets forth the benefit obligation; fair value of plan assets; and the funded status of our plans:

	Pension Benefits September 30,		Postretirement Benefits (a) September 30,	
(In thousands)	2006	2005	2006	2005
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 198,441	$ 201,522	$ 34,859	$ 51,302
Service cost	391	534	26	42
Interest cost	10,589	11,529	1,920	2,901
Plan participants' contributions	-	-	791	1,001
Amendments	(3)	(4,307)	(2,569)	(15,575)
Actuarial (gain) loss	(9,530)	7,026	(3,989)	805
Settlements	-	(965)	-	-
Benefits paid	(21,549)	(16,898)	(4,853)	(5,617)
Benefit obligation at end of year	178,339	198,441	26,185	34,859
Change in plan assets:				
Fair value of plan assets at beginning of year	163,282	169,189	-	-
Actual return on plan assets	4,630	10,468	-	-
Employer contribution	4,251	820	4,062	4,616
Plan participants' contributions	-	-	791	1,001
Expenses	(2)	(302)	-	-
Benefits paid	(21,549)	(16,893)	(4,853)	(5,617)
Fair value of plan assets at end of year	150,612	163,282	-	-
Funded status	(27,727)	(35,159)	(26,185)	(34,859)
Unrecognized net actuarial loss	80,691	85,373	16,414	21,703
Unrecognized prior service cost	1,513	1,699	(19,588)	(18,129)
Net amount recognized	$ 54,477	$ 51,913	$ (29,359)	$ (31,285)

(a) *Exclusive of death benefit obligation discussed below.*

Information for amount recognized in our balance sheets and for pension plans with an accumulated benefit obligation in excess of plan assets at September 30, 2006 and 2005 are as follows:

	Pension Benefits September 30,		Postretirement Benefits September 30,	
(In thousands)	2006	2005	2006	2005
Amounts recognized in our balance sheets:				
Prepaid benefit cost	$ 33,373	$ 31,239	$ -	$ -
Accrued liabilities	-	-	(3,351)	(3,826)
Accrued benefit cost	(42,432)	(51,099)	(26,008)	(27,459)
Intangible Assets	1,513	1,699	-	-
Accumulated other comprehensive loss	62,023	70,074	-	-
Net amount recognized	$ 54,477	$ 51,913	$ (29,359)	$ (31,285)
Pension plans with an accumulated benefit obligation in excess of plan assets:				
Projected benefit obligation	$ 134,184	$ 153,568		
Accumulated benefit obligation	133,623	152,487		
Fair value of plan assets	91,191	101,389		

The following are weighted-average assumptions used to determine benefit obligations at September 30, 2006 and 2005:

	Pension Benefits September 30,		Postretirement Benefits September 30,	
	2006	2005	2006	2005
Discount rate	6.0%	5.625%	6.0%	5.625%
Rate of compensation increase	3.75%	3.75%	N/A	N/A

At September 30, 2006, we reviewed the funded position of our qualified pension plans and recognized an $8.1 million increase in equity, as a result of the accumulated benefit obligation for the qualified pension plans exceeding the fair value of the plan assets by $42.4 million, as compared to $51.1 million at September 30, 2005. The accumulated benefit obligation for our defined benefit pension plans was $177.8 million and $197.4 million at September 30, 2006 and September 30, 2005, respectively. These amounts may change in the future as the pension plan assets change in value and assumptions change. Should, in the future, our pension plan's accumulated benefit obligations be less than the fair value of plan assets, the additional minimum pension liability and corresponding equity reduction will be adjusted.

We recognize amortization of an unrecognized net gain or loss as a component of net pension cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds ten percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the minimum amortization is that excess divided by the average remaining service period of active employees expected to receive benefits under the plan. For a plan in which all or almost all of plan participants are inactive, the average remaining life expectancy of the inactive participants is utilized instead of average remaining service. In fiscal 2006, the unrecognized net loss in excess of ten percent of the projected benefit obligation was amortized over a period of approximately seventeen years.

