

Reader Comments (15)

1. Magellan management at best incompetent - no wonder their market cap. value has languished.
2. PwC at the least incompetent but too many "important" coincidences to support MAC case numbers - looks like complicity to me.
3. BL - integrity about what is right as a director. That does not surprise me

You as reader - comments / observations / conclusions

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- 6.

Attachment "K"

Preliminary Reader comments based on provision of the Final Draft report at pages 16 -115 (excluding the information at Pages 1 – 15 and 116 +) to various "interested parties" so as to check for understanding and create a reservoir of feedback to assist in correcting/improving the explanation in the main document and input to the remainder of the document.

Reader Comments 1

Conclusion- ongoing doctoring of the figures to enhance the Balance Sheet with information supplied by MAC to the Auditors and not adjusted by them to reflect the true situation

Reader Comments 2

- During your work for Magellan you became aware that the management of the firm was making forecasts on the basis of a demand for orders which they should have known were inflated.
- When you drew this discrepancy to their attention, they refused to act on your advice.
- You continued to insist that the company take action to recalculate their forecasts.
- The response of the Director, Mr Neill, was to dismiss you from your employment summarily and without warning.
- The company is attempting to argue that your concerns were unwarranted and that your continued insistence on raising them was unreasonable.
- You are attempting to make the case that directors etc. of the company have been engaged in false accounting, that they have deceived the accountants who had examined their books, and that the facts of the situation (through the documents your cite) clearly imply that your predictions of what amounts to a \$10 million + shortfall have been proved correct.

Reader Comments 3

- **I take it that you recognized in 2006 that MAC were managing the NRC debt on the Balance Sheet as a Bank with Toxic Assets?!!**
- It's very clear that the original cost recovery on 300 A/C Sets was a bad judgment by MAC and the later analysis of only achieving 135 A/C Sets left a gaping shortfall in recovery. I take it all the NRC's were spent on the development and testing of units? Was there any over run on NRC spending and if so where was that dumped? So that leaves Magellan with a large amount of money in the Balance Sheet. If this had been done on the P & L Account this would be showing a massive loss on the books!! Hence trying to hide it on the Balance Sheet. Is that correct analysis? What is the normal way of managing new product introduction?
- We get from Airbus a regular update on Aircraft Sales by model and this looks out from current year through to next 4 years, so presumably this was available to view and would have shown the real A340-500/600 requirements. My recollection was we were only doing 10 sets pa on this

range and about 90 A330-300's. This Airbus Customer information was better than any Forecast from Third Parties.

- It's quite clear that the spares replacement market was not going to be there as technically the product was repairable and with service life of greater than 40,000 hours. After all the Engineering estimate of 40,000 hours was theoretical and not proven and service life bulletins do not state only 40,000 hours of service life. So again the assumptions of spares requirements and replacements was not going to meet the total 1285 units required to recover the NRC costs in the timeframe set when contract was started.
- For your part you were trying to ensure that the Company came clean on this issue and report to TSE information which was true. I don't understand how the Auditors can fabricate information to suit MAC board managing the numbers.

Reader Comments 4

The bulk of the document concentrates on the data used by PwC, and makes it clear that PwC were provided with extensive material on the A340 market much of which conflicts with the sole external market forecast relied upon by PwC. The document discusses in great detail the evidence that was available to all relevant parties, that seriously undermined the forecasts and projections which were used as a basis for the financial statements and the PwC report.

The document also outlines how B Little expressed his concerns over these matters within MAC from the beginning of August 2006 to the point where he was summarily dismissed in September 2006, and indicates how his views have been excluded.

Based on the evidence presented within this document it is difficult to conclude other than there is considerable uncertainty as to the accuracy of the MAC financial statements in relation to their treatment of the A340 assets. In addition the concerns raised by B Little in this matter appear, with the benefit of hindsight, to have been valid, reasonable and appropriate, and that in this regard he was acting in accordance with the duties and responsibilities of his office.

