

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA

In re:

HEI, Inc.,

Debtor.

BKY 15-40009

Chapter 11 Case

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**ORDER AUTHORIZING FURTHER INTERIM USE OF CASH COLLATERAL**

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This case is before the court in connection with the Debtor's Motion for (I) Expedited Relief and (II) Interim and Final Orders Authorizing the Use of Cash Collateral (the "Motion"). Pursuant to the stipulation for further interim use of cash collateral between the debtor and Wells Fargo Bank, National Association (the "Prepetition Lender") dated January 21, 2015,

IT IS ORDERED:

1. This court will hold the hearing on the final portion of the debtor's motion on February 25, 2015 at 10:30 a.m.
2. The deadline for objections or other responses to the motion is extended such that any additional objections or other responses are due no later than February 20, 2015.
3. The debtor is authorized to use cash collateral in which the Prepetition Lender claims an interest, on an interim basis through the end of the week beginning February 23, 2015, subject to the conditions set forth in this order, and in material conformity with the following budget (the "Budget"):

NOTICE OF ELECTRONIC ENTRY AND FILING ORDER OR JUDGMENT Filed and Docket Entry made on <i>01/22/2015</i> Lori Vosejka, Clerk, by LH
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1	Weekly Cashflow Forecast - Interim	Previous Interim Period				Continued Interim Period					
		Actual	Projected	Projected	Interim Total	Projected	Projected	Projected	Projected	Projected	Interim Total
		Week Begin 1/5/2015	Week Begin 1/12/2015	Week Begin 1/19/2015		Week Begin 1/26/2015	Week Begin 2/2/2015	Week Begin 2/9/2015	Week Begin 2/16/2015	Week Begin 2/23/2015	
5	<b>CASH RECEIPTS</b>										
6	Accounts Receivable Collections	430,974	233,743	204,224	868,940	130,224	103,085	137,663	70,324	70,324	511,619
9	Sale of Equipment				-	-	-	2,805,000			2,805,000
10	Phillips Receipts for Tempe Production	161,040	80,249	72,259	313,548	143,114	24,632	29,767	-	-	197,512
11	Phillips Premiums	133,000	-	133,000	266,000	-	-	134,000	-	-	134,000
12	Sale of Real Estate				-						-
13	Recovery of Utility Deposits				-						-
14	8M Customer Premiums	30,000	20,000	15,500	65,500						-
15	CL Customer Premiums			33,283	33,283	-					-
16	Recovery of Other Assets	5,000			5,000						-
17	BWI Receipts for Boulder Production		18,497	827,050	845,547		250,000		186,852		436,852
18	BWI Premiums			175,000	175,000						-
19	Bond Redemption	-	-	-	-	-	-	-	-	-	-
20	<b>Total Cash Inflows</b>	<b>760,014</b>	<b>352,489</b>	<b>1,460,316</b>	<b>2,572,819</b>	<b>273,338</b>	<b>377,717</b>	<b>3,106,429</b>	<b>257,176</b>	<b>70,324</b>	<b>4,084,983</b>
21											
22	<b>CASH DISBURSEMENTS</b>										
23	Inventory and supply Payments	26,813	7,500	7,500	41,813	7,500	2,500	2,500	-	-	12,500
24	Equipment Rent and Lease Payments		13,000	-	13,000	-	-	-			-
25	Payroll, Taxes, 401k (Need Breakout)	149,489	-	129,308	278,797	7,605	102,108	1,040	54,513	-	165,266
26	Retention - Tempe				-	58,500		8,000			66,500
27	BCBS - Health Insurance claims	-	25,000	-	25,000	-	-	30,000	-	-	30,000
28	BCBS - Health Insurance premiums	-	20,000	-	20,000	-	8,000				8,000
29	Delta Dental premiums		9,000		9,000		4,000				4,000
31	Trash Removal - Victoria		1,593		1,593			1,200	-		1,200
32	Utilities -Victoria		-		-	25,000		-			25,000
33	Utilities-Tempe		40,000		40,000		25,000				25,000
34	Utility Deposits		75,000		75,000						-
35	Utilities-Boulder		-		-						-
36	Shipping (Fedex, UPS)	452	4,548		5,000	2,000		1,000			3,000
37	Janitorial		1,697	1,697	3,394			1,697			1,697
38	Telephone		-	10,000	10,000		10,000		7,500		17,500
39	Cell Phone			2,100	2,100		2,100		2,000		4,100
40	Life Insurance - Guardian		3,000		3,000		1,000				1,000
41	Business Insurance - Commercial		5,545		5,545	19,094				12,639	31,733
43	Alliance Fees				-		125,000				125,000
44	Alliance Sales Fee		-		-			84,150			84,150
46	Fredrikson Fees (BK Counsel)				-		100,000				100,000
48	Debtor Fees (M&A Counsel)				-		50,000				50,000
49	Creditors Committee/Liquidating Agent				-		25,000				25,000
50	Shareholder Notice Costs		35,000		35,000						-
51	US Trustee Fees				-						-
53	Tempe Rent Payments		6,615		6,615		16,395				16,395
54	Travel		10,000	5,000	15,000	5,000	5,000	2,500	1,000		13,500
55	Tempe Maintenance		10,000	5,000	15,000	5,000					5,000
56	Operating Leases - Tempe		13,000		13,000						-
57	Equipment Lease - ESI Laser - Tempe		13,215		13,215						-
58	Equipment Lease - AOI - Tempe		8,690		8,690						-
59	Equipment Lease-Lauffer Press - Tempe		4,792		4,792						-
60	Equipment Lease-Die bonder		-		-						-
61	Equipment Lease-Plasma Etch - Tempe		1,894		1,894						-
62	Equipment Lease-My data		-		-						-
63	Environmental Clean Up							50,000			50,000
64	Moving Expenses from Boulder		-		-						-
66	Property Taxes				-						-
68	BWI Rent - Boulder			152,000	152,000		152,000				152,000
69	BWI Inventory Purchases			313,088	313,088		52,181	52,181	52,181		156,544
70	BWI Critical Catch Up Payments			236,500	236,500						-
71	BWI Boulder Employee Salary and Tax			19,069	19,069		38,139		36,093		74,231
72	BWI Boulder Retention				-						-
73	Boulder Supply Chain			4,976	4,976		3,855				3,855
74	Boulder Manufacturing			2,222	2,222		3,791				3,791
75	Boulder Facility - Non Rent				-	50,319				37,720	88,039
76	BWI G&A Expenses			9,290	9,290				9,290		9,290
77	Misc./Other		5,000	10,000	15,000	5,000	5,000	5,000	5,000	5,000	25,000
78	<b>Total Operating Disbursements</b>	<b>176,754</b>	<b>314,089</b>	<b>907,750</b>	<b>1,398,593</b>	<b>185,018</b>	<b>731,069</b>	<b>239,268</b>	<b>167,577</b>	<b>55,359</b>	<b>1,378,291</b>
79	Timing Differences		4,040		4,040						-
80	<b>Net Cash Flow before Bank Payments</b>	<b>587,300</b>	<b>38,400</b>	<b>552,566</b>	<b>1,178,266</b>	<b>88,320</b>	<b>(353,352)</b>	<b>2,867,161</b>	<b>89,599</b>	<b>14,965</b>	<b>2,706,692</b>

