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AFTER RECORDING RETURN TO:

Lane Powell Spears Lubersky LLP
520 S.W. Yamhill Street
Portland, Oregon 97204
Attn.: Bryan E. Powell

KATHY HILL
SKAGIT COUNTY AUDITOR

98 JUN 30 P1 27

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SUBORDINATION AGREEMENT

RECORDED _____ FILED _____
FIRST AMERICAN TITLE CO.
55361

THIS SUBORDINATION AGREEMENT is made as June 25, 1998, by and among the State of Washington Department of Community, Trade and Economic Development ("DCTED") ("Junior Lender"), Washington Alder, LLC, a Washington limited liability company ("Borrower"), and CAPITAL CONSULTANTS, INC., an Oregon corporation, as agent for certain participant lenders ("CCI").

Recitals

A. Borrower has a leasehold interest in that certain real property located in Skagit County (the "County"), Washington, more particularly described in Exhibit A (the "Property").

B. Pursuant to a Forest Products RLF Loan Agreement dated May 6, 1998 (the "Junior Lender Loan Agreement"), Junior Lender has agreed, subject to the satisfaction of certain terms and conditions, to provided certain financing (the "Junior Lender Loan") to Borrower. Amounts advanced by Junior Lender pursuant to the Junior Lender Loan Agreement are: (i) evidenced by, among other documents and instruments, a promissory note dated May 6, 1998 in the principal amount of \$750,000.00, with a restated note to be made at a later date in an amount up to \$780,000.00 (the "Junior Lender Note"), and (ii) secured by an Assignment of Lease for Security Purposes dated May 6, 1998, which was recorded on June 10, 1998, as Auditor's No. 980610099 in the real property records of Skagit County, in Washington (the "Junior Lease Assignment"), and (iii) secured by a Commercial Security Agreement dated May 6, 1998 ("Security Agreement"). The foregoing documents and instruments and all other documents and instruments executed by Borrower in connection with the Junior Lender Loan are hereinafter referred to collectively as the "Junior Lender Loan Documents."

C. Contemporaneously with the execution hereof, Borrower is borrowing \$10,000,000.00 from CCI (the "CCI Loan"). The CCI Loan will be secured by a Leasehold Deed of Trust, Security Agreement, Assignment of Rents and Fixture Filing of the same date herewith, which shall be recorded in the real property records of the County contemporaneously herewith (the "CCI Trust Deed"). The CCI Trust Deed and all other documents and instruments executed by Borrower in connection with the CCI Loan are hereinafter referred to collectively as the "CCI Loan Documents."

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D. As a condition precedent to funding under the CCI Loan Documents, CCI has required that Junior Lender subordinate the Junior Lender Loan Documents to the CCI Trust Deed on the terms and conditions set forth in this Agreement.

In consideration of the foregoing and the mutual covenants of the parties contained herein, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Subordination by Junior Lender. Junior Lender hereby subordinates the lien of the Junior Lease Assignment to the lien of the CCI Trust Deed, and all advances or charges made or accruing thereunder, including any extensions or renewals thereof, subject to the provisions hereinafter set forth. CCI's may exercise any and all remedies that it may have under the CCI Loan Documents, or any of them, whether at law or in equity, with respect to the Property, free of any interest of Junior Lender. The priorities specified in this Agreement are applicable, irrespective of the time or order of acquiring title to, or of attachment, recording, or perfection of, the liens on and security interests in the Property, as evidenced by the Junior Lender Loan Documents, the CCI Loan Documents, and any other document or instrument creating an interest or lien in the Property.

2. Notice of Default/Right to Cure--CCI Loan. CCI shall give Junior Lender notice of any default by Borrower under the CCI Loan Documents at the same time as such notice is given to Borrower. In the event of any default by Borrower under the CCI Loan Documents, Junior Lender shall have the right, but not the obligation, to cure such default within the cure period provided in the CCI Loan Documents with respect to such default, if any. The periods of time, if any, within which Junior Lender shall have the right to cure Borrower's default shall commence on the date Junior Lender receives notice of Borrower's default from CCI. All sums expended by Junior Lender in effecting any such cure shall be immediately due and payable by Borrower and shall bear interest at the rate of fifteen percent (15%) per annum from the date of expenditure until paid. All such sums, with interest, shall constitute additional indebtedness of Borrower secured by the Junior Lender Loan Documents (but subject to the subordination provisions of this Agreement).

