

FINAL TRANSCRIPT

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PRESENTATION

Operator

Welcome to the Magellan Aerospace Third Quarter Earnings Release Conference Call. (Operator Instructions.) We would like to formally inform all participants that this call is being recorded. We remind you that our presentation may contain forward-looking statements reflecting the Company's expectations regarding its future growth, results, and performance.

These forward-looking statements reflect the current views of the Company's Management and are subject to various risks and uncertainties, which could cause the Company's future growth, results, and performance to differ materially from those expressed in or implied by these statements. Certain of these risks are described in the Magellan Aerospace Annual Report. Magellan Aerospace disclaims any intention or obligation to update or revise these forward-looking statements.

I would now like to turn the call over to the President and CEO of Magellan Aerospace, Mr. Richard Neill. Please go ahead, Mr. Neill.

Richard Neill - *Magellan Aerospace - President & CEO*

Thank you, Michelle, and thank you, everyone, for joining our conference call again. We seem to do this at regular intervals, like every three months. So we're glad to make the information available and to share what we can on what happened during Q3. Just at the very outset, I would like to say that while we recognize that Q3 was marginally better than what Q2 was, nonetheless, we were still looking for more, and we were somewhat disappointed by our numbers. And so, the pressure really has gone back on our operations to get some of the things completed that we know will give them an improvement in the gross margin on the lines. And John Dekker comes to share the information with you.

In the room with me, we have Larry Winegarden who looks after Strategy for us, Konrad Hahnelt, who looks after Global Supply, John Dekker of Finance, and Steve Groot from the Finance Group as well.

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What kind of things happened in the sector that would—in the macro sense that would affect Magellan Aerospace? Well, you've all read about the turmoil which occurred at Airbus, the delays on the [indiscernible] and the indecisions about the management organization, and the current political sort of infighting that's going on between the German and the French factions. And so, I don't guess I need to say anymore than just that. What's maybe not widely known that Airbus has been looking at ways and means of mitigating some of the delays that have been caused and the gaps in capacity that have been caused by the delays on the 380 program. And while it's maybe too early to share a lot of detail about that for Magellan Aerospace, it may not be as bad or as significant as what some people might think.

On the Boeing front, Boeing has reported a very strong quarter in terms of orders, the 777 in particular. Again, not so widely known is they've booked a lot of business on the 787. But they—Boeing and their suppliers are really facing a weight problem on the airplane. At the last count, it was still about 5,000 tons overweight. And while they have to get airplanes to get most of that weight out before the [ratification] date, nonetheless, it does mean that the supply chain could be subject to engineering change and things being made differently than what we first expected or have made already.

In the quarter, too, we saw continuing strength in orders especially for single aisle airplanes, both 737 family and A320s. And in particular we would draw your attention to the big orders Air Bus, one, had reported close to the end of the quarter in China, and at the same time shared their intention to make a wing box for the A320 family in China itself. Of course, we're already in China with these seed orders for forgings and the likes from some low cost suppliers. So we think this is just a key part of this whole market unfolding.

The other thing was that for—maybe for the first time, we have seen some improvement in some of the key legacy carriers within the U.S. in their financial operating results. And we continue to see strength in the rest of the world as well.

On the big jet front, the news out of Florida and the NBA was really quite positive. It looked like there was strength in all of the sectors from VLJs right through to the big heavy [indiscernible] airplanes. Boeing even announced that they had sold three 747-8s. That's corporate airplanes and that just boggles the mind. But nevertheless, it shows the confidence and the strength in that sector.

There were six new airplanes either on display or announced, including the Honda airplane. For us, that's not that significant because we don't play much in that side of airplanes. In all of the categories of business flying we do play. There was also one new engine being contemplated by Honeywell, a 10,000 pound thrust [indiscernible-accented]. But we can tell you that there's at least two other new engines for that sector in the works, and we've already exchanged some early proposals on some of the parts for these engines.

On the original airplane side, not a whole lot to talk about. Boeing did have some success selling COG900s and they continued to book orders for the Dash-8 400, maybe not in the same volume, but it does show that airplane does have good success and good life. Embraer seemed to be doing quite well with their 170 and 190 family.

On the defense front, despite the supplements that were improved in '05 by the administration, it does look like there's heavy pressure now on operating and maintenance budgets, and the recent orders for spare parts have been slow in coming and to some degree have been smaller than we had anticipated. However, having said that, there's been no change in the training budgets, which means the work being conducted on the repair and overhaul and overhaul contracts that we hold has been pretty much steady through this period.

In the U.S., the orders for the CH47 Chinook have been good. They've just announced—Boeing just announced an order for 147 aircrafts. And the other good news was the joint strike fighter still continues to be funded through all of the options that are being conferred. That does mean that the F22 program, however, stumbles along and we're never quite sure of the total number of airplanes being now contemplated in the program, since it varies depending on who you talk to.

