

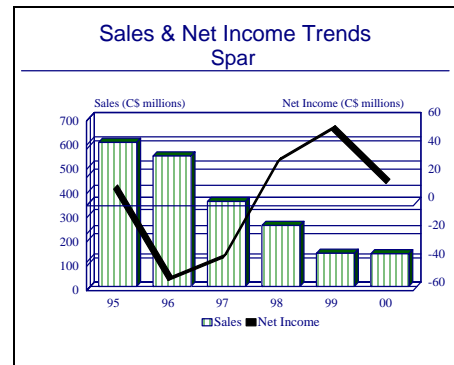
# ARCHIVED REPORT

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## Spar Aerospace Ltd - Archived 10/2003

### Outlook

- In October 2001, L-3 Communications purchased all of the common shares of Spar, effectively taking over the company
- The acquisition of Spar was pursued to build up L-3's position in the aircraft services segment
- With Spar now part of L-3, this report will be archived



### Headquarters

Spar Aerospace Ltd  
121 King St West, Suite 2100  
Toronto, Ontario  
Canada M5H 4C2  
Telephone: (416) 682-7600  
Web site: <http://www.spar.ca>

Spar Aerospace, originally named Spar Aerospace Products Ltd, was incorporated in 1968 in Canada. As a division of the De Havilland Aircraft of Canada Ltd, Spar's main focus was on special products and applied research (thus the name Spar). When de Havilland decided to focus more on aircraft, Spar acquired its engineers, who were then working on the Alouette and Isis research satellites. Spar initially focused mainly on electromechanical equipment directly related to the Space Shuttle's Canadarm and activities with the

International Space Station. With the acquisition of RCA Limited and Northern Telecom, Spar moved into space electronics, setting the stage for such projects as the RADARSAT and MSAT programs.

In 1997, Spar embarked on a plan to restructure the company by divesting itself of underperforming businesses and reinvesting the proceeds in aviation services and other areas of higher growth. By the end of 1999, Spar had exited the space and communications industries and placed its focus solely on the aviation services business.

In October 2001, L-3 Communications purchased all of the common shares of Spar, effectively taking over the company. As of January 2002 Spar is a wholly owned subsidiary of L-3 Communications.

### Structure and Personnel

Anthony Caputo  
President  
Antonio Fernandez-Stoll  
Senior Vice President and Chief Financial Officer  
Chuck Gyles  
Vice President, Human Resources

Eugene Manzie  
Vice President, Program Management  
Elspeth Gaukrodger  
Treasurer  
Frank S. Callaghan  
Secretary

### Product Area

Spar is currently organized as follows:

**Spar Aerospace Ltd**

1. Maintenance, Repair, and Overhaul (MRO)
2. Support Services
3. Aircraft Programs

**Aviation Services.** Spar Aviation Services is involved in the aviation after-market. It provides defense

departments and commercial airlines with aircraft repair and overhaul services, as well as ongoing on-site maintenance support for such major systems as flight simulators.

## Facilities

The following is a listing of the major facilities and business operation centers for Spar:

Spar Aviation Services, 7785 Tranmere Drive, Mississauga, Ontario L5S 1W5, Canada. Telephone: (905) 673-6000.

Spar Aviation Services (CAE Aviation Ltd) Aircraft Programs, PO Box 9864, 7th Avenue and Airport

Service Road, Edmonton International Airport, Edmonton, Alberta, T5J 2T2 Canada. Telephone: (780) 890-6300.

Spar Aviation Services, 770 McTavish Road NE, Calgary, AB T2E 7G6. Telephone: (403) 216-6730.

## Corporate Overview

Spar Aerospace Ltd is a wholly owned subsidiary of L-3 Communications and is engaged in the aviation repair and overhaul business.

Defense (Armament General Directorate) to undertake the C-130 Avionics Upgrade Program for the Hellenic Air Force. Spar expects this contract will be worth in excess of \$100 million over a three-year period.

### New Products and Services

**USCG C-130 Inspections.** In December 2001, Spar Aerospace was selected by ARINC Incorporated to perform progressive structural inspections and maintenance overhauls for up to nine US Coast Guard C-130 Hercules aircraft. This program is similar to the progressive structural inspections that Spar performs for the Canadian Forces fleet of C-130 aircraft. The US Coast Guard aircraft program will be in the range of US\$10 million and will be conducted at Spar's International Airport facility, Edmonton, Alberta, over the next two years.

