

**Brian Little**

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**From:** Brian Little [brian@fortfield.com]  
**Sent:** 02 August 2010 06:48  
**To:** 'wdimma@msn.com'; 'wdimma@brookfield.com'  
**Cc:** 'wdavis@torys.com'; 'pjewett@torys.com'; 'medwards@rogers.blackberry.net'  
**Subject:** FW: website update - Farnborough Airshow and Anonymous A340 whistleblower letter re EAC's/ Dimma investigation  
**Attachments:** Airbus.update.16.July.2010.doc; A340.500.600.  
Anonymous.letter.to.MAC.CEO.Director.Edwards.2002.re.EACs.ppt;  
Tone.from.the.top.PwC.April.2010,.pdf

## **For the record**

**Mr Dimma**

**Further to my emails on Sunday 18 July 2010 and Friday 23 July 2010 (in the email trail below) I confirm that, as yet, I have not received a response to the four questions (and supplementaries) I asked you for by the end of July 2010.**

In the interim I have also received some queries and requests for clarification on information on parts of my website. As a result I have made a number of small but important changes in our website which for ease of understanding I have copied and pasted in the two points below.

Website changes

### **Point 1 Part B 16 July Update (effectively an amendment to the 16.July.2010. above.)**

" As you will read later in the website at Part K - the Respondents (Magellan) position was on the record from Mr Lynch QC in the UK court/tribunal on 16/19 November 2007, as "It is right to say that, prior to the receipt of the PwC report, the Respondents envisaged that the issue of reasonable belief might not be a live issue. **PwC concluded** that the view adopted by the Respondents as to the treatment of those costs and **likely sales of the A340 formed no basis for criticism.**" As the reader will recall earlier in this website the UK court-ordered disclosed report from PwC also stated on this subject matter at para 2.40 **"that Financial Control in MAC was Poor and at 4. Poor control over individual projects from an accounting perspective. Project sales volumes, revenues and costs are not reviewed with sufficient frequency or rigour."**

As one would reasonably expect, **the MAC FY2006 Annual report clearly sets out its reliance** on customers' delivery projections and external market forecasts for the amortization and recovery of NRC assets. Despite this and in the face of all the "available" oral, written and public evidence available to the "Number 1 global auditing firm", **PwC, went on to independently calculate, at para 8.75, that a further 2040 A340-500/600 exhaust system units would be required** for production (468 - **to a total Airbus production series build of 220+ A340-500/600 aircraft, far exceeding the 130 - 150 total aircraft build series from six of the seven external market forecasters** ) and full replacement spares (and repairs, which were not appropriate for accounting NRC recovery as per PwC para 8.72) **from FY2007- FY2021.**

For completeness, Magellan have stated in May 2009 that MAC's public auditors **Ernst & Young (E&Y) were "satisfied"** with the quantities of 833 by FY2012 in Magellan's submission/representation in their **Q4.2006 EAC during their year-end audit testing.** It used a quantity of 701+ units for future aircraft production (**a total Airbus production series build of 284 - 291 A340-500/600 aircraft**) and Spares / Repairs of 92 - 172 units (*about 10% of the 31 December 2006 "estimated" production volumes/ aerospace "norms"*) from January 2007 to December 2012, which at that time was the end of the current commercial contract with Aircelle.

I have also recently learned that Mr John Furbay (the Magellan/Aeronca CFO, including the A340-500/600 EAC accounting role) was dismissed by Mr Dekker and escorted off the Aeronca site by the General Manager at the end of June 2010/Q2.2010. In the same 2007-2009/2010 calendar period as **Airbus reliably predicted** in their customer delivery projections documents above those 32 + 2 aircraft deliveries (**136 production nacelle unit deliveries**) **Aeronca/Magellan delivered some 121 production AND spares units.** This compares with Magellan submissions to E&Y and to PwC of 366+ production/spares and the use of 439 units in the CFO/Finance Program EAC used by E&Y for their Q4.2006 audit testing for the same 42-month period from January 2007. An increased Magellan factory A340-500/600 production rate totaling 296 was then estimated in the remaining 18 months for production and spares (H2.2010 and FY2011) for that Magellan strategic 5 year planning period.