81	Wells Fargo Interest Payments	-	-	-	-	15,000	-	-	-	15,000	
82	WF Client Service Charge	-	-	-	-	-	-	-	-	-	
83	Principal Payments from Asset Sales	-	-	-	-	-	2,670,850	-	-	2,670,850	
84	Principal Payments from Other Cash	-	-	-	-	100,000	100,000	-	-	200,000	
85	Miscellaneous Wells Fargo Fees	105	-	-	-	-	-	-	-	-	
86	<b>Net Cash Flow Including Bank Payments</b>	<b>587,195</b>	<b>38,400</b>	<b>552,566</b>	<b>1,178,266</b>	<b>(11,680)</b>	<b>(368,352)</b>	<b>96,311</b>	<b>89,599</b>	<b>14,965</b>	<b>(179,158)</b>
87	<b>Operating Cash</b>										
88	Beginning Cash Balance	329	557,524	557,427	329	796,305	834,944	466,557	615,050	615,360	796,305
89	Less Customer Premiums (excl. Phillips)	(30,000)	(20,000)	(223,783)	(273,783)	-	-	-	-	-	-
90	Less Net Cash Flow from BWI Operations	-	(18,497)	(89,905)	(108,402)	50,319	(34)	52,181	(89,288)	37,720	50,898
91	Inc/(decr) Cash	587,195	38,400	552,566	1,178,161	(11,680)	(368,352)	96,311	89,599	14,965	(179,158)
92	<b>Ending Operating Cash Balance</b>	<b>557,524</b>	<b>557,427</b>	<b>796,305</b>	<b>796,305</b>	<b>834,944</b>	<b>466,557</b>	<b>615,050</b>	<b>615,360</b>	<b>668,045</b>	<b>668,045</b>
93	<b>Premiums Held in Trust</b>										
94	Beginning Premiums Held in Trust	-	30,000	50,000	-	273,783	273,783	273,783	273,783	273,783	273,783
95	Plus Customer Premiums (excl Phillips)	30,000	20,000	223,783	273,783	-	-	-	-	-	-
96	Disbursement of Premiums	-	-	-	-	-	-	-	-	-	-
97	<b>Ending Premiums Held in Trust</b>	<b>30,000</b>	<b>50,000</b>	<b>273,783</b>	<b>273,783</b>	<b>273,783</b>	<b>273,783</b>	<b>273,783</b>	<b>273,783</b>	<b>273,783</b>	<b>273,783</b>
98	<b>BWI Operating Cash</b>										
99	Beginning BWI Operating Cash	-	-	18,497	-	108,402	58,083	58,117	5,935	95,223	108,402
100	Net Cash Flow from BWI Operations	-	18,497	89,905	108,402	(50,319)	34	(52,181)	89,288	(37,720)	(50,898)
101	<b>Ending BWI Operating Cash</b>	<b>-</b>	<b>18,497</b>	<b>108,402</b>	<b>108,402</b>	<b>58,083</b>	<b>58,117</b>	<b>5,935</b>	<b>95,223</b>	<b>57,503</b>	<b>57,503</b>
102	<b>Total Cash</b>	<b>587,524</b>	<b>625,924</b>	<b>1,178,490</b>	<b>1,178,490</b>	<b>1,166,809</b>	<b>798,457</b>	<b>894,768</b>	<b>984,367</b>	<b>999,332</b>	<b>999,332</b>
103	<b>Beginning Combined Revolver Balance</b>	<b>2,424,039</b>	<b>2,424,039</b>	<b>2,424,039</b>	<b>2,424,039</b>	<b>2,424,039</b>	<b>2,324,039</b>	<b>2,324,039</b>	<b>-</b>	<b>-</b>	<b>2,424,039</b>
104	Inc/(decr) revolver/term	-	-	-	-	(100,000)	-	(2,770,850)	-	-	(2,870,850)
105	<b>Ending Combined Revolver Balance</b>	<b>2,424,039</b>	<b>2,424,039</b>	<b>2,424,039</b>	<b>2,424,039</b>	<b>2,324,039</b>	<b>2,324,039</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
106	<b>P-Card and Other</b>	<b>24,603</b>	<b>24,603</b>	<b>24,603</b>	<b>24,603</b>	<b>24,603</b>	<b>24,603</b>	<b>24,603</b>	<b>24,603</b>	<b>24,603</b>	<b>24,603</b>
107	<b>Mortgage Balance</b>	<b>862,500</b>	<b>862,500</b>	<b>862,500</b>	<b>862,500</b>	<b>862,500</b>	<b>862,500</b>	<b>415,689</b>	<b>415,689</b>	<b>415,689</b>	<b>415,689</b>
108	<b>Total Wells Fargo Debt</b>	<b>3,311,142</b>	<b>3,311,142</b>	<b>3,311,142</b>	<b>3,311,142</b>	<b>3,211,142</b>	<b>3,211,142</b>	<b>440,292</b>	<b>440,292</b>	<b>440,292</b>	<b>440,292</b>

