

Air Transportation Stabilization Board

Daniel Montgomery
Executive Director

July 29, 2002

Scott Dickson
Chairman, President and Chief Executive Officer
Vanguard Airlines, Inc.
533 Mexico City Avenue
Kansas City, MO 64153

Re: Application for a Loan Guarantee Under the Air
Transportation Safety and System Stabilization Act

Dear Mr. Dickson:

We refer to the revisions, received July 25, 2002, to the application of Vanguard Airlines, Inc. (the "Applicant"), dated June 26, 2002 (the "Application"), for a Federal loan guarantee under the Air Transportation Safety and System Stabilization Act, Pub. L. No. 107-42, 115 Stat. 230 (the "Act") and the regulations promulgated thereunder, 14 CFR Part 1300 (the "Regulations"). The Applicant has requested a Federal loan guarantee in connection with an \$8 million financing. The Air Transportation Stabilization Board (the "Board") is asked to participate by providing a Federal government guarantee of \$7.5 million, representing 93.8 percent of the total financing. In accordance with your statements to Board staff, the Board considers these revisions for a \$7.5 million loan guarantee to supercede any and all previous proposals. The Board also decided to accommodate the request contained in your letter to the Board, dated July 26, 2002, for a Board vote today on the Application.

The Board has carefully considered all of the material you have submitted -- including the material submitted at the end of last week -- under the standards set out in the Act and Regulations. The Board determined that Vanguard's application does not meet the applicable standards, and accordingly, the Board unanimously voted to deny Vanguard's application. The Board determined that Vanguard's proposal does not provide a reasonable assurance that Vanguard will be able to repay the loan, one of the factors the Board is required to consider under the Regulations. As noted in the Board's May 23, 2002 letter to you, Vanguard has not generated positive net income in any calendar year since its inception in 1994. In the Board's judgment, Vanguard's past financial results do not substantiate the projected increase in revenues or earnings in Vanguard's proposed business plan. The Board also concluded that the financing of Vanguard's existing business and planned expansion requires a significant infusion of new equity in addition to the requested loan guarantee. As you know, Board staff has repeatedly communicated to Vanguard that a significant equity component was necessary for approval of a Federal loan guarantee for Vanguard under the applicable standards of the

Act and Regulations. During those discussions, Board staff requested that additional materials be submitted to document Vanguard's progress in this area. The only additional information the Board received from Vanguard in this regard was a July 25, 2002 letter from a financial firm indicating that Vanguard is in discussions to possibly retain the firm as placement agent for the private placement of approximately \$[] million of equity-related or equity-linked securities. The letter also indicates that the proposed placement agent assumes no obligation to invest in Vanguard or purchase any equity in Vanguard. The Board does not view the letter from the financial firm as a commitment to make the additional \$[] million equity investment outlined in Vanguard's revised proposal and, accordingly, the Board does not consider this to be significant progress in Vanguard's efforts to raise new equity nor to be an adequate response to the Board staff's repeated suggestions that additional equity needed to be raised.

Sincerely,

Cc: Edward Gramlich
Kirk Van Tine
Peter Fisher

[redacted]