As a further example of that misleading representation to PwC and E&Y. **For this current year (FY2010) MAC had projected in the documentation provided to E&Y and PwC – in diametric opposition in mid-2006/2007 to the “known documented reality” (a production rate of about 10 a/c per year and an identical MAC production budget for FY2007) of reducing Airbus-customer delivery projections AND a declining Airbus A340 order book and airline sales campaigns - that some 30+ aircraft (127/116 units - doc 3605,3605C/D) AND 80 Spares and Repairs (doc 3605H) would be built in Aeronca in FY2010 – a total of approximately 200 A340-600 exhaust system units in FY2010.**

I believe that those “quantities” representations would NEVER have been allowed to happen if [Larry Winegarden AND I had led, in my MAC strategic planning SVP functional role as planned, those FY2007-FY2011 4 day strategic planning sessions](#) within hours of my no-warning firing on arrival in Toronto Airport by Mr Neill on Monday 18 September 2006. For me, and us, to enable and permit that would have been basic professional negligence and a fraudulent representation of the realistic/most likely A340-500/600 outcome in meeting our MAC business/legal obligations.

in effect, as I stated earlier, “A340-500/600 was and is vitally important to MAC. The A340-500/600 project investment/asset was the single largest financial number (>C\$40m asset in FY2006) and failure to fully realize the value of the project would, inter alia, bring about the triple consequences of

(1) an overstatement in the project / non-recurring costs/engineering development assets of > C\$40m .

(2) a program gross margin “breakeven” to actual financial losses and

(3) create a future cash deficiency / non-recovery in the internal and public reporting (MAC 5 year strategic planning base - Sales revenues / cash projections of C\$150m +)”

Although, obviously by comparison a secondary matter, after the normal cycle/flow time adjustment this lower actual -121 - Magellan delivery number (-15) to that - 136 - properly and credibly planned in Airbus/Aircelle in that 42-month period is not surprising. I believe this difference was largely because I witnessed in FY2006 the COO Mr Butyniec pressing his Operations staff in Bristol/Aeronca for more A340 deliveries to Aircelle than budgeted (to achieve 80 versus the budget of 64 units). In large part this was because he was trying to improve the factory overhead recovery rate to meet the approved MAC 2006 budget – this despite the fact that the direct labour hours total/per unit were also already above the unit FY2006 budget target - in the EAC (although this action was at the detriment to his Aircelle 14 August BAFO settlement letter with a lower price for FY2006/Q2.2006 EAC) and therefore Aircelle are likely to have had a surplus of perhaps 10-16 completed exhaust system units at “2006” prices in their inventory/stock by December 2006. On all the evidence available I doubt whether MAC will even deliver / sell another 15 A340-500/600 exhaust system units for replacement spares in the next 18 months / by the end of that five-year strategic planning period in FY2011. ”

#### **Point 2 and then in Website Part D re CD2 extract documents to PwC**

**“ NONE of the contents of those CD2 emails/folder files are mentioned or Exhibits in either of the PwC Reports. The reader will have noted that the Final PwC report was published at the end of August 2007 after the seven-month C\$3m “independent forensic investigation?” was commissioned by Mr Dimma. (A few examples such as**

(1) [my 19 Feb 2006 email above -- on probable A340 -500/600 production build projections of 150 aircraft](#) or

(2) [Mr Butyniec’s Best and Final Offer \(BAFO\) 11 August 2006](#)

[Dear Vincent commercial letter to Aircelle re A340 Pricing with his proposed 8.7% price increase for FY2006 etc etc \(which was LESS THAN than the FY2006 price we had used in the Q2.2006 Estimate at Complete.EAC for the Q2 quarterly earnings\)](#) after his Farnborough Air Show negotiations in late July 2006, following which, as you will have noted, he gained **Mr Edwards approval { “Letter looks fine to me. Let’s hope this puts this issue to bed.”}** Mr Dekker “clerical edits” and therefore “authorization ? of his settlement terms” immediately after the MAC Board 10 August 2006 meeting. I never saw anything in writing from Mr Neill at that time ( [I had on 22/23 February 2006 when Mr Furbay emailed us that “our true impact is 9%” etc](#) ) but subsequently understood that by 15 August 2006 that Mr Neill had rescinded his 23 February 2006 written instruction to Mr Furbay of “.. Walkaway has to be around 15%.” and was supportive of the written “settlement terms” in Mr Butyniec’s BAFO counter-offer proposal to Aircelle – “ V. Lafond expects a counter offer. Letter sent by JSB to V Lafond.” – MAC staff meeting minutes on 15 August 2006 (doc2021).

