

AEROSPACE

Magellan accused of inflating project size

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BRISTOL, ENGLAND -- A self-described whistle-blower who says he was wrongfully dismissed by Magellan Aerospace MAL-T, the aviation company controlled by Murray Edwards, has accused the company of exaggerating the size of one of its biggest projects.

At a hearing in Bristol, England, Brian Little told Mr. Edwards - the company's chairman and one of Canada's richest men - that he thought Magellan management "had misrepresented and misled" the company's auditors about the project. Mr. Little was head of European operations of Magellan's United Kingdom division until he was fired in 2006.

The accusations were made at a hearing of the Employment Tribunals in Bristol, where Magellan's U.K. division is based.

Mr. Edwards denied any impropriety in testimony delivered by video link from Calgary. "I take some offence to that," he said, noting repeatedly that he trusted the company's auditors to provide a fair analysis of Magellan's projects.

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Magellan stands by its claim that Mr. Little, who is 52 and from Northern Ireland, was fired for gross misconduct, not because of whistle-blowing allegations (known as protected disclosures) he made against the company.

During the tribunal hearing on Monday, Magellan lawyer Adrian Lynch said Mr. Little was dismissed because he was "impossibly rude and disruptive to colleagues."

Mr. Little said he has spent almost £1.5-million (\$2.7-million) on legal fees since 2006 and was forced to sell his Northern Ireland farmhouse, which had been in the family for nearly 400 years, to help finance his wrongful-dismissal case.

He no longer uses a lawyer and represents himself in the hearings, doing his own cross-examinations.

Mr. Edwards is one of Canada's richest men, as vice-chairman of oil sands giant Canadian Natural Resources Ltd. and co-owner of the Calgary Flames. But he has suffered considerable losses on Magellan, which has been hit hard by the decline in global airplane sales.

The heart of Mr. Little's allegations centre on Magellan's role as a supplier to Airbus's newest A340 models. The A340 is a long-range passenger jet that competes with the Boeing 777. Magellan won the contract to build the A340's engine exhaust nozzles.

Magellan expected about \$40-million in development costs related to the A340 project and, in 2006, according to Mr. Little, estimated some 275 of the planes would be bought by airline customers (meaning four times as many exhaust systems would be built, because the A340 has four engines). Mr. Edwards called the contract "a major project."

Mr. Little, however, said he doubted that Airbus would sell that many A340s. At the time, the plane was losing market share to the Boeing 777, which was favoured by airlines because it has two fewer engines and is cheaper to fly. In his witness statement, Mr. Little said that, in early 2006, Airbus's own internal estimates for A340 program "were for just 75 sales from that time." He said he made his skepticism known to Mr. Edwards and other Magellan officials.

Airbus's website says the company has orders for 139 of the new A340s. Magellan's own revised sales estimate for the plane, if it has one, is not known, nor is the number of "spares" (replacement parts) it expects to build after the initial production run.

In his testimony, Mr. Edwards said Magellan has not taken program writedowns on the A340 project which, along with other projects, was reviewed in 2007 and 2008 by auditor Ernst & Young. He noted that Magellan gained a "material" price increase of \$10-million to \$15-million for the A340 parts program late last year.

"You have to look at the pricing and cost forecasts" as well as the unit sales, Mr. Edwards said.

Magellan has dismissed Mr. Little's allegations. After meeting with Mr. Little shortly after he was fired, Bill Dimma, the Magellan director who is chairman of the audit committee, concluded "there was no substance to the purported concerns" of Mr. Little, Magellan said in its respondents' statement.

Magellan then commissioned PricewaterhouseCoopers to conduct an internal probe. Magellan said the audit concluded the alleged complaints were "without foundation."

Magellan has had a rough run since 2007. In the latest quarter, to Sept. 30, Magellan reported profit of \$2.6-million. In spite of that, the share price has collapsed. Magellan has shed about 95 per cent of its value on the Toronto Stock Exchange in the past year, giving it a market capitalization of about \$6-million.

Mr. Edwards first invested in Magellan in 1995, when the company was called Fleet Aerospace, and was CEO until 2002. To prop up the company, Mr. Edwards himself had made \$65-million in loans and \$165-million in loan guarantees to Magellan by last year.

The wrongful-dismissal case continues.

MAGELLAN AEROSPACE (MAL)

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