4. A material variation from the Budget shall occur if, at any time, the debtor's actual expenditures on a rolling, cumulative basis exceed the total projected expenditures at that time by 10% or more. In determining the debtor's actual expenditures and total projected expenditures the BWI and Philips funds advanced and payments made, as part of the BWI and Philips agreements, shall not be taken into consideration.

5. The Budget may be revised by the debtor during the continued interim period without further order of the court, provided that the Prepetition Lender agrees in writing to the revisions.

6. For purposes of adequate protection, and to the extent of the use of prepetition cash collateral in which the Prepetition Lender has a perfected security interest, the debtor is authorized to grant to the Prepetition Lender a replacement lien, pursuant to 11 U.S.C. §§ 361, 363, and 552, in the debtor's postpetition assets of the same priority, dignity and effect as the prepetition lien, if any, on the prepetition property of the debtor. Such replacement lien shall not

extend to funds advanced by customers—including but not limited to Philips Ultrasound, Inc., (“Philips”), Biosense Webster, Inc. (“BWI”)—after the filing of this bankruptcy case that are earmarked for payment of expenses, and shall not extend to any inventory or other materials purchased with such funds. Such replacement lien shall extend to premium payments received by the debtor through the end of the week beginning February 23, 2015.

7. As and for additional adequate protection, the debtor shall continue to utilize bank accounts maintained at Wells Fargo, including one or more prepetition bank accounts to the extent authorized by this court’s order regarding the debtor’s motion seeking authorization to maintain existing bank accounts.

8. As and for additional adequate protection, the debtor shall comply with reporting and inspection requests made by the Prepetition Lender in accordance with the Prepetition Lender’s rights under its loan documents, which includes providing the Prepetition Lender with: (i) daily collateral reports together with all supporting documents attached thereto, due by end of business the following day; and (ii) weekly cash flow statements due by the end of business on Wednesday of the following week. The debtor shall further provide the Prepetition Lender with a copy of all reports provided to the United States Trustee.

9. Nothing in the stipulation or this order shall be deemed to waive any of the Prepetition Lender’s or Committee’s rights to continue or supplement their objections to the debtor’s use of cash collateral on a final basis.

10. Nothing in the stipulation or this order shall be deemed to waive any of the debtor’s rights to seek final use of cash collateral over the objection of the Prepetition Lender.

Dated: *January 22, 2015*

/s/ Kathleen H. Sanberg

Kathleen H. Sanberg  
United States Bankruptcy Judge