

Smithsonian gift: Steven Udvar-Hazy revolutionized aircraft financing. He became the benefactor of the world's largest aviation museum as a way to "give back." By Robert Hanashiro, USA TODAY

Aviation power broker flies under the radar But \$66M gift to Smithsonian raises immigrant's profile

By Dan Reed
USA TODAY, Page B1-B2
Monday March 28, 2005
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At a time in the late 1960s, it seemed like every college student in the USA was busy tuning in and dropping out. Not UCLA's Steven Udvar-Hazy.

He was holding down two lifeguarding jobs and starting his own consulting business. Working from his bedroom in his parents' modest Los Angeles home, Udvar-Hazy by graduation was advising an international airline on how to operate more efficiently, and brokering a million-dollar airplane deal.

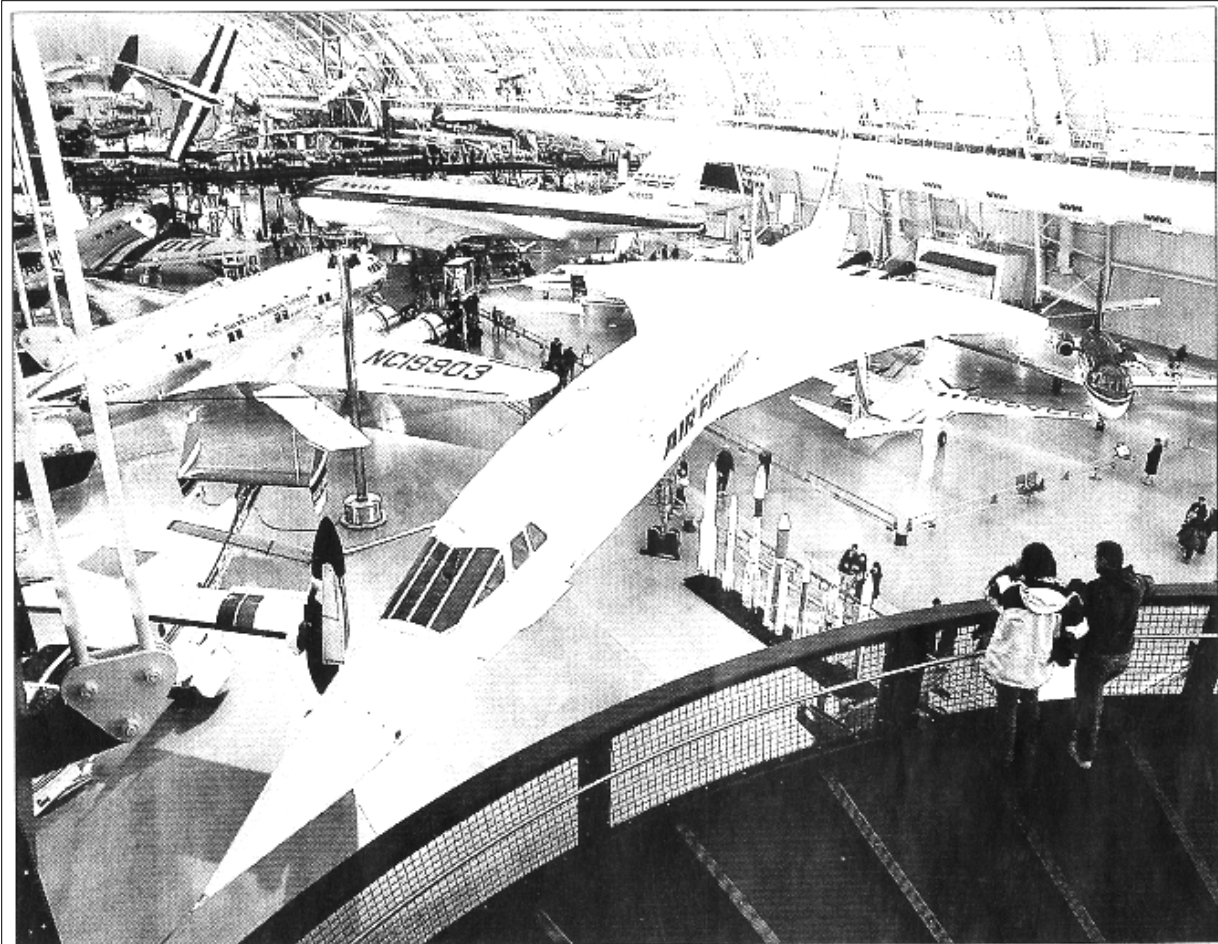
It was the start of a career that eventually would make the Hungarian immigrant one of the greatest successes ever in the aviation business. As CEO of International Lease Finance Corp. (ILFC), he sits atop a \$35 billion global aircraft-leasing empire that has earned more than \$2 billion since 2000, a period in which U.S. airlines have piled up \$32 billion in losses. His company owns about 670 commercial aircraft and manages 100 more, making ILFC's fleet larger than any airline's. His \$2.4 billion net worth places him at No. 89 on Forbes magazine's list of the wealthiest Americans.

