

Below is an Order of the Court.


ELIZABETH PERRIS
U.S. Bankruptcy Judge

UNITED STATES BANKRUPTCY COURT

DISTRICT OF OREGON

In re

HemCon Medical Technologies, Inc.,
an Oregon corporation,

Debtor.

Case No. 12-32652-elp11

**SECOND INTERIM ORDER
AUTHORIZING USE OF CASH
COLLATERAL AND GRANTING
ADEQUATE PROTECTION**

This matter comes before the Court pursuant to Debtor's Motion for Temporary and Final Authority to Use Cash Collateral ("Motion") and the stipulation of Debtor and Bank of America, N.A., as Administrative Agent ("Bank"), to the following facts:

A. On April 10, 2012 (the "Petition Date"), Debtor filed its voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (the "Code"), 11 U.S.C. § 101, et seq. Debtor is currently operating its business and managing its property as a debtor-in-possession pursuant to Sections 1107 and 1108 of the Code. No trustee has been requested or appointed.

B. Debtor is an Oregon corporation that was founded in 2001, with its headquarters in Portland, Oregon. Debtor is a diversified medical technology company that develops, manufactures and markets innovative wound care, anti-microbial and oral care

products for the military, emergency medical, surgical, dental and over-the-counter markets. Debtor has subsidiaries in the United Kingdom and Europe.

C. Debtor and Bank are parties to various loan agreements, security agreements, financing statements, and interest rate swap agreements, and all amendments thereto (the "Loan Documents") pursuant to which Bank asserts it holds security interests and liens (the "Existing Liens") in personal property of Debtor as described in the Loan Documents, including, without limitation, cash and deposit accounts, inventory, accounts, equipment, negotiable instruments, and general intangibles, and all payments, proceeds, products, offspring, rents, or profits resulting from the use, lease, sale, or disposition thereof (the "Prepetition Collateral").

D. The term "Cash Collateral" means cash collateral as defined in Section 363(a) of the Code and includes, without limitation, the following:

1. All funds currently on deposit in Debtor's accounts with Bank America; and
2. All checks, receipts, payments, proceeds, products, offspring, rents, or profits arising from the prepetition use, lease, sale, or disposition of the Prepetition Collateral.

E. The term "Cash Collateral" excludes funds hereafter on deposit in the Defense Department Deposit Account.

F. On the Petition Date, Debtor's obligations to Bank totaled approximately \$22.6 million, including principal, interest, fees, and costs, but excluding attorneys' fees to which Bank is entitled under the Loan Documents and applicable law. The aggregate amount of all obligations owing by Debtor to Bank as of the Petition Date is referred to herein as the "Existing Indebtedness."

G. Without use of Bank's Cash Collateral, Debtor is without sufficient funds to support its continuing operations. Debtor seeks to use Bank's Cash Collateral pursuant to

Sections 105(a) and 363(c)(1) and (2) of the Code, the Budget attached hereto as Exhibit 1, and the terms and conditions of this Order, to pay its continued operating expenses.

H. The entry of this Order will minimize disruption of Debtor's business operations, preserve the going concern value of the business, and is in the best interest of Debtor's estate. Debtor does not believe it can continue to operate its business or preserve the value of its assets without the use of Bank's Cash Collateral on the terms set forth herein. Debtor will face immediate and irreparable harm if the relief requested is not granted.

I. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(M). The notice Debtor has provided of the hearing on entry of this Order was sufficient and appropriate under the circumstances of this case, and satisfies the requirement of Federal Rules of Bankruptcy Procedure 4001(b) and Local Bankruptcy Rule 4001-2.

J. To the extent any provision of the Bankruptcy Code, Federal Rules of Bankruptcy Procedure, Local Bankruptcy Rules, or applicable law requires a finding of "cause" for entry of any provision of this Order, such cause exists.

NOW THEREFORE, the court being fully advised in the premises, it is hereby ordered, adjudged and decreed, as follows:

1. Authorization to Use Cash Collateral

a. Debtor is authorized to use Bank's Cash Collateral in accordance with the terms and conditions set forth herein.

b. Bank's Cash Collateral shall be used only for the purposes and up to the amounts listed in the budget attached as Exhibit 1 (the "Approved Budget"); provided, however, that Debtor's total expenditures may exceed the aggregate budgeted amount by up to 10%, and Debtor's expenditures for any line item may exceed the amount budgeted for that line item by up to 20% of the budgeted amount.

c. All existing Cash Collateral and all post-petition receipts (except prepayments or advances from the United States of America, Department of Defense, that are deposited into the Defense Department Deposit Account and Excluded Property as hereinafter defined) shall be deposited in a segregated Debtor-in-Possession Cash Collateral Account to be established at Bank (the "Cash Collateral Account"). Debtor is authorized to draw upon or transfer funds from the Cash Collateral Account to its Debtor-In-Possession General Operating Account at Bank for use in accordance with the terms of this Order.

