



Start your engines

Launching a new airline in such crowded and economically challenging environments as the US may seem like a fool's game but Avatar Airlines is planning to launch this year, with very unique business model. *Airline Economics* reports.

Ultra-low-cost carriers are taking an increasing part of the airline market as travellers seek out the cheapest fares. But still there is a push back from some passengers who, having found the cheapest ticket online, resent having to pay extra for checking bags, carry-on luggage or for checking in at the airport rather than online. One group of airline executives in Florida believe they have the answer. Avatar Airlines, the

brainchild of founder Barry Michaels, intends to launch as an ultra-low-cost carrier and earn a profit without resorting to charging steep ancillary fees.

Flying domestically within the US for the first three years, Avatar Airlines plans to subsidise ticket prices by profits generated from several distinct business lines, while keeping trip costs low by flying 747-400s with the highest load factor possible.

"We believe that Avatar Airlines is really going to revolutionise air travel

for the average consumer," says Michael E. Zapin, Senior Executive VP of Avatar Airlines. "Our vision centres on the use of the Boeing 747-400, which will allow us to fly passengers for 50% less than the everyday lowest fare of domestic US carriers. That is no small promise. We have the tools and the proposed infrastructure to back it up."

"For so many reasons, the 747-400 is a great choice of an aircraft," he adds. "We know that most carriers use this aircraft internationally. But we plan

to fly it domestically and we will show the world that we will be able to do so profitably and at a cost far less than our competitors by using a number of unique profit centres that are all designed to subsidise the cost of air travel.”

This equipment choice has been derided by some who consider the 747-400 to be a “gas-guzzler”, which in this world of high fuel costs, usually equates to an operating loss. While most airlines are replacing their ageing equipment for new, more fuel-efficient aircraft, Avatar has weighed up the economics of using a very large aircraft on high volume domestic routes with fewer flights and found it to be more economical than using 737-800s or A320s to fly the same routes four times rather than one.

Marvin Ruthenberg, president & chief operating officer, explains the 4-in-1 ratio concept shown in Figure 1: “The 747-400 with four engines, 18 wheels and 581 passengers is more than equal to four flights on a 737 or A320 with 140+ passengers and flight crew, four times the amount for labour costs, parts, crew, landing fees etc. All of those things require airlines operating 737s or A320s have to fly four times compared to one flight of a 747. The fuel consumption of a 747-400 on one trip is also far less than four flights of a 737 or A320.” (see Fig.1)

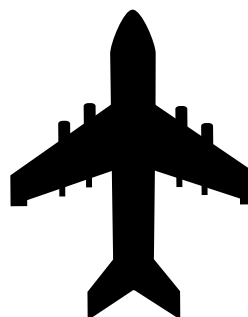
“We make more money on a 200 mile run than we do on a 2200 mile journey,” says Michaels. “We expect to sell a ticket for \$19 on a 200 mile run but we can’t sell a ticket for ten times that for a 2,200 mile run. We have a projected fare from LA to Las Vegas which is 220 miles for \$19 for any day and for every seat so long as it is bought 30 days or more in advance. Obviously this airline is not for every market. We will cherry pick our markets very carefully. It is all about filling the airplane.”

Avatar plans to service only those markets (e.g. Los Angeles, Las Vegas, Orlando, Dallas, New York, Philadelphia, Miami, Chicago, San Jose, San Diego, San Francisco, Phoenix, and Honolulu) that it believes are large enough to sustain 80% load factors when coupled with ultra-low fares.

Avatar believes that its ultra-low fares will “not only attract a large passenger segment of the particular market, but will increase the overall number of

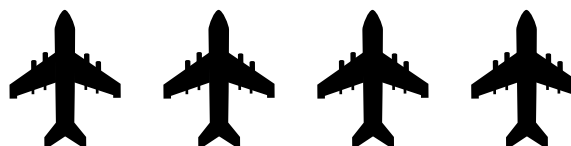
FIG.1 - IMPACT OF HIGHER FUEL COST ON PROFITABILITY

Avatar Airlines will benefit in a competitive environment as the price of fuel increases.



