

Preliminary Due Diligence Report

Beartooth Electric Cooperative Board, January 2014

Southern Montana Bankruptcy Court Actions

Last month the BEC position to exit Southern and take advantage of power supply options that better serve our members and offer opportunity to stabilize or reduce rates were being pursued through actions before the court: a liquidation plan submitted by Southern's co-op members and a Motion to Convert the Chapter 11 bankruptcy reorganization effort to a Chapter 7 liquidation. The motion to convert was jointly filed by Fergus Electric and Beartooth. A reorganization plan had just been filed by Prudential and its associated noteholders to replace the reorganization plan originally filed by Southern's former trustee. These plans and the motion to convert still are before the court. Southern and its member co-ops each agreed to meet with Prudential to discuss settlement.

Next Court Hearing February 25 -- On January 7 the court "continued" hearings to approve the disclosure statements filed with both the members' liquidation plan and the noteholders' reorganization plan until February 25. Additionally the court postponed until February 25 hearing on the Prudential motion to dismiss the BEC case to deny use of its wholesale power contract as collateral.

The postponements are based on agreement by Southern, the four Southern member co-ops, and the noteholders to hold non-binding settlement discussions facilitated by a mediator. Discussions were held on January 9-10 with a third day of negotiation scheduled for January 23.

Southern and Member Co-ops

January 3 – All four Southern member co-ops presented to Southern their reasons for supporting liquidation of Southern and resolutions from their separate co-ops endorsing liquidation of Southern – either through the members' liquidation plan or through support for the Motion to Convert to Chapter 7 liquidation filed in December by Beartooth Electric and Fergus Electric. Beartooth passed its resolution to support liquidation on December 27.

Southern has filed a new budget and cash collateral extension and has engaged McGuire Woods, LLP, Pennsylvania law firm to assist Southern's counsel Malcolm Goodrich in bankruptcy matters.

Beartooth Due Diligence

January 15 Due Diligence meeting -- the committee and board members:

- Reviewed currently proposed settlement proposals and identified information needed from Prudential which the mediator has agreed to obtain.
- Reviewed potential bankruptcy actions and outcomes
- Compared BEC options for power and partnerships if BEC exits Southern

BEC is reviewing a step-by-step outline of necessary actions and timeline for bankruptcy filing by an electric co-op like ours. This gives the due diligence committee an understanding of this option as we compare all alternatives

We continue discussions with potential power supply and business partners. The options are excellent and the data is available for comparison.

Members continue to volunteer to help as needed. Members are circulating a statement of support for liquidation.