# NEWS RELEASE

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**For Immediate Release**

## HEI, Inc. Announces Third Quarter 2011 Results

MINNEAPOLIS, October 20, 2011- HEI, Inc. (Pink Sheets: HEII; http://www.heii.com) today announced its financial results for the third quarter of 2011, which ended October 1, 2011.

Sales for the third quarter were $9,221,000, compared to $8,465,000 for the third quarter of 2010. The Company generated a net income of $162,000 for the third quarter of 2011 compared to a net loss of ($510,000) for the same period of 2010. Sales for the first nine months of 2011 were $28,215,000, compared to $27,335,000 for the first nine months of 2010. The Company generated a year-to-date net income of $686,000 for 2011 compared to a net loss of ($139,000) for the first nine months of 2010.

ñAs with most businesses, sales drive our profitability and success. We have added new customer accounts at all three of our operating divisions in addition to expanded business with a number of our existing customers. We continue to build new generation prototypes and qualification builds with more accounts to expand our prospects for increased sales in the coming months and into 2012. Some of our customers are still waiting on government funding for some of their programs, but we are optimistic that several of these programs will be funded in 2012. The outlook for the markets that we serve looks very promising for the coming years. Our markets include Medical, Hearing, Telecommunications, Military and Aerospace, Industrial and Clean Energy.

ñAs part of our expansion efforts, we have made some key management hires including a new Vice President of Sales and Marketing that brings a new focus on strategic account acquisitions, a new Vice President Controller with a strong operations focus and a new Director of Corporate Supply Chain to expand our support of our growing customer base. Operationally, we continue to invest in new engineering talent and manufacturing personnel to build the best possible products for our customers. We have added some strategic new equipment to allow us to expand capabilities, capacity and provide additional redundancy in our operations.

ñWe continue to make progress and we are developing a stronger organization to drive and support our growth objectives. We believe that our focus on the customer, the quality of the products that we build and our dedication to speed and responsiveness is helping to set us apart from our competition,ò commented HEI CEO, Mark B. Thomas.

HEI, Inc. designs, develops and manufactures ultra-miniature microelectronics, substrates, systems, connectivity and software solutions for customers engaged in the medical, hearing, telecommunications, military, aerospace, and industrial markets. HEI provides its customers with a single point of contact that can take an idea from inception to a fully functional and cost effective product utilizing innovative design solutions and by the application of state-of-the-art materials, processes and manufacturing capabilities.

| | |
|---|---|
| Corporate & HEI ï Victoria (Microelectronics Contract Manufacturing and ATE) | 1495 Steiger Lake Lane, Victoria, MN 55386 |
| HEI ï Boulder (Design and Development, Box Build and ATE) | 4801 North 63rd Street, Boulder, CO 80301 |
| HEI ï Tempe (Quick Turn and Production High Density Interconnect Flex and Rigid-Flex) | 610 South Rockford Drive, Tempe, AZ 85281 |

*FORWARD LOOKING INFORMATION*

Information in this news release, which is not historical, includes forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as ñmay,ò ñwill,ò ñexpect,ò ñanticipate,ò ñbelieve,ò ñintend,ò ñestimate,ò ñcontinue,ò and similar words. Statements contained in this press release, including the implementation of business strategies, growth of specific markets, improved results and estimated HEI revenue, cash flow and profits, are forward looking statements. All such forward-looking statements involve risks and uncertainties including, without limitation, adverse business and market conditions, the ability of HEI to secure and satisfy customers, the availability and cost of materials from HEIôs suppliers, HEIôs ability to satisfy financial or other obligations or covenants set forth in its financing agreements, adverse competitive developments, change in or cancellation of customer requirements, collection of receivables and outstanding debt, HEIôs ability to control fixed and variable operating expenses, and other risks detailed in previous HEI SEC filings. Since HEI is no longer reporting to the SEC, readers are cautioned to weigh the potential for additional risk factors based on ongoing business activities and the current economic conditions. The information set forth herein should be read in light of such risks. We undertake no obligation to update these statements to reflect ensuing events or circumstances, or subsequent actual results.

**HEI, INC.**
**CONSOLIDATED BALANCE SHEETS**
**(In thousands, except share and per share data)**

| | October 2, 2011 (Unaudited) | January 2, 2011 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ - | $ - |
| Accounts receivable, net | 4,753 | 5,071 |
| Inventories, net | 4,959 | 4,359 |
| Deferred income taxes | 425 | 425 |
| Other current assets | 620 | 227 |
| Total current assets | 10,757 | 10,082 |
| Property and equipment: | | |
| Land | 216 | 216 |
| Building and improvements | 4,337 | 4,337 |
| Fixtures and equipment | 26,596 | 25,334 |
| Accumulated depreciation | (25,393) | (24,290) |
| Net property and equipment | 5,756 | 5,597 |
| Security deposit | 242 | 230 |
| Other long-term assets | 348 | 336 |
| Total assets | $ 17,103 | $ 16,245 |
| LIABILITIES AND SHAREHOLDERSô EQUITY | | |
| Current liabilities: | | |
| Checks issued in excess of cash in bank | $ 175 | $ 524 |
| Current maturities of long-term debt | 737 | 684 |
| Accounts payable | 2,628 | 2,737 |
| Customer deposit liabilities | - | 297 |
| Accrued liabilities | 912 | 718 |
| Total current liabilities | 4,452 | 4,960 |
| Deferred income taxes | 425 | 425 |
| Other long-term liabilities, less current maturities | 2,019 | 1,953 |
| Long-term debt, less current maturities | 6,420 | 5,907 |
| Total other long-term liabilities, less current maturities | 8,864 | 8,285 |
| Total liabilities | 13,316 | 13,245 |
| Shareholdersô equity: | | |
| Undesignated stock | - | - |
| Convertible preferred stock, $.05 par | 2 | 2 |
| Common stock, $.05 par | 494 | 494 |
| Paid-in capital | 28,341 | 28,241 |
| Accumulated deficit | (25,050) | (25,737) |
| Total shareholdersô equity | 3,787 | 3,000 |
| Total liabilities and shareholdersô equity | $ 17,103 | $ 16,245 |

**HEI, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(In thousands, except share and per share data)**

**(Unaudited)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2011 | October 2, 2010 | October 1, 2011 | October 2, 2010 |
| Net sales | $ 9,221 | $ 8,465 | $ 28,215 | $ 27,335 |
| Cost of sales | 7,712 | 7,713 | 23,596 | 23,656 |
| Gross profit | 1,509 | 752 | 4,619 | 3,679 |
| Operating expenses: | | | | |
| Selling, general and administrative | 1,100 | 1,063 | 3,285 | 3,258 |
| Research, development and engineering | 174 | 116 | 423 | 497 |
| Operating income (loss) | 235 | (427) | 910 | (76) |
| Interest expense | (90) | (83) | (245) | (230) |
| Other income (expense), net | 17 | - | 20 | 167 |
| Net income (loss) | $ 162 | $ (510) | $ 686 | $ (139) |
| Net income (loss) per common share | $ 0.02 | $ (0.05) | $ 0.07 | $ (0.01) |
| Weighted average common shares outstanding | 10,045,000 | 9,747,000 | 9,933,000 | 9,731,000 |