



**Remarks Prepared for Delivery  
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Aero Club of Washington**

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Thank you Paula and good afternoon everyone. It's a pleasure to be back in Washington D.C., where I always feel so warm and welcomed. Before I start, I would like to recognize a few members of our team that are here with me today, Bob Dana, CFO, and Dave Pflieger, our General Counsel.

You know, I don't get many calls from my former colleagues at American and Delta, but they sure are kind to write a lot. I appreciate that. It's good to see so many of them in this room.

It's a pleasure to be here in this distinguished forum, the Aero Club of Washington, which has so much history. I'm particularly honored to follow last month's honored guest, Secretary Mary Peters. She and others like Jeff Shane, Andy Steinberg, Mike Reynolds, and Marion Blakey have an enormous job to do. We really respect them and their staff, like Todd Homan, Regis Milan, Bill Bertram, and Laura Remo. We greatly admire their public service, and appreciate their efforts.

Of course, if they approved us, we'd appreciate them even more.

Now, you may have heard that we're trying to start a little airline out West. And you may have read that we've drawn some flak.

So, where to begin? Amelia Earhart once said simply: "adventure is worthwhile." And Swiss psychiatrist Carl Jung said: "man needs difficulties; they are necessary for health." Well, I'm in an abundantly worthwhile adventure, and feeling quite healthy, thank you very much.

Let's just say there's not a lot of unanimity in this industry. In aviation, we tend to fight a lot – over China routes, slots at LaGuardia or Heathrow, user fees, mergers – you name it. I guess it's in our nature, and Virgin America seems to have triggered a bit of a donnybrook.

Before we get all caught up in these disputes, however, I'd invite you to reflect for a moment on how aviation really got its start.

We didn't advance in aviation by trying to stop others, or closing our borders to good ideas. Aviation was started by a bunch of bold entrepreneurs who scoured the globe for innovation, pushed the envelope, and took risks—both financial and often physical—in pursuit of transformational change—of real invention.

In 1903, Samuel Langley, head of the Smithsonian, suffered severe criticism after his many attempts to launch his aerodrome off a houseboat on the Potomac near here failed, nearly killing his pilot. He believed man could fly.

At the time, not many others did, except a couple of brothers from Dayton, Ohio. But it didn't take long to go global. Following Oliver's 120 foot flight in Kitty Hawk, which lasted for only 12 seconds, French engineers added aileron controls to the wings to help it turn, and then tail assemblies.

In 1909, Wilbur entered into a licensing agreement with three experienced balloon-makers in the UK, by the name of Branson. Actually—the Short brothers, to build six Wright airplanes in Britain. A visionary licensing agreement.

Then two gentlemen in the UK, Charles Stuart Rolls and Frederick Henry Royce, tried to take the Wright Flyer even further. They added more powerful, more reliable engines.

Their Merlin engines that found their way into Spitfires and Hurricanes that carried the day in the Battle of Britain.

Later, American and British collaboration led to the RB-211, powering the Lockheed L-1011—a workhorse of the new commercial aviation industry. The examples go on and on.

Of course, this global collaboration in aviation's development goes on to an even greater extent today, with wings made in Japan going on the new 787, and global airlines cooperating extensively through the Star, Oneworld, and Sky Team alliances—each of which I've been proud to play a small part in over the years.

My point is that our rich aviation history is filled with international collaboration and competition. No one has a monopoly on good ideas, products, or service. We need to apply global lessons learned and best practices in aviation to go further, higher, faster, quieter, and now cleaner, than ever before. If we're cleared for take off by DOT, we intend to do just that.

Unfortunately, in the U.S. and around the world, airline ownership requirements are archaic and out-of-step with the realities of international aviation. As we know, Air France might be able to acquire KLM in Europe, but BA cannot buy American.

Now since you travel all over the world and see global brands and outlets of familiar names, you might find this a bit bizarre . . . and you should. But since you presumably all

know this in the industry, this weird situation seems commonplace. So where'd all this come from?

We all know that the earliest applications of the airplane were for military and postal purposes. In fact, Congress addressed aviation for the first time by giving its first appropriation of \$50,000 in 1918 for mail service. In 1927, one of Bill Boeing's first contracts was with the U.S. Postal Service, allowing Boeing Air Transport—predecessor to United Airlines—to begin to run mail routes from San Francisco to Chicago. Similar contracts were the norm.

What some of you might not know is that our airline citizenship laws were based on this economic premise. As in maritime, Congress did not want to subsidize foreign fleets, ships or aircraft with lucrative mail contracts. As the Civil Aeronautics Board said in 1940: “the apparent intent of the statute is to insure that air carriers receiving economic support from the United States and seeking certificates of public convenience and necessity . . . be citizens in fact, in purpose, and in management.” It required that the president be a U.S. citizen along with two-thirds of the board and managing officers, and no more than 25% voting equity in non-U.S. hands. Yet, while the original premise of the citizenship rules faded into history, these ownership restrictions remain.