The following are weighted-average assumptions used to determine net periodic pension cost for 2006 and 2005:

	Pension Benefits		Postretirement Benefits	
	September 30,		September 30,	
	2006	2005	2006	2005
Discount rate	5.625%	6.0%	5.625%	6.0%
Expected long-term return on plan assets	8.5%	8.5%	N/A	N/A
Rate of compensation increase	3.75%	3.75%	N/A	N/A

Our assumptions for expected long-term return on plan assets, are based on a periodic review and modeling of the plans' asset allocation and liability structure over a long-term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling, and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical real returns, net of inflation, for the asset classes covered by the investment policy, and (b) projections of inflation over the long-term period during which benefits are payable to plan participants. Our discount rate is determined based upon the annual change in the Moody's AA bond rates, which we have historically used as our benchmark.

For measurement purposes, a 9.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2006. The rate was assumed to decrease gradually to 5% for 2016 and remain at that level thereafter.

The components of net periodic benefit cost are as follows for 2006, 2005, and 2004:

	Pension Benefits			Postretirement Benefits		
(In thousands)	2006	2005	2004	2006	2005	2004
Service cost	$ 391	$ 534	$ 2,074	$ 26	$ 42	$ 83
Interest cost	10,589	11,529	11,685	1,920	2,901	2,961
Expected return on assets	(13,675)	(14,443)	(14,876)	-	-	-
Amortization of prior service cost	260	314	409	(1,111)	(217)	(217)
Amortization of actuarial (gain)/loss	3,675	3,509	3,244	1,301	1,306	1,263
Net periodic pension cost	1,240	1,443	2,536	$ 2,136	$ 4,032	$ 4,090
Curtailment charge (a)	-	970	-			
Settlement charge (b)	524	750	-			
Total net pension cost	$ 1,764	$ 3,163	$ 2,536			

(a) *The curtailment reflects the freezing of our SERP plan for the remaining active employee participants who were executive officers as of December 31, 2004.*

(b) *As a result of the sale of Fairchild Aerostructures on June 24, 2005, we have settled the pension benefits for the Fairchild Aerostructures employees. This amount was recorded in discontinued operations. The 2006 settlement resulted from lump distributions from our SERP plan.*

We have multiple non-pension postretirement benefit plans. The healthcare plans are contributory, with participants' contributions adjusted annually; the life insurance plans are noncontributory. The accounting for the healthcare plans anticipates future cost sharing changes to the written plan that are consistent with our current intention to increase retiree contributions each year to cover the excess of the expected general inflation rate.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A 1% point change in assumed healthcare cost trend rates would have the following effects:

	1% Point Increase	1% Point Decrease
Effect on total of service and interest cost components	$ 29	$ (27)
Effect on postretirement benefit obligation	$ 247	$ (221)

Our pension plans weighted-average asset allocations at September 30, 2006 and 2005 by asset category are as follows:

	September 30,	
	2006	2005
Asset Category		
Equity securities	13.1%	16.0%
Debt securities	81.8%	78.0%
Other	5.1%	6.0%
Total	100.0%	100.0%

Our target asset allocation as of September 30, 2006, by asset category, is as follows:

Asset Category	
Equity securities	10–30%
Debt securities	65–85%
Real estate	0–20%
Other	0–20%

Our investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges (shown above) by major asset categories.

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans’ actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The investment policy is periodically reviewed by our management and a designated third-party fiduciary for investment matters. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

Equity securities include common stock of The Fairchild Corporation, in the amounts of $1.7 million (1.1% of total plan assets) and $1.5 million (0.9% of total plan assets) at September 30, 2006 and 2005, respectively.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(In thousands)	Pension Benefits	Postretirement Benefits
2007	$ 17,082	$ 2,962
2008	14,095	2,856
2009	13,970	2,794

2010	16,151	2,735
2011	14,655	2,668
2012 – 2014	$ 68,270	$ 11,654

Our funding policy is to make the minimum annual contribution required by the Employee Retirement Income Security Act of 1974 or local statutory law. However, during the year ended June 30, 2003, we contributed $7.4 million of cash to fund our largest pension plan in advance of required contributions. Current actuarial projections indicate cash contribution requirements of $1.6 million in 2007, $7.7 million in 2008, $7.0 million in 2009, $7.1 million in 2010, and a total of $22.7 million from 2011 through 2013. We are 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% for the retiree medical plan costs in 2006. The plan amendment has 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. It is our current belief that we are entitled to the full benefit of such subsidy. We expect to receive $0.4 million in each of the next 5 years for the Medicare Prescription Subsidy.