In the early 1970s, Udvar-Hazy and partners Leslie and Louis Gonda revolutionized commercial-aircraft financing with the introduction of deals that work much like today's garden-variety automobile leases. Airlines, especially those without deep pockets, could lease a plane for a few years, return it and replace it with a new model. Today's low-cost carriers, which have driven fares down and stimulated record air travel, might never have gotten off the ground without the kind of financing introduced by ILFC.

Yet the name is barely known outside aviation circles. That's changing some, thanks to the Californian's \$66 million donation to the Smithsonian Institution. The Smithsonian's massive Air and Space Museum annex at Washington Dulles International Airport, which opened in 2003, is named for him.

"It's hard to explain this if you're not an immigrant," Udvar-Hazy says of his gift, the largest from an individual in the Smithsonian's 159 years. "We came to this country from a communist, oppressed background. No resources. No economic wherewithal whatsoever. We arrived with virtually nothing but hope."

“Smithsonian gift: Steven Udvar-Hazy revolutionized aircraft financing. He became the benefactor of the world's largest aviation museum as a way to give back.”



By Timothy E. Black, AP



Hear Steven Udvar-Hazy on why he gave \$66 million to the new air and space museum that bears his name at money.usatoday.com.

Up close: Visitors at the National Air and Space Museum's Steven F. Udvar-Hazy Center look over the Concorde on display in the main hangar near Washington Dulles International Airport.

A passion for aviation at age 7

The decision to become the principal benefactor of the world's largest aviation museum was, he says, a way to "give back." Even more, it's an effort to provide children who visit "the same sort of spiritual uplift, the same fascination, the same romance of aviation and aerospace" that Udvar-Hazy, 59, first experienced one summer day in Budapest 52 years ago. That's when his father took him to the Budapest Air Show, an experience that inspired his passion for aviation. The passion continues to drive Udvar-Hazy and ILFC today. "I run this business for the fun of it," says Udvar-Hazy. "ILFC is really a hobby -- an extension of a hobby -- and a passion, rather than a business."

In the 1920s and early 1930s, Erno Udvar-Hazy, a surgeon and sports medicine specialist, invested in the textile industry and raced boats. His wife, Etel, raised horses on a farm outside Budapest. The couple were a part of Hungary's elite.

Then came the Nazi occupation and the devastation of World War II. Friends and relatives were carted off to labor camps or killed. German soldiers ate Etel's horses to survive the harsh winter of 1944. That was followed by the communist takeover. Along the way, the Udvar-Hazys lost everything.

They fled Hungary in early 1958, 15 months after the Soviet Union violently put down the revolution. That summer they arrived in New York City. Arthritis and other ailments kept Erno from working, so Etel took an entry-level job in the fashion industry. The family survived on her \$65-a-week salary.

Steve was going on 13 and was very different from most other New York schoolboys, who traded comic books and played baseball. He would leave school in the afternoons and take public transit to Idlewild Airport in Queens -- today's John F. Kennedy airport.

He taught himself about aviation in ways that would be impossible in today's security-conscious world. He would visit the aircraft hangars and watch the mechanics work. He'd talk his way into the control tower, where he'd stay until dark, taking pictures and tracking planes in a notebook.

"My mom would be mad at me because I hadn't done my homework," he says, laughing, today. Other kids, meanwhile, "thought I was a fanatic. They felt I was obsessed with aviation. They couldn't understand why at such a young age I was so into it."

Hired as an airline consultant during college

When Steve was 16, the family moved to Los Angeles, where his mother thought the weather would be good for her ailing husband. The family also wanted to be close to Steve's older brother, Andrew, studying molecular physics on scholarship at UCLA. After high school, Steve enrolled in UCLA to study economics and international relations.

He decided while still a student to start his own aviation business, giving it an important-sounding name -- Airlines Systems Research Consultants. He disguised his youth by communicating with potential customers through official-looking telegrams. Aer Lingus, the Irish national carrier, was his first paying customer in 1966.

"I had sent them a lot of material on how they could save money and how they could be more efficient and more productive," he recalls. To his surprise, the carrier flew him to Dublin and paid him a \$4,000 consulting fee for a plan to reduce the number of aircraft types in its fleet.

Two years later, while a UCLA senior, Udvar-Hazy brokered his first big airplane deal: the sale of a turboprop Lockheed Electra from Air New Zealand to Reeve Aleutian Airlines. He traveled to New Zealand to close the \$1 million deal. His fee: \$50,000.

