

**Metro**

AUGUST 04, 2005

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE
CHIEF EXECUTIVE OFFICER

FROM: JOHN B. CATOE JR.
DEPUTY CHIEF EXECUTIVE OFFICER

SUBJECT: NORTH AMERICAN BUS INDUSTRIES RESTRUCTURING

ISSUE

North American Bus Industries, Inc. (NABI Inc.) has recently been restructured. The purpose of this document is to provide the Board of Directors with information regarding the restructuring.

DISCUSSION

In the past five years, Metro has purchased 800 buses from NABI Inc. In addition, Metro currently has the following two contracts with NABI, Inc. and will soon propose exercising additional purchase options:

- Contract No. OP33200705 for one hundred 45' CNG Composite Buses (90 delivered, 10 remaining), and
- Contract No. OP33200646 for two hundred 60' CNG Articulated Buses (33 delivered, 167 remaining)

NABI, Inc. is a wholly owned subsidiary of North American Bus Industries (NABI Rt.), which was incorporated in Hungary in 1992. The majority of NABI Rt. is owned by the First Hungary Fund, Ltd., a \$125 million venture capital fund incorporated in Jersey, Channel Islands, United Kingdom. It invests private capital in business enterprises involving Hungarian industries. NABI Rt. also owned Optare Holdings, Ltd., a subsidiary located in the England. Because of the importance of our past, existing and possible future contracts with the NABI, Inc., staff closely monitors NABI business and organization activities to insure the continued financial viability of the company.

During the past two years, NABI, like most bus manufacturers supplying buses to the United States Transit market, has encountered serious financial operating shortfalls requiring that it take on over \$103 million in short-term debt. The most serious issue facing NABI has been the foreign exchange rate variations. To resolve the financial

and operational problems, its Board implemented a comprehensive restructuring plan. The plan included the streamlining of the Company's production activities and the sale of ancillary businesses and products. In late May 2005, the firm reached an agreement in principal with its financiers with regard to debt restructuring. Under the preliminary agreement, the financiers will acquire a 90% equity interest in NABI Inc. and up to a 33% equity interest in NABI Rt. The short-term debt will be reduced, become the responsibility of NABI Inc. and will be classified as long term with maturities ranging from 5 to 8 years.

In June and July, Richard Hunt, Metro SFV Service Sector General Manager met with Mr. D. Garrett, the Chief Executive Officer of NABI Inc. and Mr. A. Racz, the Chief Executive Officer of NABI Rt. Both provided detailed information about the restructuring and an overview of their future business plans. In June, Mr. Garrett resigned as CEO (for personal reasons unrelated to the restructuring) and has been replaced by Mr. Racz on an interim basis. Important to Metro is a cooperative agreement that is part of the restructuring plan, between NABI Rt. and NABI Inc. that will continue engineering and vital technical support for the bus products that are under contract with Metro. At present, this restructuring does not create any anticipated impacts to current contract delivery schedules or deliverables, or for future planned procurement actions.

On July 28, 2005, NABI Rt. completed an agreement to sell its UK subsidiary Optare Holdings, Ltd. for a total consideration of \$13.6 million. These proceeds will reduce NABI Rt's short-term debt and result in a lesser debt level for NABI, Inc. once the final debt restructuring is complete.

NEXT STEPS

Staff will continue to monitor NABI's financial and business situation, and will provide further updates to the Board as necessary.