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In Canada, the announcement of the C17 cargo launch transport airplane and the heavy helicopter was good news for us because it does create a demand on Boeing to find industrial benefits or offsets for Canada. And we've attended at least two conferences where we think we have a reasonable amount of opportunity that should—we should be able to build on.

On our labor front, we've no labor issues of any significance. The first contract with unions upcoming will be in the first quarter of '07 and that's in the United Kingdom, followed by the [indiscernible-accented] and the [indiscernible-accented] operations which will be done in quarter two in '07 as well. And the balance moved to '08.

In prior conference calls we've also talked a little bit about the rejuvenation of some of our plants. John will comment on this as well. Let me just quickly go down the issues, however. In the casting operations up in Haley, they're a little bit late on their plan and we have partially completed everything we have set out to do. The bigger elements are in place and now we've got to get on and finish all of the small elements before year-end.

In the New York [LNF] operations, we're about halfway through the process of doing what we plan to do there and things are going reasonably well. Massachusetts, this is a very positive story, where we're moving out of two buildings down into one. We are right on schedule here and maybe about 75% complete there. And in the United Kingdom, we saw the first phase of new equipment coming in. The second phase will happen in December or Q1 of next year.

All this says is that while we saw a little marginal improvement in Q3, we believe that the elements are still in place for us to see some margin improvement in Q4 and then into '07 as well. Now with that, I think I'll hand over to John, who can take you through—John Dekker, who can take you through the numbers. And after that, we'll get to the question and answer period.

John Dekker?

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

Thanks, Rich. Underlying activity levels increased quarter-over-quarter, reflecting the higher demand for aerospace products, as the aerospace industry cycle shows evidence of an emerging recovery. With respect to revenues, foreign exchange rate fluctuations had a significant negative impact on the quarter. We applied 2005 exchange rates to 2006 results and then compared actual 2006 results for the quarter. Revenues for the quarter have been negatively impacted by approximately \$7 million. On a year-to-date basis, this analysis shows a negative impact to revenues of approximately \$30 million.

Foreign exchange rate fluctuations continue to impact gross margin also. If we use third quarter 2005 foreign exchange rates to calculate third quarter 2006 results, results for the third quarter of '06 would have improved by 1.4 million. Also, included in the third quarter 2005 was a foreign exchange hedging benefit of approximately 1.5 million and no such benefit was reported in the third quarter of 2006. On this basis, gross margin for the third quarter of 2006 would have been 14.4 million, compared to 12 million, which would have been reported in the corresponding quarter of 2005. This impact also flows directly down to the EBITDA for the quarter.

While this gross margin analysis confirms that productivity levels have in fact improved year-over-year, they've not improved sufficiently to offset the impact of the strong Canadian dollar. Magellan has undertaken important changes at several of its key facilities geared to further increase manufacturing efficiencies and improve performance, and thereby improve the gross margin.

Activities continue at the LNF plant in New York City to upgrade the manufacturing equipment while reducing the plant's physical footprint. During the third quarter, LNF sold one of its properties for proceeds of approximately \$3 million, netting a gain of approximately \$2 million. Further actions are underway to dispose of additional real estate in New York.

Plant modifications at the Haley casting facility are mainly completed. Results for this facility have been disappointing due to the congestion and inefficiencies created by a rapidly increasing—increase in activity. The impact of the modification should

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begin to benefit production in the final quarter of 2006. Realignment of equipment and facilities continues at the Magellan U.K. facility in Bournemouth, and these are now beginning to show positive results.

We continue to further seek out opportunities to reduce costs through improved efficiencies and improved overhead absorption in our plants as volumes increase. We're also actively pursuing low cost sourcing solutions.

Turning now to the financial statements, first looking at the income statement. Revenues in the current quarter were 143.6 million, an increase of 8.9 million from the same period last year. Changing foreign exchange rates negatively impacted consolidated revenues by approximately \$7 million as the Canadian dollar was stronger against the U.S. dollar.

After adjusting for the impact of foreign exchange, consolidated revenues reflected an organic growth rate quarter-over-quarter of approximately 11.5%. A gross margin of 9.1% was reported for the quarter ended September 30, 2006, as compared to 10% reported for the corresponding period in 2005. This was also a modest improvement over the gross margin level of 8.8% reported for the quarter ended June 30, 2006.

Gross margin performance for the quarter remains below expectations. These quarterly results reflect the impact of foreign exchange rates, which negatively impacted gross margin by approximately 2.9 million for the current quarter when compared to the corresponding period in 2005. Once we remove the impact of the foreign exchange fluctuations alone, consolidated gross margin shows a positive improvement year-over-year.