AVATAR 747-400		
Number of aircraft	1	
Cockpit crew	2	\$325.00
Flight attendants	15	\$450.00
Fuel consumption/gal	3200	
Fuel cost per hour		\$11,200.00
Seating capacity	581	
TOTAL COST		\$11,975.00

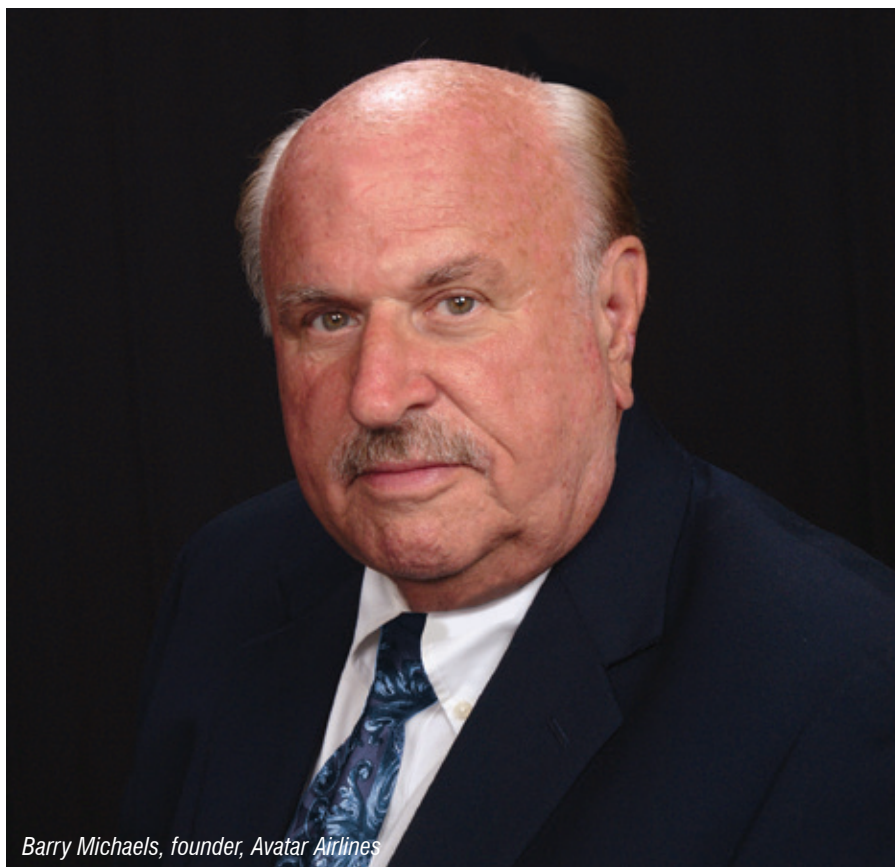
Cost per seat mile \$0.0393



COMPETITORS 737-300		
Number of aircraft	4	
Cockpit crew	8	\$1,160.00
Flight attendants	12	\$360.00
Fuel consumption/gal	6400	
Fuel cost per hour		\$22,400.00
Seating capacity	556	
TOTAL COST		\$23,920.00

Cost per seat mile \$0.0393

AVATAR AIRFARE PRICE EXAMPLES AT VARIOUS FUEL COST				
		Fuel cost per gallon		
	Current	\$4.00/gal	\$5.00/gal	\$6.00/gal
Los Angeles to Las Vegas	\$19	\$26	\$37	\$48
New York to Miami	\$49	\$62	\$73	\$84
New York to Las Vegas	\$79	\$79	\$105	\$116



Barry Michaels, founder, Avatar Airlines

“Avatar intends to subsidise its fares by generating income from six distinct and separate profit centres: Passenger Revenue, Cargo, Food & Beverage, In-flight Entertainment, Branding, and Avatar Vacations.”

driver. The airline intends to lease out the cargo space in the belly of its 747-400s wholesale, which will hold around 70,000 pounds of containerised freight.

“There is a huge demand for cargo,” says Michaels. “There are a lot of international flights into the US using 747s that cannot fly on internally on the same aircraft. Freight has to be transferred onto a truck or a widebody, which there a very few flying in the US any more. This is the market we intend to target.”

The food and beverage profit centre is a unique concept for an airline, since Avatar does not intend to carry food on board that has not been pre-ordered and it also intends to partner with restaurants to offer a wider choice for passengers.

“We will not carry any prepared food onboard that has not been pre-sold,” says Michaels. “When you buy a ticket, you will select your seat and select your food – passengers will be able to order anything from a snack to a gourmet meal, which is pre-paid with the ticket fare. At the time of the flight, the food will be delivered via an airport caterer. We will serve our own food that will be a quality product, which will be another reason to choose Avatar, but we will also contract with various restaurants for food and beverage offerings. For example, in many cases, passengers may be able to order food from their favourite restaurants that Avatar intends to partner up with, so it will not be the airline’s choice what to offer, it will be the choice of the passenger.”