**Canadian CC130 Support.** In October 2001, Spar Aerospace announced the award of a Department of National Defence contract for the integrated support of the Canadian Forces' fleet of 32 CC130 Hercules aircraft. The scope of the contract includes technical investigation, engineering support, publications management, and maintenance repair and overhaul of the aircraft and related components. The work will be done at Spar's facility in Edmonton, Alberta. The contract is for one year with up to two optional years. The CC130 Hercules aircraft is the workhorse of Canadian Forces' strategic and tactical airlift operations and is also used in the air-to-air refueling and search and rescue roles. The work to be performed under this contract will contribute to the sustainability and airworthiness of the CC130 fleet throughout its life cycle.

**Greek C-130 Avionics Upgrade.** In June 2001, Spar was selected by the Hellenic Republic Ministry of National

### Plant Expansion/Organization Update

Spar Focuses on Aviation Services. In December 1999, Spar initiated a significant reorganization of the corporation's affairs, focusing the company solely on aviation services. The company said that it had received several offers to purchase Spar, but none of these proposals had been attractive enough to pursue. Instead, Spar has decided to retain its remaining businesses and continue as an independent company. Under the current plan, Spar's corporate infrastructure will be consolidated with Aviation Services. In addition, Aviation Services' product lines will be consolidated. These two activities will result in anticipated annual cost savings of \$4 million to \$5 million. In order to effect these changes, Spar took a restructuring charge of approximately \$11 million in 1999. The charge covers integrating corporate office functions with the former aviation services division; consolidating the Mississauga, Ontario, Pointe-Claire, Quebec, and Piqua, Ohio, facilities; and exiting selected non-core product lines. The facility consolidation affected approximately 40 employees in Pointe Claire, Quebec, and Piqua, Ohio, all of whom were offered positions elsewhere in Spar.

### Mergers/Acquisitions/Divestitures

L-3 Communications Buys Spar. In October 2001, L-3 Communications initiated an offer to acquire all of the fully-diluted common shares of Spar at C\$15.50 cash per share or C\$230 million in total.

Eric Rosenfeld Chairman of Spar said, "The agreement with L-3 enables shareholders to realize the value that has been created. We have every confidence in Spar's potential, and believe that the company will best maximize its potential as part of L-3, a much larger, international corporation with complementary markets and products, particularly under the current market conditions." The deal was completed in January 2002.

**Space Robotics Sold.** In May 1999, Spar completed the sale of its Space Robotics Division to McDonald Dettwiler and Associates (an Orbital Sciences subsidiary) of Richmond, BC. The asset sale yielded proceeds of approximately \$63 million, comprising \$31.5 million cash and a one-year note for \$31.5 million.

**EMS Buys Satellite Products Unit.** In January 1999, Spar sold the Satellite Products unit of its Space Systems Division, located in Sainte-Anne-de-Bellevue, Quebec, to Electromagnetic Sciences Inc (EMS) of Norcross, Georgia. The asset sale yielded proceeds of about \$30 million.

**Astro Sold to TRW.** In December 1998, Spar sold subsidiary company Astro Aerospace Corporation to TRW Inc (Space & Electronics Group). The all-cash transaction for 100 percent of Astro's shares yielded proceeds of approximately C\$30 million.

**Spar Sells ComStream.** In October 1998, Spar Aerospace sold its wholly owned subsidiary, ComStream Holdings Inc, to Radyne Corp for \$17 million. Headquartered in San Diego, California, ComStream is an international provider of digital transmission solutions for data, audio, and video applications for the satellite industry. Products include satellite modems and earth stations, broadcast systems, the MediaCast Satellite PC/server receiver card, and digital set-top boxes.

Earlier, in June 1998, Spar announced the sale of subsidiary ComStream Corporation's Satellite Global Access (SGA) division to wholly owned subsidiaries of NSI Communications Inc. The purchase price was not disclosed. The divestiture of ComStream's Components division was worth \$52 million.

**Spar Sells Software Subsidiary.** In June 1998, Spar sold software subsidiary PRIOR Data Sciences to a consortium of investors led by Royal Bank Capital Corporation and CIBC Capital Partners, for \$15 million in cash. PRIOR Data Sciences is a private Canadian software engineering and systems integration company that specializes in performance-critical systems. Strategic business areas include air traffic management, defense, and communications. The company employs

about 300 people, 260 of whom are software and systems specialists.