Operating inefficiencies related to training and learning costs as production levels are ramped up to meet increased activity levels also negatively impacted gross margin. As well, continuing challenges which occurred in the casting business as the Company responded to rapidly increasing production activity have resulted in margin slippage from previously achieved levels.

In the U.K., operations showed positive results but did not achieve the gross margin gains anticipated. As already noted, focused actions are underway in both the castings business and the U.K. to address the situations.

Administrative and general costs improved in the second quarter--in the third quarter of 2006 over the corresponding quarter of 2005, both as an--on an absolute basis as well as on a percentage of sales. As previously noted, the corporation has undertaken a plan of rationalization and modernization of its facilities in New York City. In order to prepare the surplus real estate for sale, machinery and equipment were disposed of for minimal proceeds and a non-cash amortization charge of 5.3 million was recorded in the second quarter.

During the third quarter, LNF sold one of its properties for proceeds of approximately \$3 million, netting a gain of approximately \$2 million. Further actions are underway to dispose of additional real estate in New York.

Interest expense in the third quarter of 2006 was modestly higher than the corresponding period in 2005, due primarily to higher discounts on sales of accounts receivable, which reflects a higher amount of accounts receivables sold. Net income for the quarter was \$221,000, reflecting the items previously detailed. This translates into earnings per share of nil for the quarter.

Moving now to the balance sheet, identifying a few items. Inventory increased--sorry--inventory decreased by approximately 4.2 million in the quarter, despite the pressure to increase inventory levels in response to increased demand by customers for more product. Magellan remains focused on meeting increased customer demand for product while managing its investment in inventory to meet these increased demands.

In May, Magellan renewed its bank credit agreement with its existing lenders at favorable rates. The credit facility is fully guaranteed by Murray Edwards, Chairman of the Board of Directors.

Moving to a few highlights on the cash flow statement. The corporation generated approximately \$1.7 million from operating activities during the quarter ended September 30, 2006, primarily through the collection of accounts receivable, a reduction in

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investment in inventory, offset by an increase in short-term liabilities. The corporation also invested \$6 million in capital additions during the quarter to upgrade its facilities and enhance its capabilities. Management continues to carefully control capital spending as a reflection of current business conditions.

And that concludes my comments on the financial statements.

Richard Neill - *Magellan Aerospace - President & CEO*

Thank you, John. With that, Michelle, I think we're ready to go to the question and answer period.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions.) Your first question comes from Jacques Kavafian from Research Capital. Please go ahead.

Jacques Kavafian - *Research Capital - Analyst*

Well, good afternoon, gentlemen.

Richard Neill - *Magellan Aerospace - President & CEO*

Hi, Jacques.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

Hi, Jacques.

Jacques Kavafian - *Research Capital - Analyst*

Airbus--you mentioned that Airbus is looking after the suppliers or will try to help out the suppliers. But they have also indicated that they want to cut down the number of suppliers, cut back to maybe 500 or so.

Richard Neill - *Magellan Aerospace - President & CEO*

Right.

Jacques Kavafian - *Research Capital - Analyst*

Anything you can say about that?

Richard Neill - *Magellan Aerospace - President & CEO*

Oh, yes. Sure. I questioned whether I should have said anything about that. The quick answer is that we at Magellan will not be materially affected in any way. The longer answer is that Airbus, because of the different segments or factions in Airbus, we're

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a different stage of supplier reduction. Magellan--so, Airbus U.K. had already initiated that activity three years back. And it was under that activity, for example, that we at Magellan went up and did the deal on [Murre] and we took on a bigger supply at that point in time. And then we were encouraged to work with a few of the smaller companies in the United Kingdom, like CAV, Huddleston, [Myola], and the like.

So we were well underway on the U.K. side and we at Magellan were looked upon as being one of the consolidators of the supply base within the United Kingdom. Airbus Toulouse was significantly behind what Airbus U.K. was doing and we had a much bigger supply chain in place anyway. And the major announcements that we've seen in the past--what--two months I think it was when these announcements came out, mostly relate to the supply chain in both Toulouse and in Germany. Because of the way we have positioned ourselves within the United Kingdom, we believe that we will remain as one of the keepers in the overall Airbus supply. And that's the only signals they've sent to us. But time will tell.

We don't feel particularly threatened because right now we didn't do a whole lot of business with Airbus Toulouse and we did nothing with Airbus in Germany. So we don't feel threatened particularly at this point in time.

Jacques Kavafian - *Research Capital - Analyst*

Okay. Thank you very much.

Richard Neill - *Magellan Aerospace - President & CEO*

Okay.

Operator

Thank you. Your next question comes from Richard Stoneman of Dundee Securities. Please go ahead.

Richard Stoneman - *Dundee Securities - Analyst*

Good morning, Rich or good afternoon, Rich.