“Other low-cost airlines sell a lot of food and beverages onboard but the choices are limited and they are outrageously priced,” adds Michaels. “Our food and beverage concept is to

passengers in the market by attracting those who would not normally fly, if not for Avatar Airlines’ ultra-low fares”.

The airline has also stated that it is currently exploring the possibilities of expanding its markets in the future by offering seasonal and less than daily frequency to smaller markets that are capable of handling the 747 aircraft. While, in the third year of operations, Avatar Airlines intends to pursue International authority to service Cancun and Mexico City.

“Existing carriers are now making a profit but that is being done on the back of consumers by charging ridiculous fees and hidden costs for checking in, seat selection, check and carry on baggage fees,” says Zapin. “We decided that we would build this airline from the ground up – everything about Avatar is completely unconventional.”

“We will not charge extra for seat assignment,” says Ruthenberg. “As soon as the reservation has been made, the customer will choose their seat. We won’t charge for carry on and won’t charge for two checked bags. That will be premium service over any of the other ultra-low-cost carriers.”

Avatar Airlines has projected an average cost per seat mile of less than \$0.06, enabled by the carrier’s economy of scale, size of aircraft, additional revenue stream and low cost of operation.

Avatar fares will apply to every economy class seat purchased 30 days or more in advance. Tickets purchased less than 30 days before departure will be sold at a higher cost. The airline states that costs per seat mile will increase as fuel costs rise but that it will be able to offset part of this cost by raising fares, instituting fuel surcharges, or “employing other revenue-generating techniques”.

Fares are non-refundable and non-exchangeable but passengers will have the option of insuring their fare for \$10 that would make it fully exchangeable and fully refundable, which would generate more profit for the airline.

Avatar intends to subsidise its fares by generating income from six distinct and separate profit centres: Passenger Revenue, Cargo, Food & Beverage, In-flight Entertainment, Branding, and Avatar Vacations.

Avatar believes that the domestic cargo business will be a major revenue



Marvin Ruthenberg, president & chief operating officer, Avatar Airlines

increase choice for the consumer. We will also have beverages and dry snack packs on board that people can buy during the flight. All low-cost carriers around the world have embraced branding as a lucrative source of revenue. Avatar intends to take the concept of branding one step further with the philosophy that anything a passenger can see or touch on the aircraft will be made available for sale to a third-party advertiser, will the sole aim of helping to subsidise fares for its passengers. "This is a unique concept for airlines but not for other transportation methods – they do this on buses, taxi cabs and trains already. Some people may say that it has no place in airlines but if it keeps the cost of the ticket down – 50% less than the lowest fares – most people looking for the lowest fair will fly Avatar," said Zapin.

Avatar plans to offer the interior as well as the exterior areas of each aircraft to advertisers on a contractual basis, most on a yearly basis. Areas available include: the exterior hull, wing, tail, overhead bins, seat backs, lavatories, tray tables, free standing video screens, as well as the traditional inflight entertainment magazine.

"Avatar also intends to give advertisers the opportunity to give out gift bags containing samples, promotional products and marketing materials to passengers as they leave the aircraft," said Zapin.

Avatar hopes to attract the larger corporate clients for larger branding options such as the fuselage sponsorship.

"We are looking to offer a plane fuselage wrap for a minimum contract of one or two years," says Ruthenberg. "They [the advertiser] would pay the cost of putting their design on the aircraft itself and then there would be a monthly fee."

This is not a new concept – European airlines have offered fuselage sponsorship in the past. One of the downsides of this branding offer was the considerable downtime of the aircraft while it was being repainted. Avatar intends to use a decal wrap that shouldn't take more than 48 hours in a maintenance facility.

"We hope to have a maintenance facility in Miami International Airport or JFK in New York both of which can deal with the 747 maintenance issues," adds Ruthenberg. "We haven't chosen a place for our headquarters yet but more

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than likely the maintenance home will be JFK or Miami, which are the two places than can maintain 747s in the US."

Avatar will also always have a minimum of two spare aircraft on hand to deal with downtime from decal wraps or maintenance issues.

Michaels confirms: "We intend to operate a fleet of 30 aircraft – 14 on schedule for the first full year, adding six in the second year and 10 in the third. By the end of the third year, we intend to have four spare aircraft which are expected to fly two-four hours per day. Our operation has to have spare aircraft. If we have a mechanical fault or something that grounds an aircraft, we need to be able to put those passengers on a flight as soon as possible. It would be inconceivable to put 600 passengers on another airline from Los Angeles to New York – we would have to do that ourselves. Since our flights are expected to be full the next day, we will need to have spare aircraft."