Pensions – Defined Contribution Plan

We maintain, for U.S. employees, a 401(k) Savings Plan, which is a defined contribution plan. The 401(k) Savings Plan provides for specified Company matching cash contributions, which are discretionary in nature, based upon the Company achieving certain performance goals and other factors. We did not make any cash contributions to the 401(k) Savings Plan in 2004. Our board of directors approved the resumption of Company matching contributions beginning on January 1, 2005. During fiscal 2006, we recorded expense of $0.3 million for continuing operations for cash contributions we made to the 401(k) Savings Plan. During fiscal 2005, we recorded expenses of $0.2 million for continuing operations and $27,000 for discontinued operations for cash contributions we made to the 401(k) Savings Plan.

Death Benefit Obligation

For certain U.S. employees of several businesses we no longer own, we retained the obligation to provide death benefit payments. During 2006, 2005, and 2004, we made associated death benefit payments of $0.2 million, $0.1 million, and $0.2 million, respectively. As of September 30, 2006, our remaining obligation was $1.8 million and is included in Other long-term liabilities.

8. INCOME TAXES

The total income tax provision (benefit) is allocated as follows:

(In thousands)		2006		2005 Restated		2004 Restated
Earnings (loss) from continuing operations	$	2,176	$	(1,048)	$	(8,953)
Earnings (loss) from discontinued operations		2,604		825		(14,010)
	$	4,780	$	(223)	$	(22,963)

The overall tax expense for fiscal 2006 was $4.8 million. A $2.2 million tax expense from continuing operations resulted from $0.3 million of current federal, state, and foreign taxes and $1.9 million of foreign deferred taxes. The foreign deferred taxes arise from a tax benefit from operating losses of $0.1 million, offset by $1.9 million in tax expense related to the impact of the conversion of PoloExpress from a German partnership to a German Corporation. The conversion of PoloExpress will allow PoloExpress and Hein Gericke Deutschland to file consolidated trade tax returns thereby enabling the Company to reduce its current income tax and trade tax liabilities. However, as a result of this conversion, the Company was required to record a deferred tax liability of $5.6

million as it will no longer benefit from future tax deductions related to the amortization of acquired intangibles. Offsetting this liability is $3.6 million of deferred tax assets related to future tax deductions which were previously not expected to be recoverable. This conversion will allow our two subsidiaries, Hein Gericke Deutschland and PoloExpress, to compute their trade tax liabilities on a combined basis and utilize the cumulative combined income and trade tax losses of approximately $20.6 million and $18.8 million, respectively, to offset their combined future profits subject to income and trade tax. No Federal taxes were recognized from continuing operations due to the domestic tax losses. The $2.6 million tax expense in discontinued operations resulted from current state tax liabilities of $0.9 million associated with the sale of certain assets and $1.7 million in additional foreign tax liabilities arising from transfer pricing issues identified during a tax audit in Germany related to a previously sold business.

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

(In thousands)	2006	2005 Restated	2004 Restated
Current:			
Federal	$ 94	$ -	$ (12,982)
State	160	241	264
Foreign	88	936	596
Total current	342	1,177	(12,122)
Deferred:			
Federal	-	(3,167)	-
State	-	-	-
Foreign	1,834	942	3,169
Total deferred	1,834	(2,225)	3,169
Total tax provision (benefit)	$ 2,176	$ (1,048)	$ (8,953)

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

(In thousands)	2006	2005 Restated	2004 Restated
Tax at United States statutory rates	$ (11,085)	$ (9,755)	$ (5,614)
State income taxes, net of federal tax benefit	104	157	(963)
Effect of foreign operations	129	32	(280)
Revision of estimate for tax accruals, net of deferred tax asset valuation allowance	10,846	7,996	(3,807)
Extraterritorial income exclusion	(307)	(281)	-
Effect of change in tax laws of foreign affiliates	-	-	1,175
Effect of change in tax status	1,970	-	