Richard Neill - *Magellan Aerospace - President & CEO*

Good morning, Richard.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

Hi, Rich.

Richard Neill - *Magellan Aerospace - President & CEO*

Yes, you're a day behind here. Yes.

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Richard Stoneman - Dundee Securities - Analyst

A question on the real estate transactions. How much of the land in New York City has been sold and how much is left to be sold?

Richard Neill - Magellan Aerospace - President & CEO

Let me pass that to Larry Winegarden.

Larry Winegarden - Magellan Aerospace - VP Corp. Strategy

Good afternoon, Richard.

Richard Stoneman - Dundee Securities - Analyst

Good afternoon.

Larry Winegarden - Magellan Aerospace - VP Corp. Strategy

We sold the one building this year for 3 million. Last year, we sold a building for about 3 million. We still have holdings that--in Long Island that approximate \$35 to \$40 million.

Richard Stoneman - Dundee Securities - Analyst

That are going to be sold?

Larry Winegarden - Magellan Aerospace - VP Corp. Strategy

No, no, no. We have holdings in that amount. How much we sell--we have them in different phases and depending on, as time goes on, we'll identify what we want to sell. Right now, we expect to sell one more property this year.

John Dekker - Magellan Aerospace - VP Finance & Corp. Secretary

And that one's located in Queens.

Richard Neill - Magellan Aerospace - President & CEO

And beyond that, we have not really identified any further sales, Richard, because we think we might need the whole footprint. It will--a lot will depend on how the markets unfold and how well we can get cash out of the operations over the next two years.

Larry Winegarden - Magellan Aerospace - VP Corp. Strategy

[Indiscernible], Richard, is getting rid of some older equipment and we're bringing in newer equipment. The newer equipment in the self configuration is able to do quite a bit of output in the smaller footprint. And as we identify contracts that can use this new equipment and most of the [indiscernible] metal machining, we will be able to sell off [indiscernible] if it's appropriate.

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John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

Let me recapsule because this is going to come up again, I think. We own the land and building at the Orenda location here in Mississauga. We still own the land and building in [Corona], we own the land and buildings in Bristol, Winnipeg, we own the land and building in Kitchener. And we own the land and building in Haley. In the states, we lease--

Larry Winegarden - *Magellan Aerospace - VP Corp. Strategy*

--And Phoenix, as well.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

In the states, in Massachusetts, we lease buildings. In New York, we own land and buildings and the buildings--there's four in Corona for [indiscernible] and one in Long Island. In Ohio, we own the land and the building. And in Arizona, we own land and building. So we still are a very large property holder and likely should be a developer as well. So I think--or sorry, I forgot the United Kingdom. And both--in all the locations in the United Kingdom we own the land and the building. So we have a considerable amount of real estate assets.

Larry Winegarden - *Magellan Aerospace - VP Corp. Strategy*

What happens, Richard, is as we're going through our industrialization process and leaning out our plants, we're freeing up space. And does it make sense to go to a smaller footprint and have better flow and shed the real estate and reinvest in the capital. That's what we're doing [indiscernible].

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

Okay?

Richard Stoneman - *Dundee Securities - Analyst*

Okay. Next question. Rich, what would you--if you looked out 12 months after this rationalization of facilities is complete and after the new production equipment is complete, what sort of a margin improvement would you be satisfied with?

Richard Neill - *Magellan Aerospace - President & CEO*

That's a different question to--what do you expect as a margin improvement, right?

Richard Stoneman - *Dundee Securities - Analyst*

That is right. What would you be satisfied with?

Richard Neill - *Magellan Aerospace - President & CEO*

Satisfied with. Well, we have always said that we were shooting for a 15% EBITDA. Right? And we have never really changed that as a target. Now, we're miles away from that right now. And therefore, if we show progress of getting from the roughly, what, 9 or 10% that we have right now up to 15, say halfway, I would think that would be reasonably good progress.

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Richard Stoneman - Dundee Securities - Analyst

And that might be possible--.

Richard Neill - Magellan Aerospace - President & CEO

--[Inaudible] did I get the right reference point [indiscernible]?

Richard Stoneman - Dundee Securities - Analyst

And getting halfway would be something that would be--.

Richard Neill - Magellan Aerospace - President & CEO

--I think that would be a reasonable achievement.

Richard Stoneman - Dundee Securities - Analyst

Achievable over the next 12 months?

Richard Neill - Magellan Aerospace - President & CEO

Yes, if the Canadian dollar doesn't go wild on us again. Yes.

Richard Stoneman - Dundee Securities - Analyst

Well, all else remaining--.

Richard Neill - Magellan Aerospace - President & CEO

--Yes. I mean, there's always other variables, right? They could squeeze a sponge somewhere and it goes out the other way, right?