Reader Comments 5

1. Magellan Aerospace Corp. had a contract to engineer, develop and manufacture 1285 aircraft units of various nature and cost was to be divided over the 1285 items ordered.
2. Portions of this order was canceled reducing the aircraft order to a much lower number than previously agreed. This left MAC to divide their cost over fewer items and greatly affected their bottom line.
3. Internal investigations of the damage was greatly flawed resulting in loss to stock holders.
4. There seems to be a serious disagreement about the need for "spares". Therefore the project income from these parts was greatly inflated by

company balance sheets.

5. There seems to be an indication that this was known but not reported and therefore caused millions in errors on the balance sheet.

6. If I read this correctly someone or several people knowingly inflated the MAC bottom line to make the stocks and in particular the A340 project look far more valuable than it was. This is fraud if I read it correctly.

Reader Comments 6

First Reading:

In my opinion Mr. Little was fired because someone in the company misrepresented, lied or falsified documents about the financial well being of the company and someone had to be the fall guy for raising that.

2nd Reading:

1. a contract had been established for the sale of goods
2. PWC was deceptive in their projection of market sales as they did not use all of the data
3. "Trashed" Mr. Underwood already knew that the project was finished but had not shared info with MAC
4. Sales of the Airbus went to other companies (Market evaluation done by US firm, does that favor Boeing?)
5. MAC had not changed it's forecast for spare parts replacements but had on airplanes, this causing a problem with the balance sheet. Big time!!!

Reader Comments 7

1. The position of Magellan Aerospace UK (functionally, contractually and geographically) makes its senior management uniquely positioned to advise the Magellan Corporation on matters relating to Airbus programs
2. That the accountancy practices of the Magellan Corporation are generally sloppy
3. That the external professional advisors to the Corporation are at best incompetent and at worst open to corruption
4. That the views of senior management of the Corporation are at best blinkered and at worst dishonest.
5. That the sole reason for the dismissal of Brian Little was his integrity with regard to the portrayal of the A340-500/600 profitability both internally and within the Corporation's Annual Accounts.

Reader Comments 8

1. How did PwC let themselves take a brief from Dimma who writes books on Corporate Governance and allow him to Chair a further investigation - "independent forensic investigation" when he had already concluded the matters were historic ??? and of no concern to him. This was a major

error in judgement with no other safeguards. The PwC Canada people never met you - unbelievable?

2. You have made the point about the Magellan management common (sense) due diligence activity on their largest "cash" asset. I totally agree - in my business I would never lose sight of the value of customers and cash.
3. This is very detailed and thorough leaving us with no doubt that you can back it all up (not surprisingly to us) through documents and court evidence.
4. This is an incredible story of "cover up" by some very high-powered and reputed people in Canada and the top global audit firms.
It should be a book or film

Reader Comments 9

1. Forecast International market report forecasts that are higher than Airbus - never seen that before
2. PwC - incompetence and with the magnitude of it left with the impression of deliberate action and complicity
3. Real Issues- Corporate Responsibility and your business and legal responsibilities in MAC
4. Their customer Aircelle is disconnected from their latest assertions on Spares and replacements - I loved their guy's hoax conclusion
5. Totally Damning of Dimma - why did he not get your factual feedback in October 2006 and then again in June / July 2007? That was no right!
6. MAC now rely completely on a Dr Thamburaj for Spares replacements - this would be very odd from my experience. Did he know he was going to be relied on in this way? Can you send me his court evidence?

Reader Comments 10

- 1 A first for me too - a professional analyst predicting more than Airbus? using only one analyst report and ignoring the consensus in the other six - that's just incomprehensible. None of us here use just one analyst.
4. I completely agree - Farnborough 2006 "finished" the A340 programme
5. In my 42 years in aerospace I have never heard of any engineering work leading to complete replacements on exhaust systems after several years. You quote notes of Neill's evidence ... they are good to undermine themselves
6. Brian - I had no idea it was this dreadful and not at all surprised about your detailed evidence. Now I realize why the MAC badmouthing and distraction campaign.

