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## Business XML

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# Virgin America rolls out ... but when will it take off?

## HOPES ARE HIGH CARRIER WILL BRING FLIGHTS, PASSENGERS BACK TO S.F.

By Mary Anne Ostrom  
Mercury News

Ask Fred Reid if he's nuts to be starting a new airline right now. He just laughs.

Fuel prices. New terrorism fears. Balking competitors. Southwest and JetBlue already here. Yet Reid says he's ready.

"There's a lot of money here buying travel," Reid, Virgin America's CEO, said in an interview Wednesday. "It's going to stimulate the return of some passengers from San Jose and Oakland to San Francisco, definitely."

Hoping to capitalize on the Virgin brand name, made famous by billionaire businessman Richard Branson, Virgin America held a party at a decked-out San Francisco Airport hangar to celebrate the arrival of its first plane Wednesday, christened Jefferson Airplane by former band member Grace Slick.

Native San Franciscan Reid, who lived for a time in Menlo Park, said the plane's name is his personal homage to Slick. He remembers dancing "at Grace Slick's kneecaps" at the Fillmore.



Susanna Frohman / Mercury News

Grace Slick, left, Gov. Arnold Schwarzenegger, Virgin America CEO Fred Reid and San Francisco Mayor Gavin Newsom celebrate the unveiling of Virgin's first aircraft.

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With Gov. Arnold Schwarzenegger and San Francisco Mayor Gavin Newsom looking on, Slick accepted the honor, then deadpanned: "It's like Grateful Dead would have been a bad name for an airplane."

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An American version of Branson's Virgin Atlantic has been a dream of the British entrepreneur for years. But ownership rules restricting foreign investment in U.S. carriers has made it a dream deferred. Reid, former president of Delta Air Lines and Lufthansa, still can't say exactly when Virgin America, originally expected to be in the air in 2006, will take off. The Department of Transportation and Federal Aviation Administration still must give final approvals.

Three-quarters of Virgin America's voting stock, according to U.S. law, must be owned by U.S. investors. No more than 49 percent of the capital can come from foreign sources. Branson is a minority shareholder.

Reid said planes could be flying an inaugural San Francisco to New York route by early 2007.

Labor activists and older carriers, such as Continental and American Airlines, have complained.

Continental alleges that Virgin America is a "foreign-funded, -owned and -controlled would-be airline masquerading as a U.S. airline applicant."

Responds Reid, "Virgin America is a franchise trademark license. They keep egregiously trying to tie us to Richard Branson and to Virgin Atlantic."

Reid says his key to profitability in the cut-throat airline business is to rely on technological innovations to entice customers and keep costs down. He vows new technology will allow him to fly at least 25 percent cheaper than traditional carriers.

He's hired valley veteran Bill Maguire as chief information officer. Maguire formerly held that job at Legato Systems and Aspect Communications.

"By being in the valley, I'm familiar with free software and open-source software," Maguire said, adding, with a laugh, that he's never been in the business of selling seats before. It's the software applications, he said, that will allow Virgin to respond rapidly to hourly pricing changes and ensure planes fly full.

Taking a page from JetBlue, Virgin America is touting a state-of-the-art, in-flight entertainment system including movies, music, games, interactive communications and broadband access, most for a price.

The airline also has plans to allow passengers to order food to their seats off the screen.

Among Wednesday's guests at the plane unveiling were some top San Francisco restaurateurs, including the Slanted Door's Charles Phan.

Unusual for an airline, "they are very interested in food," said Phan, who may be advising on the meal offerings.

Southwest Airlines and other carriers have left San Francisco airport in recent years, citing high costs, and city officials are hoping Virgin America will reverse the trend.

JetBlue and Southwest fly from Oakland and San Jose airports. "There will be a tendency for some segment of travelers to fly again out of SFO," said Jahan Alamzad, president of San Jose-based airline analyst CA Advisors. But he said if the airline concentrates on long-haul flights, compared with shorter hops, they "are more prone to a downturn than a business model like Southwest."

"Virgin is a marquee name with a big cachet," he added. "The question is, can they hold on to that traffic and serve the market needs in a consistent way?"

Local officials are also hoping that some of the thousands of former San Francisco Airport employees laid off in recent years can be rehired by Virgin America, which plans to employ 1,000 people next year, most of them locally.

The state Employment Training Panel has offered a \$10 million incentive for Virgin America to retrain local unemployed airline workers.

U.S. Rep. Tom Lantos, D-San Mateo, in whose district many of those ex-workers live, said he is concerned that Virgin America has not done enough to reach out to labor unions.

"I want to make sure the new airline has a labor-friendly attitude," Lantos said.

Responded Reid, "It's not up to me, it's up to the employees." He added "We're respectful of the law. If the employees wish to unionize, they will unionize."

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