Richard Stoneman - Dundee Securities - Analyst

At Haley, there have been some changes in the F22 gear box housing materials, I understand. Is that affecting you guys at all?

Richard Neill - Magellan Aerospace - President & CEO

: Don't know the answer. My quick--I think the answer is yes, but I don't know for sure. So rather than mislead you, we'll get the answer posted, okay?

Richard Stoneman - Dundee Securities - Analyst

Okay.

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Richard Neill - *Magellan Aerospace - President & CEO*

The--I think for [indiscernible-accented] we went to [indiscernible-accented] is 8041 on the gear box. But I'm not sure. I happened to be in Haley last Thursday. That's why I actually have an inkling of the answer. Okay.

Richard Stoneman - *Dundee Securities - Analyst*

Thank you very much.

Operator

Thank you. Your next question comes from Nick Morton. Please go ahead.

Nick Morton - *RBC Dominion Securities - Analyst*

Good afternoon.

Richard Neill - *Magellan Aerospace - President & CEO*

Hi, Nick.

Nick Morton - *RBC Dominion Securities - Analyst*

I saw you borrowed a little more money from the bank. And so, you left yourself with \$11 million of cash at the end of the quarter.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

Well--.

Nick Morton - *RBC Dominion Securities - Analyst*

--Hopefully, I'm reading that right.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

No. In fact, just to clarify--.

Nick Morton - *RBC Dominion Securities - Analyst*

--Am I wrong?

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John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

--Yes. If you look, we had capacity of 27 million at the end of the quarter. We had undrawn availability, plus we had cash on hand of 11.8 million.

Nick Morton - *RBC Dominion Securities - Analyst*

Right.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

That would give us a total available of 27 million.

Nick Morton - *RBC Dominion Securities - Analyst*

Okay. But do you--you did increase your bank debt in the quarter?

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

Sure.

Nick Morton - *RBC Dominion Securities - Analyst*

Right. And I just wondered why did you choose to do that? It didn't look like it was absolutely necessary.

Richard Neill - *Magellan Aerospace - President & CEO*

Well, I think actually [indiscernible-accented]. I think what happens was we were anticipating the 80 program to unfold in the year and we had brought over a fair bit of it too and a reasonable amount of work in process inventories. We also had some rate build as well going on. And so, when things came unglued on the C80 in particular, we ended up with some inventories that we could've done without--that we didn't plan on doing. So that would be one impact.

Nick Morton - *RBC Dominion Securities - Analyst*

Okay. Is that finished inventory or just raw materials?

Richard Neill - *Magellan Aerospace - President & CEO*

Oh, it would be work in process mostly. And nonrecurring costs.

Nick Morton - *RBC Dominion Securities - Analyst*

Okay. So you can't [inaudible]--?

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Richard Neill - *Magellan Aerospace - President & CEO*

--And that's one of the issues you try and negotiate with Airbus about. But you don't do that overnight.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

The other item where we applied cash, Nick, would be for the payments on the GE414 program where we had a deferred payment stream on that program.

Nick Morton - *RBC Dominion Securities - Analyst*

Okay. So is that like--I've forgotten what the amount is. It's quite a bit of money, isn't it?

Richard Neill - *Magellan Aerospace - President & CEO*

We're in the last phase of that now.

Nick Morton - *RBC Dominion Securities - Analyst*

Yes?

Richard Neill - *Magellan Aerospace - President & CEO*

Yes.

Nick Morton - *RBC Dominion Securities - Analyst*

Do you make that payment twice a year, or how often do you make that payment?

Richard Neill - *Magellan Aerospace - President & CEO*

Oh, no. It's sporadic depending how the program unfolded. Sorry--hold on. We'll get a right number here.

Nick Morton - *RBC Dominion Securities - Analyst*

Okay.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

About \$8 million left to pay on it.

Richard Neill - *Magellan Aerospace - President & CEO*

8 million left out of 24?

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John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

No, out of 36 or something like that.

Richard Neill - *Magellan Aerospace - President & CEO*

Okay. So it happened.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

And we have 25% left to go. And that will likely be done over the next 15 months.

Nick Morton - *RBC Dominion Securities - Analyst*

Okay. Do you have a valuation for your land and buildings?

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

We do not have--.

Richard Neill - *Magellan Aerospace - President & CEO*

--The only--yes, the only valuations we have are old. And they don't reflect market.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

We really only look at like we have a particular project right now in New York, so we know the values there. But we don't continuously update the value of the properties.

Nick Morton - *RBC Dominion Securities - Analyst*

Okay. And the comment in the press release just about further sales transactions are being pursued, that's limited to the one or two buildings you mentioned earlier?

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

The only one planned right now is the single building in New York.

