



September 9, 2020

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**RE: Letter of Intent to Purchase 26 BA 747-400s**

Gentlemen:

Regarding your recent communication with Avatar's CEO Barry Michaels, please consider this Avatar's letter of intention to purchase your 26 BA Boeing 747-400s described in your September 1, 2020 email. Our offer is part of a bigger opportunity, and I hope you'll keep an open mind and indulge me for a few minutes, as I explain both.

I think you'll probably agree that - *aside from Avatar Airlines* - there are no other airlines lining up to put passenger 400s back to work. Since Avatar has a very unique plan to do just that, the value our offer is going to bring to BA is going to exceed any competing offer you may get (or may have already received) for simply parting out the aircrafts or reducing them to scrap metal.

The COVID-19 pandemic created an economic crisis here in the USA. If not for a substantial government bailout, the passenger industry would have been at a



complete standstill. The bailout had plenty of strings attached. Most notably, airlines receiving funding had to agree to continue flying their routes *regardless* of financial losses. On October 1<sup>st</sup>, those agreements will expire, and many predict massive layoffs will follow with more aircraft being grounded and the possibility of several of them filing for bankruptcy protection.

As sad as this situation is, ironically, the timing of it all could not have been *better* for Avatar. Yes, that may sound a little crazy, but the timing has created an enormous economic opportunity for Avatar and for Avatar's strategic partners.

Avatar is a U.S. based national airline in the certification process, and its inaugural flight is not expected until the 3<sup>rd</sup> or 4<sup>th</sup> quarter of 2021. Since Avatar isn't currently operational, it isn't hemorrhaging millions of dollars in monthly losses that its future competitors currently suffer. On top of that, we all know the substantial expense and "work-in-progress" reliability of new technology whenever it is introduced into a marketplace. Current airlines are grappling with a myriad of products in their attempts to battle COVID-19 onboard, while scrambling for cover in the court of public opinion, trying to convince passengers that it is safe to return to the skies.

Avatar gets to watch this play out without the proverbial price of admission. Given the rate of technological improvements generally made in a year, we expect to have the "best of breed" and most cost-effective in COVID-19 technological defenses, if the virus is not brought to heel by then.

Avatar's financial plan calls for onboarding a fleet of thirty 747-400s during its first three flight-operational years and transitioning to the Boeing 747-8 by means of an IPO at a time when the company is cash-rich, well-branded and loved by the public. *(I have no doubt that Boeing would love to put the Dash 8 back into production if it had a cash buyer with an order for 30 additional aircraft).*

The plan (pre-COVID-19) calls for 539 economy seats on the lower deck with 42 office class on the upper deck (we are currently considering replacing this with 20 first class seats). Economy fares are projected to be 30-50% less than the fares



of Avatar's competition, irrespective of whether COVID-19 is still an issue. If all airlines are forced to practice "social distancing," all will have to increase their fares to make up for the diminished passenger load factor. Avatar will *still* be able to move approximately 3-4 times as many passengers per flight as its competition and will make good use of its additional profit centers such as hauling cargo to help subsidize the cost of its passenger fares. It is "the economies of scale" at work.

Over the past few years Avatar has spent thousands of hours creating a financial model based on these economies of scale, which includes financial forecasts for each of its potential city pair routes to/from the most densely populated cities, to *maximize* load capacity. We can certainly make this financial model available to you and your team by separate email upon request.

The COVID-19 shakeout will probably strengthen those airlines that survive, due to the decrease in competition. We expect that Avatar will be among them, financially strong, due to its unusual capital structure of being asset-owned and debt-free. Avatar's current private offering proposes to raise \$300 mm by the issuance of 20,000,000 shares of Class A Preferred stock at \$15 per share, to fund aircraft acquisition, startup costs of preflight/flight operations and growth over our first 3+ years.

No one can accurately predict share values, but we believe that certain milestones will have a positive influence: when Avatar obtains its FAA 121 Operating Certificate and begins revenue operations; at the end of Avatar's third operational year when it has a proven 3-year track record of positive earnings and nationwide recognition as the go-to airline for budget conscious travelers; and finally, when Avatar introduces its IPO.

**And this is the part where I need you to have an open mind.**

We would like to offer British Airways a 22% percent stake in Avatar out of our private offering, approximately 11 million preferred shares (valued in our offering at \$165,000,000) convertible to common shares on a 1:1 basis. We have reason to believe (based on our current business relations) that the remaining half of our offering would easily sell out once it is disclosed that Avatar has acquired BA's 400 fleet without incurring any debt. That remaining half of our current



offering would be used to provide necessary working capital to fund preflight/flight operations as mentioned.

Our proposal wouldn't end with a one-time bulk sale. That's only the beginning. BA would be a *true* partner in Avatar. Aside from sharing in equity, we foresee a larger, more lucrative opportunity in providing BA with all of its local lift needs through code sharing for passenger and cargo within the USA, as well as a heavy maintenance agreement with BA to service our fleet – it's obviously a natural fit.

We know BA is at cross-roads with these 400s, but I'm suggesting that rather than simply *disposing* of them, we put them back to work doing what they do best: *flying*.

There's an expression "the whole is worth more than the sum of its parts" and that's *exactly* how we both need to look at your 400s. COVID-19 created some horrific consequences, but this will be the golden goose of a lifetime left in its wake.

Since our proposal goes way beyond a simple cash transaction, would it be appropriate to open a dialogue with BA's CEO Alex Cruz and/or IAG's CEO Willie Walsh?

Let's take advantage of the times and talk!

A handwritten signature in blue ink, appearing to read 'Michael E. Zapin', written over a horizontal line.

**Michael E. Zapin**

EVP and Chief Legal Officer

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