Whilst I accept Mr Neill's written evidence (RAN22) that I can be a strong negotiator – [as for example in his email exchange with Airbus UK at that same time in early August 2006 in securing the contract price increases for 77 parts at 100% of the price we requested in May 2006 and worth C\\$4m+ per year to FY2010 with £200K retroactive for FY2006- see further info in Part K](#) - **in my Magellan roles I was personally dismayed and disappointed to learn** - after both that MAC Board 10 August 2006 meeting and I had left Toronto Head office on the 11th - as I was unaware of any discussion or approval or Mr Butyniec's/Mr Dekker's BAFO proposal to the preceding MAC Audit Committee or during my attendance at the MAC Board (nor is it minuted) - that Mr Butyniec in his 11 August 2006 letter was prepared to settle, on behalf of MAC, in his Aircelle settlement discussions for a price increase of **only 8.7%** in the MAC commercial agreement for A340-500/600.

This was instead of pressing for at least the "low teens /12.3% +" as a FY2006 pricing/baseline for the budgeted 64 {operations planned more/actual 81} Exhaust system deliveries in FY2006. This "pricing deficit" alone would cost MAC at least C\$0.5m in additional revenues/gross profits/cash in FY2006. I believed then that we had a very sound business and legal /arbitration "case" for 12%+ (an additional \$6000+ per exhaust unit) and up to perhaps 32% for FY2006 although the escalation formula challenges for MAC would really come within our strategic planning horizon in 2009+. Astonishingly --- and I could never understand why {given Mr Butyniec's "tough" vocal and written position within Magellan in the past (e.g. his [email in January 2006- {.... My concern is that we keep changing the numbers until they look like we need them to be .....We need a real offer in writing from them now. We are negotiating with ourselves and have been for months..... I want a deal like anyone else, but one that provides a profit"} and \[Airbus Toulouse Nacelle Procurement / Aircelle's February 2006 complaint about Magellan behaviour\]\(#\)} Mr Butyniec's BAFO FY2006 price of \\$179K per unit - 8.7% price increase etc etc as requested by Aircelle as the MAC basis of a settlement \(his term : "stopping negotiating with ourselves"\) was then WORSE /LOWER than had already been secured by Mr Furbay/us in Aircelle commercial discussions in late June 2006 \(doc 1790- 23 June 2006\) > It was on that June 2006 Aircelle "agreed" 9.7% price increase basis that a minimum \\$ price number of \\$181K per unit for production/spares was derived and all of us submitted in the Q2.2006 EAC/financial reporting for the A340-500/600 program. "](#)

**Finally since my initial email on 18 July 2010 a former PwC partner has directed me to a website link and a very recent survey commissioned by Mr John F. Tracey et al and carried out by their Belfast Office entitled "Tone from the Top". I attach it for your information – its relevance to the conduct and actions of Magellan and PwC / others since August 2006 will be self-evident.**

Regards

Brian Little

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**From:** Brian Little [mailto:brian@fortfield.com]

**Sent:** 23 July 2010 19:27

**To:** 'wdimma@brookfield.com'; 'wdimma@msn.com'

**Cc:** 'wdavis@torys.com'; 'pjewett@torys.com'; 'medwards@rogers.blackberry.net'

**Subject:** FW: website update - Farnborough Airshow and Anonymous A340 whistleblower letter re EAC's/ Dimma investigation

**Farnborough Airshow 2010** – As part of a three day Pearl wedding celebration holiday/visit to London earlier this week I attended for 1.5 days the Farnborough Airshow. During which time I met a large number of people – including two of my usual reliable senior Airbus sources. Substantively the position I stated in my A340 report.15.December.2009 and mid January 2010 and 18 July 2010 website updates has been verified. I have revised the 18 July 2010 website section B to now include some of the data from elsewhere in the website re E&Y and PwC as a result of some reader initial feedback. The additions will be readily apparent to that sent to you last Sunday evening.