Today, in almost all major industries, capital flows freely across national borders. Competitors can truly establish a global brand presence. They can offer consumers, everywhere, a delivered expectation of consistent value. If you are in Istanbul, as some of you might have been recently for an IATA meeting, you no doubt were able to find a Starbucks, with the same name, feel, service, and skim no-foam latte you've come to expect. In Shanghai, you can go to your Citicorp bank, check your balances and withdraw your money without charge.

As Undersecretary Shane said almost two years ago: this global branding is: “a simple proposition, and one that applies even in industries long thought essential to the nation's national and economic security, such as financial services, automobiles, telecommunications, information technology, steel, and pharmaceuticals. The one industry in which capital is not allowed to flow freely across national boundaries, ironically, is the very industry that has facilitated the globalization of all the others—commercial aviation.”

I'm very glad to see the EU and US negotiators continuing to focus on reform of these archaic citizenship rules, and commend both sides for working hard to reach a landmark open aviation area agreement. Personally I can think of no better way for the U.S. to demonstrate its bona fide commitment to modernizing its citizenship standards than giving us our wings, but I might be biased.

But the truth is they don't need to change the standards at all to approve our application. We are not seeking up to 49% total equity from non-U.S. citizens, as was allowed in Northwest/KLM. 75% of our voting stock is held by very active American investors. We believe our application meets the most stringent of citizenship tests.

Let me be quite clear about a few other things that have come up.

Number one, I was born in San Francisco, and I am a U.S. citizen. I've helped run several U.S. airlines, including, serving as president of Delta. I am beholden to no one, other than, my family, friends of my choosing, and my U.S.-controlled board of directors. The notion that I would violate my fiduciary and contractual obligations and be beholden to anyone else is both offensive and inaccurate. I respectfully submit that such bootstrap arguments fly in the face of modern corporate governance and responsibility—and should have no place in modern citizenship determinations.

Still, if DOT really buys these arguments, our board has made clear that it is prepared to remove me from the board or from the company outright. End of story. The bottom line is that no one person is more important than getting this wonderful airline launched and providing service to millions of travelers.

Number two, the notion that our board is somehow controlled by non-U.S. citizens is, as Col. Potter on "M\*A\*S\*H" would say, "horse hockey." Chairman Don Carty, whom some of you may know from having held a rather important job leading the world's largest airline, now Vice Chairman of Dell, is also a U.S. citizen. Our new Vice Chairman, former DOT Secretary Samuel K. Skinner, is – you guessed it – an American. Neither Don nor Sam are known as shrinking violets.

Although by law non-U.S. citizens could occupy up to one third of the board seats, Virgin Group has permanently relinquished a board seat so it will only have two out of eight voting board seats, with me as a non-voting member. Those who suggest that this board will somehow not be us controlled are just plain wrong.

Number three, we're quite mindful that the company needs to be under the actual control of U.S. citizens, which DOT tentatively found that we weren't. Although we disagreed with that conclusion, our investors and the company recently agreed to make even more sweeping changes to our funding and structure.

We have fundamentally changed all of our corporate governance and debt agreements to provide abundant evidence of U.S. citizen actual control. The only things left, which the opposing parties really have not taken issue with in any substantive way, are standard, bare bones, minority investor protections, which the DOT has not objected to previously. The company will be free without any interference from non-U.S. investors to enter into any material contracts, buy or lease airplanes, renew or not renew my employment agreement, issue dividends, make loans—basically do anything an airline does in the ordinary course of business.

To address DOT and competitor arguments about the ability to exist outside the brand, we amended our trademark license agreement with Virgin to make clear that not only can we serve freely all domestic U.S. markets and all markets throughout Canada, Mexico, and the Caribbean, and code share freely within these markets, but we can also serve and

code share freely outside these markets, provided we do not use the Virgin name. This is something that Virgin Blue in Australia has proven can be done easily and successfully, flying as Pacific Blue outside of Australia.

To address carrier complaints and DOT concern about relative risk and incentives to exercise control, we confirmed last week not only documentation of a \$20 million loan from the U.S. investors not subject to any Virgin guarantee, but another \$10 million from the U.S. investors in equity, not subject to any put or redemption right.

So now U.S. investors have put in even more money, with complete multi-million dollar downside risk, no guarantees. And they'll now be contributing at least \$108 million to this enterprise pre-launch, far more than the \$10 million referenced by DOT and our competitors. The balance of financing pre-launch will be roughly 50-50 U.S. versus non-U.S., not 96% non-U.S., as our opponents argue. This will be the best financed new entrant airline in history.