Avatar intends to acquire its aircraft with cash. "This is a time when there are so many aircraft available that we intend to buy our aircraft for cash," says Michaels. "We intend to be debt free, well capitalised and profitable. We are talking to three aircraft vendors that each have several aircraft available at the moment."

Since each of Avatar Airlines' flights will contain a captive audience, Avatar intends to capitalise on that by offering marketing companies the option to create virtual focus groups from passengers onboard the aircraft.

"We came up with a unique concept in the world of airline travel, which is to create virtual focus groups, which will give passengers that participate almost-free travel," says Zapin. "Marketing



Michael E. Zapin, Senior Executive VP, Avatar Airlines

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of seats – this is an advantage for us. “We will provide these tour companies with access to the seats before they are made available to the public, without providing a passenger name until 48 hours before the flight time.”

All of these plans sound economically sound but Avatar’s business plan is based on ensuring its aircraft fly 80%, or more, full, and that its profit centres are able to generate income quickly enough to subsidise those ultra-low cost fares. Equally Avatar has not yet launched operations since it is still in the process of raising funds to enable it to begin operations and secure that all important Air Operator’s Certificate.

Ruthenberg says: “We expect to launch a 300 million dollar private offering in August, under the new JOBS Act – the SEC Reg D506-C Rule. This rule allows for public solicitation to accredited investors. We expect to hire FINRA broker-dealers to assist in the sale of the offering, and will provide staff members to assist in road shows.”

Zapin confirms that Avatar Airlines has filed its application with the US Department of Transportation for a Certificate of Public Convenience and Necessity for a US scheduled air carrier, and had a pre-application meeting with the FAA for a Part 121 certification.

“The appeal of Avatar is undeniable – not just for travellers that seek out the lowest price before purchasing a ticket – but even more for budget-minded families that might otherwise not be able to fly at all - or as frequently as they would like - because they are simply priced out of the market. For these folks, Avatar will fill a tremendous void,” said Zapin. “We have a compelling story. The timing for a company like us has never been better.”

companies will pay good money to employ focus groups to evaluate products. There are a lot of companies that would be interested in soliciting our customers to participate in such focus groups – as far as demographics go we will have a wide variety of people flying on our aircraft. They are a captive audience anyway and for the time of participation of around 30 minutes to an hour, they will be able to fly for free. There will probably be a lot of people who will want to participate. Other airlines don’t do it and probably can’t afford it. We are projecting fares from Miami to NY at \$49 each way plus tax. If we can get a marketer that is willing to put up e.g., \$100 - \$200 to have a passenger participate in that focus group, we will make more money from that fee than the passenger fare. This is a win-win situation – it will be profitable for Avatar, it will be advantageous for the customer and it will certainly be good for the marketing company. Some of these will be straight surveys by filling out a questionnaire. The concept is flexible. There is a place for virtual chat rooms/ focus groups too.”

Another profit centre for the airline

is its inflight entertainment offering, based on the most advantageous satellite technology for high-speed inflight Wi-Fi internet connectivity. This service will be available to Avatar passengers free of charge, with sponsors paying the bill.

“One of the reasons why we have chosen not to build in an IFE system into the seats is because technology is changing so rapidly,” says Michaels.

Avatar anticipates that its passengers will use their own devices, but will provide passengers that don’t have their own, with tablets to rent for the duration of the flight.

Another profit centre is Avatar Vacations. Barry Michaels has discovered that tour and cruise operators as well as travel agents are finding it difficult to secure flight seat availability. With its ultra-low fares and 581 seats on each of its aircraft, Avatar Airlines will have the capacity to serve travel company requirements.

“Over the years airlines have downsized equipment so it is no longer a market where you can find a 40% vacancy on a flight – most flights are full at least domestically,” he says. “The tour operators have difficulty securing blocks

Avatar Airlines personnel

Barry Michaels, Founder

Avatar Airlines is the brain child of Barry Michaels a long time entrepreneur with over forty years of business experience. Michaels earned a Bachelor's degree in Political Science (2005) and a Master's Public Administration (2007) from the University of Nevada at Las Vegas and a Doctor of Chiropractic degree from the New York College of Chiropractic (1969). He has spoken and is currently a sought after speaker at airline conventions and seminars throughout the US and has been a candidate for the House of Representatives.

Marvin Ruthenberg, President & COO

Marvin Ruthenberg brings more than 30 years of technical and administrative experience in the airline industry, including senior leadership positions. He is adept at establishing policies and procedures to ensure regulatory compliance, and has an outstanding record of cost reduction, product development and customer service. He began his career with TWA and retired as a VP and has since served in leadership positions at Dornier Seaplane Company, Cayman Airways, Avitech International and Seaplanes of Key West.