2. Grant of Security Interest. As adequate protection for use of Bank's Cash Collateral pursuant to Sections 361(2) and 363(c)(1) and (2) of the Code, Bank is hereby granted liens and security interests (as the case may be) upon all property of the estate as defined in Section 541(a) of the Code (excluding the Defense Department Deposit Account and property recovered through exercise of the powers granted under Sections 506(c), 544, 545, 547, 548, and 549 of the Code (the "Excluded Property")) that is the same category, kind, type, character and description as were subject to perfected and valid security interests in existence as of the Petition Date. Except for the Defense Department Deposit Account and the Excluded Property, the property securing the use of the Cash Collateral includes, but is not limited to, all existing and after-acquired property of Debtor's estate, whether now existing or hereafter arising, whether real or personal, tangible or intangible, whether any such property is now owned or hereafter acquired or existing, and all substitutions for, all proceeds, and all products of all of the foregoing, to the fullest extent permitted by law that is of the same category, kind, type, character and description as were subject to perfected and valid security interests in existence as of the Petition Date (all of the above described property is hereafter referred to collectively as "Adequate Protection Collateral"). Except for any currently existing senior perfected liens or security interests in the Adequate Protection Collateral, the liens and security interests granted herein shall be first and prior perfected liens in the Adequate Protection Collateral, Bank's replacement security interest in and lien upon the assets from and after the Petition Date shall be

of the same category, type, kind, character and description as the assets that were subject to perfected and valid security interests in existence as of the Petition Date. The liens and security interests granted herein shall secure the impairment, if any, of the value of the interest of Bank in Cash Collateral, and will have the same relative priority as any valid and unavoidable liens held by Bank as of the Petition Date, but shall not be construed to enhance or improve the position of Bank. Bank consents to the Debtor's use of cash and cash collateral as set forth in this Order and Budget but reserves its right to seek a subsequent determination, if necessary, of its interest in the funds on deposit in the Defense Department Deposit Account as of the Petition Date.

3. Order is Security Agreement. This Order shall be deemed to be and shall constitute a security agreement under the applicable provisions of the Uniform Commercial Code ("UCC") in effect from time to time in the states in which Debtor (a) is domiciled, (b) operates its business, and (c) maintains its principal place of business. The liens and security interests granted by this Order are perfected by operation of law upon entry of this Order by the Court. Bank shall not be required to file financing statements, deeds of trust, or take any action to validate or perfect such liens and security interests. If Bank, in its discretion, chooses to file financing statements or other documents or otherwise confirm perfection of such liens and interests, Debtor is hereby authorized and directed to execute any other security agreements, UCC-1 financing statements, and supporting documents as may be reasonably requested by Bank to document any adequate protection liens provided and permitted by this Order. Debtor shall cooperate with Bank in executing such other documentation as Bank deems reasonably necessary to effectuate the terms of the Order.

4. Administrative Expense Claim. To the extent the adequate protection provided to Bank in the form of the security interests and liens granted pursuant to this Order proves to be inadequate, Bank shall, pursuant to Section 507(b) of the Code, be entitled to an administrative expense claim under Code Sections 503(b) and 507(a)(2).

5. Insurance and Audits. Debtor shall insure the Prepetition Collateral and the Adequate Protection Collateral for the full insurable replacement value thereof with insurance companies acceptable to Bank. Debtor will provide Bank with certificates of insurance evidencing Debtor's compliance with the insurance requirements herein provided and Bank may purchase said insurance and charge the expense thereof to Debtor if it fails to obtain and maintain the insurance as herein provided.

6. Additional Duties of Debtor. Debtor is hereby directed to deliver to Bank such financial and other information concerning the business and affairs of Debtor and any of the Prepetition Collateral and Adequate Protection Collateral as Bank shall reasonably request from time to time.

7. Events of Default. Each of the following shall be an Event of Default under this Order: (a) spending other than as allowed in the Budget and in this Order unless agreed by Bank in writing; (b) failure to comply with any of the obligations imposed by this Order; (c) appointment of a Chapter 11 trustee; (d) conversion of this case to a case under Chapter 7 of the Code; and (e) dismissal of this case.

8. Termination Date and Enforcement of Event of Default. Unless terminated earlier, Debtor's authority to use Cash Collateral under this Interim Order shall continue until the close of business on the day that the next hearing on the Motion is held. Notwithstanding the foregoing, Debtor's right to use Cash Collateral in the case of any Event of Default specified above in paragraph 7 shall terminate at the end of the fifth business day following delivery by Bank to Debtor, its counsel, the United States Trustee, and counsel to any official committees in the case of a written notice of default. Debtor's authority to use the Cash Collateral shall cease without further action unless Bank has acknowledged within said five business day period that the specified event of default has been cured or the Court orders otherwise. Nothing herein shall constitute a waiver of Debtor's right to move for a court order

pursuant to 11 U.S.C. § 363(c)(2)(B) authorizing the use of cash collateral in the absence of Bank's consent.