In my email below last Sunday evening I also included a

"Point 3

Since my mental/nervous breakdown in early February 2010 naturally some of my local friends at Bombardier in Belfast have learned of my ill-health. An indirect consequence of that is that as Bombardier were part of International Nacelle Systems until 1997 - a joint venture between Hurel and Bombardier/Belfast - a former senior member of Hurel-Hispano (the predecessor to Aircelle) who I knew reasonably well in the early 1990's has got in touch. It seems he is well aware and was involved in the A340-500/600 exhaust system with Airbus and Magellan from the outset. He

tells me it all started at Paris Airshow 1997 when a HH colleague met Rich Neill, who offered to provide a A340-500/600 exhaust system proposal from Magellan/Aeronca. At the time HH had only one commercial proposal from Astech (now GKN) for \$142K per engine unit in 1997 terms. Magellan/Aeronca then provided its bid for circa \$80K.

We have set a time to meet now and he promises me "chapter and verse" on his perspective on the historical story before my promotion and appointment as Senior Officer in Magellan in June 2005 and the eventual March 2005 Settlement Agreement, following the legal injunctions in Canada and USA against Magellan in late 2004. I propose to add some of this Aircelle perspective in due course to my A340 report/website as further prior history in due course. No action required until I compile this and then of course I will provide you with the opportunity for input where you can credibly demonstrate that I am factually wrong in that reporting."

I met and talked to this former HH/Aircelle senior manager too. It will take a while to compile a summary of that information but I can say now that the Aeronca bid was for \$85K (versus the \$142K from Astech. No bid was sought from Goodrich as they were a direct competitor). Shortly after receipt of the Aeronca bid Hurel Hispano people (including a member of his staff) visited Aeronca and met with a Mr Jim Stein ? and Mr Brian Latz to enable them to carefully consider their "low bid" and provide the opportunity to uplift it based on relevant information. These two gentlemen from Aeronca did not take that opportunity and instead stated their confidence in Aeronca/Magellan being able to contract on that basis. He believes from memory (to be checked) that there were minimal, if any, changes to the commercial contract terms finally approved by Magellan and signed by Mr Stein.

#### **New Point 6 :**

Arising from Mr Furbay's termination by Mr Dekker on the 25 June 2010 I have received a copy of a letter/information sent by an Anonymous Whistleblower on the A340 Project in 2002 to Mr Edwards – when he was Chairman and CEO of Magellan Aerospace. Please find attached a scanned copy of the covering letter. After setting the scene you will note it includes a paragraph " *This writer recommends that you task Mr William A. Dimma with an audit of the subject A340 Estimate at Completion (EAC) at your U.S. Subsidiary.*"

**QUESTION 4 Can you please confirm when, in your role as Chairman of the Audit Committee, you received a copy of this "whistleblowing" letter from Mr Edwards? When you carried out your investigation, at his request, where can we see the public record of the financial implications of that in the public accounts of Magellan since FY2002 or is there none?**

As before I look forward to a response to my four questions (and four supplementaries) by the end of July 2010.

Regards

Brian

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**From:** Brian Little [mailto:brian@fortfield.com]

**Sent:** 18 July 2010 21:16

**To:** 'wdimma@msn.com'; 'wdimma@brookfield.com'

**Cc:** 'wdavis@torys.com'; 'pjewett@torys.com'

**Subject:** RE: website update and three questions and supplementaries

**Point 1** Further to my email trail below to you dated 18 December 2009 (exactly seven months ago) I sent you the [www.fortfield.com](http://www.fortfield.com) links to my website and thence the attached Brian.Little.A340.On.the.record.FINAL.VERSION.15.December.2009. report. You will have noticed that that report and the recorded that you and Magellan had been given the opportunity to