Nick Morton - *RBC Dominion Securities - Analyst*

Okay.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

And we have to be cautious when we describe those, clearly, because a sale doesn't occur until it's actually closed.

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Nick Morton - RBC Dominion Securities - Analyst

Right. What kind of CapEx do you think you'll have in the next year?

John Dekker - Magellan Aerospace - VP Finance & Corp. Secretary

We have been trying to hold the CapEx - and have been successful at holding the CapEx - at maintenance level. So approximately equal to depreciation. And we don't see that that requirement will change significantly over the next 12 months. So we would target for around the 20 million mark.

Nick Morton - RBC Dominion Securities - Analyst

Okay. And I guess--let me just--wait one second. I've got one more question on here. Where are we here? I guess we've got Rich is going to move up to Vice Chairman and there's going to be a change of Management roles there?

Richard Neill - Magellan Aerospace - President & CEO

Yes, that's right. The Board decided that there should be kind of a greater intensity [indiscernible-accented]. So they're giving Jim a slightly bigger role and kind of said go away and squeeze the margin. My job is going to be talking to you guys and doing all of these things that semi-retired guys do.

Nick Morton - RBC Dominion Securities - Analyst

Well, that's good. So we're still going to hear from you?

Richard Neill - Magellan Aerospace - President & CEO

Well, unfortunately, yes.

Nick Morton - RBC Dominion Securities - Analyst

Well, that's good news. Anyway, I'm looking forward to hearing you on the next conference call.

Richard Neill - Magellan Aerospace - President & CEO

Okay.

Nick Morton - RBC Dominion Securities - Analyst

Thanks very much.

Operator

Thank you. Your next question comes from Claude Proulx of BMO Capital Markets. Please go ahead.

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Claude Proulx - *BMO Capital Markets - Analyst*

Good afternoon.

Richard Neill - *Magellan Aerospace - President & CEO*

Hi, Claude.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

Hey Claude, how are you?

Claude Proulx - *BMO Capital Markets - Analyst*

Not bad. Yourself?

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

Good.

Claude Proulx - *BMO Capital Markets - Analyst*

Two questions. First one is a bit of housekeeping. I'm trying to measure I guess--it looks like Nick asked about. I mean, if you're burning cash at this point or how much you are burning cash. And I know that you are securitizing your account receivables. And I wanted to know how it has evolved since the beginning of the year?

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

If we look back at the beginning of the year, we reported at December 31 that we had sold approximately 42.5 million to third parties, and those are going to appreciate. That amount varies over time and we assess the amount that we're currently--that we currently have sold to third parties. And that's grown a wee bit. And it's sitting at approximately \$50 million at this point in time.

Claude Proulx - *BMO Capital Markets - Analyst*

And the second question is, I mean, I look at your stock today and it's trading at roughly 80% of book value. And I always believe that the market to some extent is efficient. And I'm wondering, to what extent can we trust your book? I mean, the book is really--that it's real. I mean, understand that there is some real estate probably--maybe understate the book. But at the same time, there's a lot of things in your inventories - engineering, average excess over cost - where it's going to be more questionable, especially in light of the performance that you are generating these days. Can you talk about this or--?

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

--Sure, sure. Sorry.

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Richard Neill - *Magellan Aerospace - President & CEO*

Let me ask you a question. Why did you say we would clearly have 8% of book value?

Claude Proulx - *BMO Capital Markets - Analyst*

No, 80%.

Richard Neill - *Magellan Aerospace - President & CEO*

80%. Okay.

Claude Proulx - *BMO Capital Markets - Analyst*

Yes. I think your book is about 325.

Richard Neill - *Magellan Aerospace - President & CEO*

Okay, yes. I was wondering where did you get 8%. Right. Go on.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

Claude, let me try to address the valuations of the inventory. Clearly, if you look at our balance sheet, the inventory is one of the most significant assets that we have. That alongside capital assets. And we've spoken about capital assets and some of the valuations on the property. So let's focus on inventory, which is really I think the crux of your question. We go through extensive reviews of our inventory at any point in time. And I would estimate 80% of the external audit focus at the year end is on inventories. So there is an extensive amount of work done to confirm that those values are appropriate. So we have third party verification of those amounts.

Claude Proulx - *BMO Capital Markets - Analyst*

I'm just concerned because a lot of it is program related. And you need to generate some earnings in order to justify the value that is there. And the earnings are not there at this point. So--.

Richard Neill - *Magellan Aerospace - President & CEO*

--Well, we may want to differ with you in opinion on that, Claude. Because I would argue that book value is likely higher than what you're stating right now. And our inventories and machinery - don't forget about that. I mean, it's not soft numbers in what John has talked about. We have a lot of mechanical assets - equipment and that kind of stuff. They're worth a lot of money. And we have the work in process on inventories as well as the raw material inventories. And my--when I do a quick summation right now, my judgment would be that we've got hard values, asset values, considerably in excess of 80% of book value.