The fact is that what's truly left—to our competitor's dismay—is a new entrant U.S. airline application that is red, white, and blue all over, with a great product and famous, well recognized brand name, with a reputation for great service and a sense of humor.

What's interesting is who is not fighting Virgin America. Consumers love us, as reflected by millions of hits to our web site, and over 65,000 people who have signed petitions at our web site, called [letvafly.com](http://letvafly.com) urging DOT to approve our application. Airport directors from around the country want us to fly. Governor Schwarzenegger, Senator Clinton—among many other people from across the ideological spectrum, also want us to get our wings.

To its credit, United Airlines, has not only refused to join other legacy carriers in trying to thwart our application, but has taken the position to remove all foreign ownership restrictions. Northwest Airlines, led by Doug Steenland, a smart aviation lawyer and friend who knows the value of cross border alliances and equity stakes, has also stayed out of the fray.

And who else is really missing? Not one low cost carrier is fighting our application—not Southwest, JetBlue, Frontier, Air Tran, Alaska, ATA, or Spirit. To their great credit, they would rather try to stop us the old fashioned way—in the marketplace—with both JetBlue and Southwest announcing plans to enter our planned home of San Francisco, rather than lobby the Department or Congress to get us turned down. We look forward to the day when we see them on the tarmac. Consumers can only benefit.

Of course, Transport Commissioner Jacque Barrot underscored the absurdity of all of this when he rhetorically wondered two weeks ago in D.C. if the Marquis de Lafayette—declared a hero of our revolution and citizen of the United States—would be able to start an airline here. Daimler can buy a controlling interest in Chrysler, Ford can buy Mazda, Volvo, Land Rover, and Jaguar. But somehow a Brit taking a minority stake in a U.S.

airline triggers a year long process of complaints and scrutiny. I'd argue that's not right, but I'm not seeking sympathy. I just want to start our airline and hope to do so soon.

Beyond our own application, however, I'd argue that this situation is truly in need of overhaul. Over a hundred years after the first powered flight, this industry is caught up in a web of government restrictions over citizenship laws that are stifling competition, innovation, and customer service.

As to the process, I believe the government should set strict deadlines for its review period, beyond which the transaction should be presumed permissible, like in antitrust merger cases or other foreign ownership reviews like CFIUS. It has been nearly 200 days since the Department deemed Virgin America's application "substantially complete." We applied for our certificate 15 months ago. Literally millions have been lost and thousands of jobs placed on hold, while consumers are forced to wait for new service and competition. I submit that this is not necessary.

As for the standard, I believe we should really consider the plain meaning of "actual control." I believe governments should apply a more textual or definitional test to quickly determine actual control. To control someone is not to "influence" or even "substantially influence" another. "Control," according to any dictionary, means to "exercise restraint or direction over; to dominate, or command."

In our case, Virgin Group will neither substantially influence, nor exercise restraint or direction over us. Of course, they likely will be an important brand, partner, and a valued minority investor. But if I can buy airplanes, start a new route, negotiate 250 contracts, or enter into a maintenance contract, without any right of a non-U.S. citizen to restrain or direct me, how is that control? It's not.

So what will we offer if we're approved? Let me start with low fares. We want to provide low cost service at a time when domestic fares are on the rise. Fares in San Francisco are among the highest in the country. We see more crowded flights, at higher fares, with fewer choices.

We want to provide great customer service. It's not just fares and schedules that drive consumer purchase decisions. The customer experience is what will be remembered. Value, certainly, but how guests were treated, were their bags on time—and most importantly—did the customer connect with the airline?

With the DOT's permission, we intend to introduce a two class service offering the kind of onboard experience never seen before domestically.

First, the cabin looks like no other. Our fleet of brand new Airbus A320's and A319's, financed by GECAS, and to be maintained by GE Aviation, will feature ambient lighting with nine light settings to perfectly match the time of day or night.

Our leather seats in both the first class and main cabin each have ample legroom – 55” seat pitch in first class.

Our entertainment system, as you’d expect, is top of the line. Not just satellite TV, but also on-demand movies and TV shows. We’ll have more music than I think any other airline and games of course, but we’ll also have a chat feature so guests can talk online with each other throughout the flight if they so choose.

We’ll have great food onboard but even better.... How about being able to order your meals, snacks and beverages as you want them via the entertainment system while you watch?

Every seat has power for your laptops and we’re also moving towards broadband at every seat.

The bottom line is this. We respectfully believe we’ve now bent over backwards to satisfy DOT’s concerns about our citizenship. U.S. citizens are clearly in the driver’s seat of this airline; in both the left and right seat. We’ve passed FAA’s safety checks with flying colors, better than any, we’re told, than in 35 years. We are spooled up and ready to take off.

With DOT’s support for this new entrant, we look forward to offering a passenger experience second to none. I hope that day comes soon.

Thank you very much.