After graduating, Udvar-Hazy continued to broker airplanes. In 1972, he helped Alaska Airlines out of a jam by arranging to lease a Boeing 727 that it couldn't afford to Mexicana for \$74,000 a month.

"It was at that time that I started to realize that there was a whole business here that nobody was doing," Udvar-Hazy says. A year later Udvar-Hazy and the Gondas, a father-son team, began changing the way airlines acquire and finance airplanes. Leslie Gonda was a native of Hungary and a Holocaust survivor who had done well in Venezuelan real estate. Lou Gonda, born in Venezuela, was two years younger than Udvar-Hazy, and the two became close friends. The three men invested \$50,000 each in their new company.

By 1983 the company was leasing planes to start-up carriers spawned by deregulation, and to existing airlines that wanted to seize market opportunities opened up by deregulation. Udvar-Hazy and the Gondas took ILFC public, retaining 70% of the stock themselves. In 1990, insurance giant AIG acquired ILFC in a \$1.3 billion tax-free stock swap. AIG permits Udvar-Hazy an unfettered hand in running the company, which now competes toe-to-toe with General Electric's aircraft leasing unit.

A modest, down-to-earth fellow

Udvar-Hazy is a megastar in the aviation business. He just doesn't act like one. Earlier this month, he showed up in Scottsdale, Ariz., for the annual convention of the International Society of Transport Aircraft Trading without an entourage -- no traveling secretary, no media manager, no hangers-on. A couple of ILFC salespeople helped him work the crowd of more than 600 airplane sales and finance honchos.

Dressed casually, he mingles easily. At a dinner honoring FedEx founder and CEO Fred Smith, Udvar-Hazy gently roasts the honoree without upstaging Smith's speech accepting the group's honor.



By John DeCret

Early fan of aviation: Steven Udvar-Hazy poses with a Piper Cub in Galion, Ohio, in 1960.

"Steve's modest," says Lou Gonda, who retired from day-to-day involvement at ILFC in 1995 but remains on the board.

Gonda, who ranks a bit below Udvar-Hazy on Forbes' list of wealthiest Americans at No. 116, said neither man was happy to be added by the magazine's list in 1993.

"We actually pleaded with them to not put us in there," Gonda says. "We have never led our lives in such a way that we have any sense of security. We all dressed casually. Our kids went to the local schools. We never wanted to have that type of exposure. Our M.O. was always to shine the limelight on the company, not ourselves."

About the only thing flashy about Udvar-Hazy is his preferred means of transportation -- a \$40 million international-range Gulfstream V, the Rolls-Royce of corporate jets. He prefers flying it himself, logging about 300 hours a year at the controls.

Udvar-Hazy's down-to-earth style extends to the way he manages ILFC, the way he handles his money, and the way he passes on his poor-immigrant's values to his four children. Udvar-Hazy and the Gondas consciously avoided extravagance and empire building. Employment at ILFC totals just 151. Last year, the company, headquartered in West Los Angeles, produced an astoundingly efficient \$3.3 million in profit per employee.

In addition to making the donation to the Smithsonian, Udvar-Hazy and his wife, Christine, have given millions to tiny **Dixie State College in St. George, Utah**. But it was a practical donation. After visiting St. George, in the state's remote southwest corner, to call on customer SkyWest, Udvar-Hazy saw the local college as a means of developing more trained workers for the fast-growing regional carrier.

And to make sure his children, ages 12 to 23, don't forget their roots, he has taken them all to "some of the worst places in the world" -- impoverished parts of Africa and Asia.

A tough negotiator with a fun side, too

The passion for aviation that caused him as a teen to study flight schedules rather than baseball box scores has produced an encyclopedic knowledge of the aviation business.

"Steve has a photographic memory for things that are airplane related," Lou Gonda says. "It was always enjoyable to negotiate with an airline when you had a guy at your side who knew more about that airline than the airline did."

Udvar-Hazy is not shy in criticizing airlines' performances and government policies that affect the industry. He says U.S. bankruptcy laws are "way too compassionate" toward airlines such as United, which has been in Chapter 11 since December 2002, and US Airways, which has had two Chapter 11 filings in three years. Neither currently leases planes from ILFC.

"Our feeling at ILFC is that if an airline goes into bankruptcy, there should be a prescribed time, say 12 months," he says. "You either get your act together, straighten out all your debts," or the airline should be liquidated.

Despite his toughness, Udvar-Hazy has a fun side, too. In the mid-1990s, John Leahy, Airbus' top salesman, invited him on an outing in Hawaii for Airbus customers. Leahy's goal was to establish a better relationship with the leasing kingpin, who had just disappointed Airbus by placing a big order for wide-body jets with archrival Boeing.

One evening at a poolside cocktail party, Udvar-Hazy "fell" in fully clothed.