Claude Proulx - *BMO Capital Markets - Analyst*

Well, but I'm--what I did is I'm just taking your equity at the end of the quarter.

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Richard Neill - *Magellan Aerospace - President & CEO*

I know what you did. Yes. I'm just challenging that theory. That's all.

Claude Proulx - *BMO Capital Markets - Analyst*

Okay, thank you.

Operator

Thank you. Your next question comes from Tim James, CIBC World Markets. Please go ahead.

Tim James - *CIBC World Markets - Analyst*

Thank you. Good afternoon.

Richard Neill - *Magellan Aerospace - President & CEO*

Good afternoon, Tim.

Tim James - *CIBC World Markets - Analyst*

Looking at the U.K. business, I noticed that the percentage of revenues from your most significant customer there, Airbus, jumped up quite significantly, implying that non-Airbus related business was down substantially from last year. Can you comment on what is happening there?

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

I would suggest, Tim, that it's--well, it's certainly a modest decline in some of our non-Airbus work, but it is an increase in Airbus activity as well. So an absolute increase in the Airbus work showing the success that we've had in gaining additional Airbus work. So it's really a combination of those two.

Tim James - *CIBC World Markets - Analyst*

Okay.

Richard Neill - *Magellan Aerospace - President & CEO*

[Indiscernible-accented] the foreign exchange play is an issue here. I think you've got to normalize the FX, and then you've got to look based on that what the percentage is. Those here around the table say that we haven't had any real decline in non-Airbus business. We know that we're behind on deliveries on the Boeing 737 program because one of our key suppliers is in trouble.

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

He's referring to the U.K. business.

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Richard Neill - *Magellan Aerospace - President & CEO*

Yes, I know. I'll talk about that. And in the--.

Tim James - *CIBC World Markets - Analyst*

--It's just that I see that percentage of revenues from the U.K. from the top customer went from 85% last year in the quarter to 97% in the current quarter. And backing out of that, that implies that the customers aside from the largest customer just dropped off significantly. Maybe it's--there's just some lumpiness there. I don't know. I'm just trying to understand clearly.

Richard Neill - *Magellan Aerospace - President & CEO*

The only other explanation is it's likely Wrexham who in '05 had a pretty strong program on the EH101 and on the Lynx and there's been less of a program this year. I can't--we can't explain it beyond that. We'll get the answer.

Tim James - *CIBC World Markets - Analyst*

Okay, great. We've talked about working capital a little bit - inventories and receivables. Can you talk about where you are today in relation to maybe not where you'd like to be but where you feel you should be as far as inventory turnovers and age of pay--or age of receivables? And if there's much more of an opportunity there to generate cash over the next two years?

Richard Neill - *Magellan Aerospace - President & CEO*

Well, some general [headings] to start with. We still--as rates go up, and they're continuing to go up, there is no question that we will get better inventory turns on the working inventories. When we move I think to 31 and the 737 in January. And if Airbus do go up to 32 on the C20, and the like, then we will get some better inventory turns out of that kind of issue. We--in terms of the inventory where we've got things not moving quickly, we talked already about the 380. We've had some delays there.

The balance of it we have--I think we're doing a reasonable job of going after the programs where there is inventory slowdown. And [indiscernible-accented] release from customers. I'll give you one example. Our [casting] operations in Arizona looked like they were going to be strung out by Sikorsky on deliveries of castings on the Blackhawk program. They went after Sikorsky and convinced Sikorsky that either there should be some kind of partial payment made for the completed work, or take full delivery of the items, and they have been doing it. And that's an action that we have underway. So I think, based on that, the inventories--there is some opportunity to reduce inventories further.

Does anybody want to add to that?

John Dekker - *Magellan Aerospace - VP Finance & Corp. Secretary*

I think that's fair.

Richard Neill - *Magellan Aerospace - President & CEO*

Okay. Everybody's kind of nodding around the table saying they agree with me, Tim.

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Tim James - CIBC World Markets - Analyst

Okay. Just one final question, then. Again, looking over the next 12 to 18 months, there are four plants in particular - four areas where you've talked about some restructurings--real estate sales, et cetera. How much--and if you can quantify it in general terms--of your anticipated margin improvement over that time period result from those four locations and how much, if any, is from the other locations. And maybe what I'm trying to look at as well is are the other operations - like Orenda and Bristol, and so on - are they at a level of profitability that you are reasonably happy with today?

Richard Neill - Magellan Aerospace - President & CEO

Let me start off this discussion. There--we believe that there will be margin improvements in every location just by nature of rates going up and some price changes, et cetera. And there will be small margin improvements in every location just for that factor alone. On top of that, we anticipate that the significant changes or investments that we're making principally in these four locations that we have talked about will yield an improvement beyond what we would expect through just normal continuous improvement activities.