Michael E. Zapin, Sr. Executive VP

Michael E. Zapin is President and CEO of The Law Offices of Michael E. Zapin, PA. The firm focuses on commercial transactions and litigation, business turnarounds and consumer and business bankruptcy. A staunch consumer rights advocate and skilled negotiator, Zapin is admitted to practice law in state and federal courts of New York and Florida.

Rick Skow, VP/Legal

Rick Skow brings a diverse legal and business background to the company. Starting with a federal judicial clerkship, Rick served as General Counsel for a global company and as General Counsel for a dual listed publicly traded corporation. His experience includes the development, manufacturing and commercialization of products.

Bruce Reichert, Chief Financial Officer

Bruce Reichert rose through the ranks of accounting to corporate controller at iconic American companies, among them Milton Bradley, Sherwin-Williams, Rockwell International, ITT and Summagraphics. As an entrepreneur, he launched a new concept of widespread in-home travel agents for the travel retail industry known as "hosting." Reichert also created Leisure Group, the first online airline ticketing site and, at the time, the largest online hotel directory.

Raymond (Ray) Sparkes, SVP & Chief Accounting Officer

Ray Sparkes started his professional career with a Big 4 Accounting firm in his native Canada and while there he earned his Chartered Accountant (CA) designation. Sparkes moved to Florida in 1999, where he achieved the Certified Public Accountant (CPA) designation. Since then he has been chief financial officer of two corporations - in healthcare and the performing arts.

Stephen Leseten, VP & Treasurer

Stephen Leseten has owned and operated his accounting practice since 1977. He serves clients in Las Vegas, New York and Florida. His practice is geared to business and personal tax preparation and filings. Leseten is a graduate of Dowling College in New York with a bachelor's degree in Business Administration and presently serves on Avatar's Board of Directors.

Daniel J. Eikleberry, VP Flight Operations

Dan Eikleberry is a retired United Airlines B-747-400 captain with more than 20,000 hours of flight experience. He has flown for commercial airlines, United States military, private aviation, flight test and experimental aviation. He also has flight operations management experience with airline and FAA offices, including dispatch, load planning, customer and onboard services, and gate and cargo handling.

William Kelly, VP/Director of Maint. & Engg.

William Kelly brings a keen awareness of compliance issues and expertise with Boeing 747 systems to his latest position, which includes an integral role in Avatar's certification process with the FAA.

Kelly's career experience includes United Airlines, where he held management positions as a maintenance training specialist, quality assurance auditor and line maintenance supervisor. Previously, he served as an aircraft systems technician for the US Air Force, a line mechanic for the former Trans World Airlines (TWA), the Vertol Division of Boeing, a predecessor of Boeing Helicopters, and he was an aircraft contractor in Saudi Arabia.

Patrick S. Major, Vice President Safety

Patrick S. Major has 25 years of comprehensive experience in the aerospace industry. His credentials include air carrier certification, flight operations leadership and training, organizational development, regulatory compliance and safety management system (SMS) innovation and implementation.

John Chanda, VP/Chief Inspector

John Chanda presently serves as an aviation consultant and has provided services to several new European airlines (MD Airlines & JETX) in re-registering aircraft into Iceland from other Airlines (Aero Lloyd, TAT Industries, Air Liberte, SAS, Span Air). He has worked with Icelandic Civil Aviation Administration in formatting procedures used in applying for registration of aircraft in Iceland.

Joe Pulido, VP Food & Beverage

Joe Pulido is a results driven hospitality professional with more than two decades of proven leadership at restaurants, arenas, convention centers, Four Star hotels, stadiums and major special event venues.

Douglas Schaff, VP Cargo Sales & Service

Douglas Schaff has more than 25 years of experience in all facets of domestic and international transportation, project management, product definition, business analysis, marketing and logistics. He started and operated a cargo charter airline that served the US Agency for International Development (USAID) and United Nations Operations (UNO) in disaster relief on three continents.

Thomas Thompson Jr., Chief Pilot

Thomas Thompson has more than 28 years of experience as a pilot with 12,000 flight hours to his credit. He is qualified to pilot B747-400, 747, 737, L1011, L300, DC-10, MD-11, C141B, T37 and T-38 aircraft. Tommy is a graduate of East Carolina University, the US Air Force Undergraduate Pilot Training and the U.S. Air Force Instructor Pilot Training. His career experience includes numerous flight training centers in the US as both ground and simulator instructor.