**Spar Purchases CAE Subsidiary.** In December 1997, CAE Inc and Spar Aerospace agreed that Spar would acquire CAE's wholly-owned subsidiary, CAE Aviation Limited, for approximately \$62 million. The cash transaction, which included essentially all of CAE Aviation's assets and operations, was finalized in January 1998. CAE Aviation Limited is based in Edmonton, Alberta, and has annual revenues of approximately \$70 million. It provides aircraft maintenance, system upgrades and publications services for a variety of commercial and military aircraft, including the Boeing 737 and Lockheed Martin C-130 Hercules. The business operates North America's only Lockheed Martin approved Hercules Service Center, which is one of only 12 in the world. All of CAE Aviation's approximately 570 employees were offered positions with Spar.

**Spar Sells Applied Systems Division.** In October 1997, Spar Aerospace sold its Applied Systems business to DRS Technologies Inc of Parsippany, New Jersey, for approximately C\$40 million cash. This transaction included all of the assets except cash on hand, liabilities, and all contracts related to the Applied Systems business. The Applied Systems business designs and manufactures complex communication, flight safety, surveillance and navigation equipment, including flight incident recorders, crash position locators, and digital shipboard telecommunications systems to military organizations and commercial airline customers around the world. It also provides custom manufacturing services for complex electronic assemblies and systems, such as printed circuit boards.

### **Teaming/Competition/Joint Ventures**

**Signaal.** In October 1994, Spar and Signaal (of the Netherlands) signed a Memorandum of Understanding (MoU) to join in the development of the Sirius dual-band, long-range, infrared, search-and-track sensor. In January 1995, the two companies were awarded a \$10.2 million contract to develop, produce, and deliver a pre-production model of Sirius to the Dutch Navy. Spar developed the Sirius processing subsystem. The subsystem incorporates focal plane array and signal processing capabilities.

**Boeing.** Together, Boeing and Spar have developed a Deployable Flight Incident Recorder (DFIRS) that records vital data for crash analysis and detaches itself from disabled aircraft to provide a locator beacon for faster rescue.

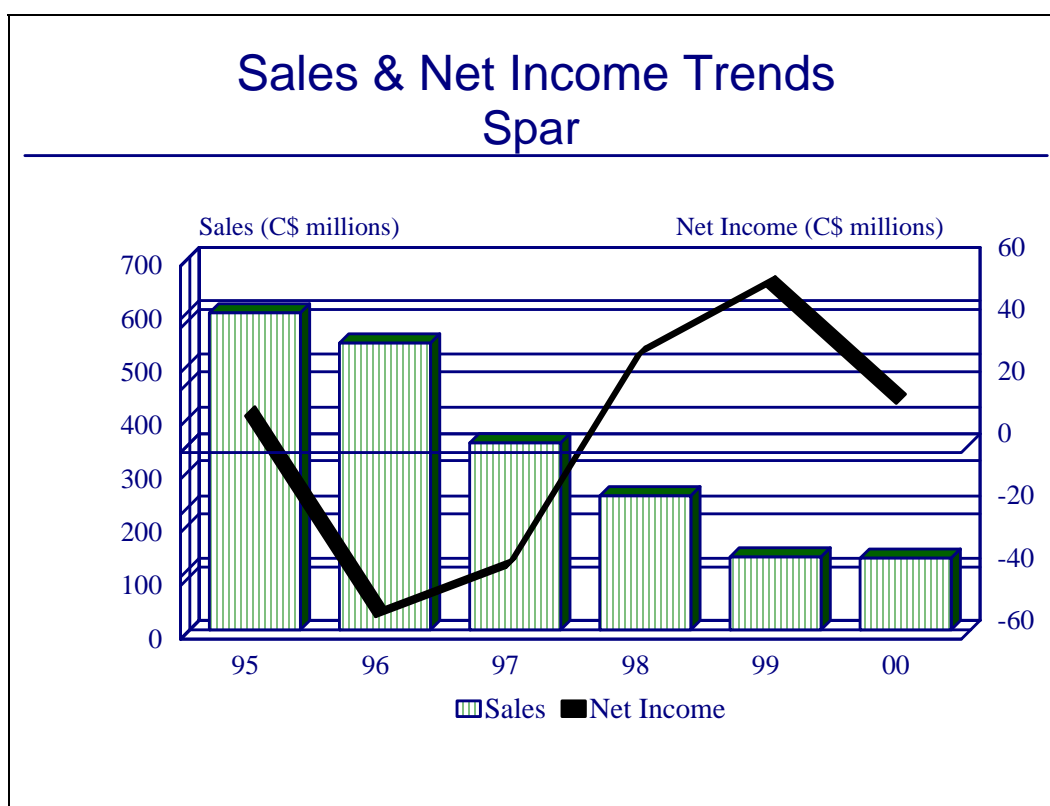
**International Aircraft Management Company (IAMCO).** Spar Aviation Services Division is partner in this

multinational company based in Italy. IAMCO, as prime contractor to NATO, is responsible for managing the depot-level maintenance program on 18 E3-A early warning aircraft and three transport aircraft.