And when you put all of that together, I think we're--that's why we say we think we will see slow but steady margin improvement through the next [15] months. And that's why when Richard Stoneman asked us what we would be happy with, the answer is well, we'd really be happy with 15%, but if we get halfway there by the end of next year, then we think that's a reasonable thing to shoot at.

Tim James - CIBC World Markets - Analyst

Is it fair to say at this point then that more than half of the incremental EBITDA over the next 12 to 18 months will come from those four locations?

Richard Neill - Magellan Aerospace - President & CEO

We have not done that analysis, but I mean, it's not a bad assumption to make.

Tim James - CIBC World Markets - Analyst

Okay, great. That's all I have. Thank you very much.

Operator

Thank you. (Operator Instructions.) Your next question comes from Richard Stoneman of Dundee Securities. Please go ahead.

Richard Stoneman - Dundee Securities - Analyst

Hi, Rich. I've been reading a bit about helicopter production rates and how they're increasing.

Richard Neill - Magellan Aerospace - President & CEO

Right.

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Richard Stoneman - Dundee Securities - Analyst

It's almost a global phenomenon.

Richard Neill - Magellan Aerospace - President & CEO

Right.

Richard Stoneman - Dundee Securities - Analyst

American, Italian, French, British helicopter producers--.

Richard Neill - Magellan Aerospace - President & CEO

--Right--.

Richard Stoneman - Dundee Securities - Analyst

--All ramping production 20, 30% over the next couple of years. How much exposure do you have in that market to both new helicopter production and this rebuild phenomena that's taking place?

Richard Neill - Magellan Aerospace - President & CEO

Let's deal with--let me go--answer your question a different way. In the small light helicopter business we don't have much exposure to the [indiscernible-accented] at all, either in the transmission or the structure. This is the Eurocopter and the small Bells. Principally, because today most of the work on that is either being done in indigenous countries using semi-automobile type technology, and we just don't compete there very well.

When you go to the more--the medium-size helicopters, and now we're talking about Bell, Eurocopter, Sikorsky, then we're beginning to be a player in that. And we do work on transmissions a little bit. We do castings out of Haley. We do--we have opportunity now for shaft work at both Bell and Sikorsky. We still haven't been able to break through on the cabins that we would like. But we are there.

When--now when you go to big heavy lift helicopters, meaning the S92, the Chinook, the H101, and airplanes of that ilk, then we are a significant player. On the 101, we have still a significant supply out of the Bristol operations. The--we do the [wire stripe], we do the top deck - both the curlings and the covers, we do the [fronts] of the [indiscernible-accented]. And then on top of the deck we're doing castings for gear boxes and the likes that would keep that airplane going. Similar work is being done on the S92, not quite to the same extent yet, but we have that opportunity. And right now we are in these pretty heavy discussions with Bell, based on the B22 program, which I never know if it's a helicopter or a transporter airplane, the 609 program and now their ULH contender as well.

That excludes the engine activity where we are suppliers to Pratt and Whitney, Rolls Royce, and Honeywell, of castings and machine parts. So part of the reason that we are seeing growth in the small stuff we're doing in the casting business and the machining business is the way the helicopter markets unfolded in the last [indiscernible-accented] while. We have one brand new program on a helicopter that I don't think's been announced yet. The OE is European and he's placed orders or will place orders. We signed the memorandum agreement for castings and for machine supply for the engine. So we think we have a significant role in the helicopter business.

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We'll try and work up some data for you to see if that would help give you an appreciation.

Richard Stoneman - *Dundee Securities - Analyst*

Yes. Sort of if helicopters deliveries jumped by 25%, what would that do to your revenue?

Richard Neill - *Magellan Aerospace - President & CEO*

Yes. Well, then we need to look at the content per airplane, content per engine, and try and get a feel for it. We'll do that.

Richard Stoneman - *Dundee Securities - Analyst*

Thank you.

Operator

Thank you. There are no further questions at this time.

Richard Neill - *Magellan Aerospace - President & CEO*

Michelle, is that it?

Operator

Yes, sir. There are no further questions at this time.

Richard Neill - *Magellan Aerospace - President & CEO*

Okay. Let me thank you, again, for listening to us. The story is getting gradually better. Hopefully, it will be better next time and we can talk more positively about the numbers. But we still think we're reasonably positioned to capture our share of the business going forward. And as we work on all of these internal things, then our results should improve through that period.

With that, we'll sign off from this end. And we thank you, again, for your attendance and for listening in. Thanks, again.

Operator

Thank you, ladies and gentlemen. This does conclude your conference call for today. You may disconnect your line. And have a great day.

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