Reader Comments 11

1. E&Y/PwC - market information (only a bit) Unfortunately from my own experience I am not that surprised about our US and Canadian firms But for a 3m forensic study that was hopeless.
2. Why did the other members of the Audit Committee allow Dimma to Chair the second investigation by PwC? PwC seem to have ignored all the simple processes they could and should have insisted on invoking to sustain "independence".
From his evidence to the Tribunal, he seems to be doing their job as to why you were dismissed instead of focusing on his role as Chair of the Audit Committee. Amazing given he writes those books. I checked the net
3. Although you do not mention it in Europe we would also consider the present value of revenues and costs for such a large NRC investment. Did PwC or EY consider that at all?
4. Everyone knew 2006 finished the A340, even me, and it is very telling that the Airbus A340 "Trashed" comment to Underwood was ignored. How in March 2007 Magellan were still submitting there would be nearly 300 aircraft sales of A340 simply beggars belief.
5. As ever, you have immense memory and detailed facts. That is as I have come to expect from you, and they will no doubt have been thoroughly vetted and cross-checked.
6. Finally and you will not be surprised at this from me. Our laws are quite clear the buck stops with the MAC Board and management. To rely on the auditors for meeting their legal responsibilities is perverse. The auditors and PwC are accountable for the quality of that audit and forensic investigation. With all the vested interests here, I cannot see anyone holding the other to account but this report should make chilling reading for all of them. This is bad for both these firms.

Reader comments 12

- 1 It appears that the management team of MAC has shown a lack of due diligence and responsibility in looking at its balance sheet, and ensuring that projections are in line with market based information. The balance sheet seems to have been overstated because of the A340 capitalised costings.
- 2 MAC's auditors appear to have failed it, by only relying on 1 single piece of external market analysis to make judgements and assumptions on how to deal with spares/replacements etc. Management of MAC also seems to have been found wanting, by the fact that they too did not challenge PwC on its assumptions for its calculations, nor did they take heed of the warnings from B Little on these matters.

- 3 The manner in which B Little was fired without warning, clearly in breach of disciplinary and dismissal procedures, is deeply troubling, and goes against MAC's ethics policy of acting with honesty and integrity. In fact, the way that MAC's management has operated throughout this case and with regard to the balance sheet issues which have been emerging, calls into question their honesty, transparency, integrity and capabilities to run a large corporation. It feels as though they have stuck their head in the sand, continued to operate their business based on poorly substantiated assumptions, which fly in the face of market realities, and rather than listen to and take on board the worries and concerns of a UK director of the company, found it easier to sack him - I guess sticking your head in the sand is much easier than tackling the issues and realities of the A340 project, and its implications for MAC, head on.
- 4 I am left wondering what the future holds for the MAC organization and its ongoing financial outlook. What do its shareholders think of the situation?

Reader comments 13

1. Accounts are mis-stated in Fy2006 and continue to be mis-stated.
2. PwC investigation is a "whitewash"
3. Magellan have a Ethics standard but they ignore this as they go about their business
4. Magellan say they rely on E&Y/PwC to keep them right but MAC have a fiduciary /legal responsibility that they are obviously ignoring
5. They seem to be able to ignore the market implications in 2006 and then use Spares and Repairs etc in an attempt to compensate
6. Impressed by 16 witnesses - for support of a whistleblower.

Reader Comments 14

You asked me to sum up what I see as the six key points in your document?

1. You were dismissed from MAC *unfairly* for bringing to the attention of the Board your concerns about the 'fairness and truthfulness' of the publicly stated financial position of the company (you were exercising your fiduciary duty as a director). You became a 'whistle-blower'.
2. The office-holders of MAC have repeatedly sought to undermine your stated view (held by you as a reasonable belief') and silence you.
3. In seeking to neutralise the potential damage to the reputation of the company the officers instigated an expensive, comprehensive, independent forensic review by PwC that, it turns out was neither comprehensive, nor independent, nor adequately forensic. The PwC Report is a wholly inadequate, superficial whitewash.
4. The Officer-holders of MAC believe that, armed with the PwC Report, together with the compliance of their auditors, E&Y they have *no* case to answer for their dereliction of duty, and no case to answer to for your dismissal.
5. They are wrong on both counts.
6. The office-holders of MAC should be censored and barred from office and the true financial position of MAC needs to be admitted publicly.