9. Validity of Liens. All liens and priorities granted to Bank hereunder shall be valid and enforceable obligations of Debtor against any subsequent Chapter 11 or Chapter 7 trustee. The obligations and rights of Debtor and Bank under this Order, any documents executed pursuant to paragraph 5 hereof, and the priorities, liens and security interests granted herein, shall remain unimpaired and unaffected by any modification, reversal, or vacation of this Order on appeal, or by any termination or any curtailment of lending hereunder. Nothing contained herein, however, shall serve to adjudicate the validity, perfection, attachment, priority, or enforceability, or improve the position of, any of the Existing Indebtedness under the Loan Documents or the Existing Liens.

10. Amendments. Nothing herein shall prohibit Debtor and Bank from amending the terms of the use of Cash Collateral authorized hereby by mutual agreement and further order of the Court after notice and hearing.

11. Miscellaneous Provisions

a. Modification of Stay. The automatic stay of Section 362 is hereby modified with respect to Bank to the extent necessary to effectuate the provisions of this Order.

b. Financial Information; Insurance. Debtor is directed to allow Bank access to the Prepetition Collateral and Adequate Protection Collateral for the purpose of enabling it to inspect and audit the collateral and the books and records of Debtor. Such access for such purpose shall be permitted during normal business hours and upon reasonable notice.

c. No Waiver. Bank's failure, at any time or times hereafter, to require strict performance by Debtor (or by any Trustee) of any provision of this Order shall not waive, affect or diminish any right of Bank to demand strict compliance and performance therewith. No delay on the part of Bank in the exercise of any right or remedy under this Order shall preclude any other or further exercise of any such right or remedy or the exercise of any

other right or remedy. None of the rights or remedies of Bank under this Order shall be deemed to have been suspended or waived by Bank unless such suspension or waiver is in writing, signed by a duly authorized officer of Bank, and directed to Debtor specifying such suspension or waiver. Likewise, nothing contained in this Order shall constitute a waiver by Debtor, or any subsequent Chapter 11 or Chapter 7 trustee, of any of their respective rights under the Loan Documents, the Code, or other applicable law, at law or in equity, including, without limitation, the right to assert any claim, demand, or cause of action, whether in contract, tort, or otherwise, that they had as of the Petition Date, or that Debtor or such trustee now has, or in the future may have, against Bank. Debtor's or a trustee's failure, at any time or times hereafter, to require strict performance by Bank of any provision of this Order shall not waive, affect or dismiss any right of Debtor or the trustee to demand strict compliance and performance therewith. No delay on the part of Debtor or the trustee in the exercise of any right or remedy under this Order shall preclude any other or further exercise of any such right or remedy or the exercise of any other right or remedy. None of the rights or remedies of Debtor or the trustee under this Order shall be deemed to have been suspended or waived by Debtor or the trustee unless such suspension or waiver is in writing, signed by Debtor or the trustee, as the case may be, directed to Bank specifying such suspension or waiver, and approved by the Court.

Nothing contained in this Order or in Debtor's or Bank's agreement to the terms hereof shall (1) be deemed to be a consent by Bank to any extension of the term of this Order or the entry of a final order authorizing the use of cash collateral; or (2) waive any of Debtor's, a trustee's, or Bank's rights or remedies in this case, or any superseding case under the Code, including the right to seek conversion or dismissal; or (3) impose on Debtor, a trustee, or Bank any liability or responsibility to any third party.

d. Order. Except for the stipulated facts set forth in paragraph F, this Order shall be binding on all parties in interest in this case and their respective successors and assigns, including, without limitation, any Chapter 11 or Chapter 7 trustee. If any or all of the

provisions of this Order are hereafter modified, vacated or stayed by subsequent order, such action shall not affect the priority, validity, enforceability or effectiveness of any lien, security interest, or priority authorized hereby with respect to the use of Cash Collateral prior to the effective date of such subsequent order (and all such liens, security interests, priorities and other benefits shall be governed in all respects by the original provisions of this Order). Except as otherwise explicitly set forth in this Order, no third parties are intended to be or shall be deemed to be third party beneficiaries of this Order.

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Presented by:

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cc: List of Interested Parties

EXHIBIT 1

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LIST OF INTERESTED PARTIES

In re HemCon Medical Technologies, Inc.
U.S. Bankruptcy Court Case No. 12-32652-elp11

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