## Financial Results/Corporate Statistics

Spar reported 2000 net income of C\$15.8 million on revenues of C\$134.4 million. The increase in net income was attributed to gains in asset sales and divestitures initiated during the year. Lower sales in the 1997/98 period were the result of a series of major divestitures initiated during the period. The company posted losses of C\$37 million in 1997 compared with a loss of C\$52.8 million in 1996. The loss for 1996 is attributed to restructuring charges amounting to \$43.6 million taken in the second and third quarter of 1996. Figures have not been restated to conform to the company's current presentation.

Y/E December 31	1995	1996	1997	1998	1999	2000
(C\$ millions)						
Net Sales	594.5	538.0	350.5	251.2	136.6	134.4
Net Income	11.8	-52.8	-37.0	31.0	53.6	15.8



### Industry Segments

In 1999, Spar stated that the company's primary focus is to provide aviation services. Hence, the company has one reportable segment. Figures below are for historical reference.

SALES	1995	1996	1997	1998
(C\$ millions)				
Space systems	242.3	232.5	194.6	128.0
Aviation	77.6	73.9	53.0	123.1
Communications	250.7	203.5	77.1	-
PRIOR	23.9	28.1	25.9	-
<b>TOTAL</b>	<b>594.5</b>	<b>538.0</b>	<b>350.6</b>	<b>251.1</b>

<b>OPERATING INCOME</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
(C\$ millions)				
Space systems	8.3	14.0	12.4	16.9
Aviation	10.0	11.2	7.6	14.4
Communications	10.5	-9.6	1.4	-
PRIOR	-0.2	1.8	2.3	-
<b>TOTAL</b>	<b>28.6</b>	<b>17.4</b>	<b>23.7</b>	<b>31.3</b>

## Strategic Outlook

Shortly after successfully reorganizing itself into an aviation repair and overhaul specialty company, Spar found itself the target of the acquisition-hungry L-3 Communications.

Over the past four years, L-3 Communications has undertaken more than 20 acquisitions that have transformed the company from a \$525 million niche electronics firm to a \$3.5 billion prime contractor. Originally created from 10 units spun off by Lockheed Martin, L-3 has become one of the leading US defense electronics firms.

The acquisition of Spar was pursued to build up L-3's position in the aircraft services segment. Spar provides turnkey aviation life-cycle management services for military and commercial aircraft, and also offers pull-

through opportunities for other L-3 products and services.

For Spar, the acquisition opens the door to the US market at a time when defense spending is set to rise. In fact, this timing led some shareholders in Spar to question the deal that L-3 got in buying the company for C\$15.50 a share.

Some investors felt that the price was too low based on Spar's position in the aerostructures service marketplace. However by the January 2002 shareholders meeting these concerns were rendered moot when the majority of stockholders approved the deal.

With Spar now part of L-3 Communications, this report will be archived and its data merged into the L-3 update.

## Prime Award Summary

Unavailable

## Program Activity

Some important aerospace and government programs currently under way at Spar Aerospace are listed below. The briefs are intended to provide a listing of programs of major importance to the company. For detailed information or analysis of specific aerospace and defense programs or equipment, please refer to the appropriate Forecast International binder (for example, *Aircraft, Military Vehicles, Warships, Missiles, Electronic Systems, and Gas Turbines*). The following is an outline of the company's business interests:

- Aircraft Components
- Civil and Military Fixed-Wing Aircraft
- Civil and Military Helicopters
- Avionics
- Systems Integration

### Aviation Services

Aircraft programs involve engineering support, depot-level maintenance, and avionics updates, with facilities in Calgary and Edmonton, Alberta.

Component maintenance, repair, and overhaul programs specialize in dynamic components of the Sea King helicopter, with facilities in Mississauga, Ontario.

Support services feature integrated logistics support program management, supply chain management, life cycle management, and depot-level maintenance for the NATO AWACS.

## US Contract Awards

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Spar has received no major contract awards (\$5 million or greater) directly from the United States government in the past year. Most of Spar's aerospace work in the United States is carried out as subcontracting.

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