"He pushed me!" Udvar-Hazy says, feigning outrage. Leahy tells another version. Whatever happened, the incident solidified their friendship. Udvar-Hazy insists that he makes aircraft-purchase decisions solely on the business case for each deal. But since his "fall" into the pool, ILFC, which had only a handful of Airbuses previously, has become Airbus' biggest customer. About 45% of the planes in ILFC's fleet are Airbuses, as are about 70% of those it has on order. ILFC, in fact, has more Airbuses in its fleet and on order than the manufacturer's next two biggest customers -- Air France and Lufthansa -- combined.

Udvar-Hazy has been known to play the world's two great airplane manufacturers against one another, using a bargain price from one to leverage a better deal from the other.

About Steven Ferencz Udvar-Hazy



USA TODAY

Udvar-Hazy

Home: Los Angeles.
Age: 59.
Born: 1946, Budapest, Hungary.
The name: Pronounced OOD-var-HAHzee, it means "house of the king's court" in Hungarian. Goes by Steve Hazy for business. Secretary calls him Mr. Hazy.
Family: Wife Christine and four children, ages 12 to 23.
Best known for: Donating \$66 million for the National Air and Space Museum annex at Washington Dulles airport. The annex, part of the Smithsonian Institution, bears his name.
Other major donations: An endowed chair at UCLA, his alma mater; \$3.5 million to Dixie State College in St. George, Utah, where the business college is named for his parents.
For fun: He flies. Earned commercial pilots license in college. Never flew for an airline, but logs about 300 hours a year on his own \$40 million Gulfstream V.

Gonda, recalling a negotiating tactic from their 22 years of working together, says on occasion they'd converse in Hungarian. Not only did that save them time that would be needed to adjourn to another room, he says, it "drove the guys across the table crazy."

Says Udvar-Hazy: "This is not a business where you can be dumb. There's a lot of people who came into this business with a lot of money and have very little to show for it. We came into this business with little money and at least made something of it."

PHOTO, Color, Robert Hanashiro, USA TODAY; PHOTO, B/W, Timothy E. Black, AP; PHOTO, B/W, John DeCrel; PHOTO, B/W, USA TODAY; Caption: Smithsonian gift: Steven Udvar-Hazy revolutionized aircraft financing. He became the benefactor of the world's largest aviation museum as a way to give back." Up close: Visitors at the National Air and Space Museum's Steven F. Udvar-Hazy Center look over the Concorde on display in the main hangar near Washington Dulles International Airport. Early fan of aviation: Steven Udvar-Hazy poses with a Piper Cub in Galion, Ohio, in 1960. Udvar-Hazy



The birth of the operating lease

Until 1973, all self-respecting airlines bought their airplanes the same way people buy their houses -- with mortgage-type financing. The airline industry and investors viewed leasing airplanes as a sign of weakness.

To the extent that it was happening, a bank or other financial institution would buy the plane and lease it to the airline for 15 to 20 years. At the end of the lease, the airline could buy the old plane for \$1.

Then along came a couple of aggressive twenty-somethings, Steven Udvar-Hazy and Lou Gonda. With the help of Gonda's entrepreneurial father, Leslie, a Holocaust survivor, they formed Interlease Group, later renamed International Lease Finance Corp. (ILFC).

They introduced the aviation industry to the simple concept now known as the "operating lease." An operating lease resembles today's standard auto lease. These days, an airline pays up to \$800,000 a month in rent, depending on the plane's size. The typical agreement runs five to seven years.

Without ILFC's innovation, the discount airlines that increasingly control the market might never have gotten off the ground.

ILFC profited from a strategic decision its founders made early to issue corporate bonds to finance planes. Competing lease companies financed each plane individually. The effects:

- ILFC was in a better position to continue paying bondholders when a major customer defaulted on lease payments.
- ILFC, always a lean operation, didn't have to employ an army of lawyers to handle complex financing deals on each plane.
- ILFC could borrow money more cheaply than its competitors, allowing bigger profit.

"We did it not because we were smart, but because it was the only way we could grow fast," Lou Gonda says.

Profitability soared after insurance giant AIG acquired ILFC in 1990, improving the leasing company's access to capital. The company's fleet expanded quickly. Operating profit margins since 1992 have never been lower than the 22% recorded in 2004.

AIG gives Udvar-Hazy nearly complete autonomy in running the leasing business. With the leasing business, AIG got a big foot in the door for selling airlines around the world services ranging from aircraft insurance to jet-fuel-price hedging contracts.

Looking back on the early days, Gonda says, "You can't believe (the market) bought it. We did things that were absurd to even talk about at the time. Given our age, you wonder how we got away with it."

He explains that success was the result of a great three-way partnership. "Steve and I could always concoct deals," he says. "But no matter how aggressive we were, we could not have achieved what we achieved without my father."

At 85, Leslie Gonda remains active as an ILFC adviser and chairman of the board's executive committee. "He brought wisdom and credibility to our business."