

1 CAMPEAU GOODSSELL SMITH, L.C.
SCOTT L. GOODSSELL, #122223
2 WILLIAM J. HEALY, #146158
440 N. 1st Street, Suite 100
3 San Jose, California 95112
Telephone: (408) 295-9555
4 Facsimile: (408) 295-6606

5 ATTORNEYS FOR Debtor

6

7

8

UNITED STATES BANKRUPTCY COURT

9

NORTHERN DISTRICT OF CALIFORNIA

10

11 In re:

) Case No. 17-51123

12 WESTAK, INC.,

) CHAPTER 11

13

Debtor.

) **MOTION TO APPROVE USE OF CASH
) COLLATERAL AND/OR APPROVE
) STIPULATION TO USE CASH
) COLLATERAL**

14

15

) Date: n/a

16

) Time: n/a

17

) Place:

18

) United States Bankruptcy Court,
Courtroom 3099
280 South First Street
San Jose, CA 95113

19

) Judge: Hon. Stephen L. Johnson

20

21 COMES NOW WESTAK, INC., Debtor and Debtor-in-possession herein (“Debtor”)

22 and submits the following MOTION TO APPROVE USE OF CASH COLLATERAL AND/OR

23 APPROVE STIPULATION TO USE CASH COLLATERAL (“Motion”) as follows:

24 **I. Summary of Motion.**

25 By way of this Motion Debtor seeks an order approving its use of cash collateral and/or
26 approving a stipulation to use cash collateral. Absent an order shortening time Debtor may lose the
27 right to use cash collateral and substantial harm will result to Debtor, the estate, and the creditors.

28 **II. Factual Background.**

1 **A. Debtor.**

2 Debtor is the parent to three wholly owned non-debtor operating subsidiaries: Qualitek, Inc., a
3 Nevada corporation (“Qualitek”); Westak of Oregon, Inc., an Oregon corporation (“Westak of
4 Oregon”), and Westak International Sales, Inc., a California corporation (“Westak International,”
5 collectively with Qualitek and Westak of Oregon hereinafter referred to as “Subsidiaries”). Debtor
6 holds 100% of the shares of each of the Subsidiaries, and those shares are the principal assets of this
7 estate. The Debtor has no other assets of significant value. Debtor’s business is comprised primarily
8 of ownership of the Subsidiaries and provision of centralized management services for the
9 Subsidiaries.

10 The Subsidiaries engage in the sale and/or manufacturing of customized printed circuit boards
11 (“PCBs”), which mechanically support and electrically connect electronic components using features
12 etched from copper sheets. Each Subsidiaries processes between five (5) to forty (40) orders per day,
13 and no two orders are alike. To fulfill their orders, Subsidiaries rely heavily on their supplies of
14 labor, inventory and raw materials.

15 Qualitek manufactures “quick turn” PCBs for the commercial, medical, and industrial markets
16 as well as the aerospace industry. Orders for quick turn PCBs have a short turnaround time, usually
17 between 48-72 hours. Qualitek also manufactures High Density boards, which use complex
18 technology to increase the functionality of PCBs. Qualitek operates primarily in the California
19 market. FY ending March 31, 2017 total annual revenue for this entity was approximately
20 \$10,182,473.

21 Westak of Oregon manufactures PCBs for military facilities. While Westak of Oregon also
22 fulfills orders for quick turn PCBs, it primarily utilizes specialized expertise and materials in
23 manufacturing its PCBs. Consequently, Westak of Oregon routinely has a significant amount of
24 work in progress (“WIP”). FY ending March 31, 2017 total annual revenue for this entity was
25 approximately \$9,183,064.

26
27 Westak International employs the salespeople who market the products offered by Qualitek,
28 Westak of Oregon, and Westak International. Westak International operates domestically and

1 imports and resells boards from offshore suppliers and sells them for a profit. FY ending March 31,
2 2017 total annual revenue for this entity was approximately \$10,629,036.

3 The Debtor has no manufacturing or sale operations but receives monthly management fees
4 from facilitating the overall administration the Subsidiaries' operations. The Debtor and
5 Subsidiaries consolidate their corporate administration for efficiency purposes. While the Debtor
6 and Subsidiaries share one reviewed consolidated financial statement, each entity also maintains its
7 own set of books and records and prepares its own work papers for annual accounting review
8 purposes.

9
10 **B. Lending Relationship.**

11 Prior to commence of this case and as part of its ongoing business certain financing Debtor
12 obtained certain financing ("Loans") from Western Alliance Bank, as successor in interest to Bridge
13 Bank, National Association ("Secured Creditor" or "WAB") for business purposes, including
14 funding business operations at the Subsidiaries level critical to maintaining the value of Debtor's
15 equity interests. Each of the Subsidiaries has executed a Commercial Guaranty of all obligations of
16 the borrower Debtor to WAB.

17
18 WAB extended credit to Debtor in the form of a revolving line of credit (the "Line of Credit").
19 The Line of Credit is secured by certain Commercial Security Agreements executed by the Debtor
20 and each of the Subsidiaries. The Commercial Security Agreements all contain cross-
21 collateralization provisions securing all obligations of the borrower Debtor and the Subsidiaries to
22 WAB. Each of the Commercial Security Agreements grants to WAB a security interest in all
23 personal property of the respective grantor.

24 WAB extended credit to Debtor in the form of a term Employee Stock Ownership Program loan
25 (the "ESOP Loan") in the original principal amount of \$3,200,000. The ESOP Loan is secured under
26 the Commercial Security Agreements described above, as well as by additional security in the form
27 of pledges by two family trusts of securities accounts, which pledges also secure the other WAB
28 Loans to Debtor. The ESOP Loan requires monthly principal payments of approximately \$8,900,

1 plus interest. The outstanding balance on the ESOP Loan is approximately \$2.4 million.

2 WAB extended credit to Debtor in the form of several term loans for equipment Advances
3 (collectively, the “Term Loans”). The Term Loans require monthly payments of principal and
4 interest. As of the Petition Date, the outstanding balances under the Term Loans total approximately
5 \$1.4 million. Particular equipment was purchased by or for a Subsidiary to use in its operations and
6 then paid for by Advances under the Term Loans.

7 The Line of Credit, ESOP Loan and Term Loans (collectively, the “Loans”) were extended
8 pursuant to certain instruments, documents, and agreements (collectively, the “Loan Documents”)
9 executed and delivered to WAB by the Debtor and Subsidiaries, including without limitation the
10 following: (1) that certain Business Loan Agreement (Asset Based) dated April 18, 2017 (the
11 “Business Loan Agreement”); (2) That certain Change in Terms Agreement dated April 18, 2017, by
12 which the maturity date of the Line of Credit was extended to April 10, 2018; (3) Those certain
13 Promissory Notes dated December 3, 2010, January 9, 2012, November 1, 2012, January 21, 2014,
14 February 12, 2015, March 31, 2016, and April 18, 2017, respectively; (4) That certain Change In
15 Terms Agreement dated March 31, 2016, by which certain terms of the ESOP Loan were amended
16 including its maturity date; (5) Those certain Commercial Guaranties dated April 18, 2017, executed
17 in connection with the extension of maturity of the Line of Credit as replacement guaranties for
18 previous similar guaranties; (6) Those certain four Commercial Security Agreements each dated
19 December 3, 2010 and executed by Debtor, Qualitek, Westak of Oregon and Westak International,
20 respectively; and (7) Other Loan Documents, including other Change in Terms Agreements and
21 extension notices not material herein.

22
23 **C. Bankruptcy.**

24 Debtor filed a Voluntary Petition under the provisions of Chapter 11 of the Bankruptcy Code on
25 or about May 10, 2017. The commencement of the case followed and adversary state court judgment
26 in favor of a former landlord and the need to protect its assets and reorganize its liabilities.

27 **D. Cash Collateral.**
28

1 Debtor and WAB have been working towards a cash collateral agreement and stipulation.
2 Debtor anticipates that a final and formal stipulation will be reached by the time of a formal hearing.

3 **III. District's Guidelines for Cash Collateral & Financing Motions & Stipulations Statement.**

4 **A. Name of Each Entity With an Interest in the Cash Collateral.**

5 WAB, as discussed hereinabove, has a lien on substantially all of Debtor's assets in this case.

6 **B. Purposes for the Use of the Cash Collateral.**

7 Cash collateral is to be used in the ordinary course for operations of the business
8 and to pay adequate protection to WAB.

9 **C. Terms, Including Duration, of the Use of Cash Collateral.**

10 Cash collateral is to be used to pay operating expenses in the ordinary course so
11 long as adequate protection payments are made for a period of four months.

12 **D. Liens, Cash Payments, Or Other Adequate Protection.**

13 Debtor proposes to continue paying WAB as set forth in the budget and stipulation.

14 **CERTIFICATION**

15 The undersigned Certifying Professional has read the accompanying motion or
16 stipulation and the Cash Collateral - Post Petition Financing Introductory Statement; to
17 the best of my knowledge, information and belief, formed after reasonable inquiry, the
18 terms of the relief sought in the motion or stipulation are in conformity with the Court's
19 Guidelines For Cash Collateral And Financing Motions and Stipulations except as set
20 forth above. I understand and have advised the debtor in possession or trustee that the
21 court may grant appropriate relief under Fed. R. Bankr. P. 9024 if the court determines
22 that a material element of the motion or stipulation was not adequately disclosed in the
23 Introductory Statement.

24 Dated: May 31, 2017

25 CAMPEAU GOODSSELL SMITH
26 By: /s William J. Healy
27 William J. Healy
28