3. Cross-Default. Any default by Borrower under the CCI Loan Documents shall be and shall constitute a default under the Junior Lender Loan Documents.

4. Consent of Borrower. Borrower understands and agrees that the provisions hereof are intended to define the relative rights of Junior Lender and CCI under the Junior Lender Loan Documents and the CCI Loan Documents, and that nothing contained herein shall impair the unconditional and absolute obligations of Borrower thereunder. By joining in the execution of this Agreement, Borrower acknowledges, agrees, and consents to all of the provisions hereof.

5. Junior Lender's Rights to Receive Payment. Provided that no event of default exists under the CCI Loan Documents, Junior Lender shall be entitled to receive and accept payments under the Junior Lender Loan Documents as, when, and to the extent the same are due, but (a) Junior Lender shall accept no payment tendered before its due date under the Junior Lender Loan Documents (including, without limitation, any prepayment of principal), and (b) following an event of default under the CCI Loan Documents, Junior Lender shall not ask, demand, sue for, take, or receive from Borrower the whole or any part of amounts due or to come due under the Junior Lender Loan Documents unless and until all of Borrower's obligations arising under the CCI Loan Documents have been paid or satisfied in full.

6. Miscellaneous Provisions.

6.1 Binding Effect. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, successors, and assigns.

6.2 Waiver. Failure of any party at any time to require performance of any provision of this Agreement shall not limit such party's right to enforce such provision, nor shall any waiver of any breach of any provision of this Agreement constitute a waiver of any succeeding breach of such provision or a waiver of such provision itself.

6.3 Amendment. This Agreement may not be modified or amended except by the written agreement of the parties. No attempted waiver of any provision of this Agreement shall be binding unless in writing and signed by the party to be bound.

6.4 Attorneys' Fees. In the event a suit, action, or other proceeding of any nature whatsoever, including any proceeding under the U.S. Bankruptcy Code, is instituted in connection with any controversy arising out of this Agreement or to interpret or enforce any rights hereunder, the prevailing party shall be entitled to recover from the losing party its attorneys', paralegals', accountants', and other experts' fees and all other fees, costs, and expenses actually incurred and reasonably necessary in connection therewith, as determined by the court at trial or on any appeal or review, in addition to all other amounts provided by law.

6.5 Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance shall to any extent be held invalid or unenforceable, the remainder of this Agreement and the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby, and each term or provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

6.6 Integration. This Agreement contains the entire agreement and understanding of the parties with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements among them with respect to such matters.

6.7 Notices. Notices under this Agreement shall be in writing and shall be effective when actually delivered or three (3) days after being deposited in the United States Mails, certified, return receipt requested, directed to the other party at the address set forth below, or to such other address as the party may indicate by written notice:

If to Borrower: Washington Alder, LLC
One Main Place
101 S.W. Main Street, Suite 1800
Attn.: Michael L. Knobel

If to CCI: Capital Consultants, Inc.
2300 S.W. First Avenue
Portland, Oregon 97201
Attn.: Linda Lucas, COO

With a copy to: Lane Powell Spears Lubersky LLP
520 S.W. Yamhill Street
Portland, Oregon 97204
Attn.: Bryan E. Powell

If to Junior Lender: State of Washington Department of Community, Trade and
Economic Development
906 Columbia Street Southwest
Olympia, Washington 98504-8300
Attn.: _____

6.8 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the state of Washington.

6.9 Inconsistent Provisions. In the event of any inconsistency between the provisions of this Agreement and the provisions of the Junior Lender Loan Documents, or the CCI Loan Documents, the provisions of this Agreement shall control and shall be binding upon the parties hereto.

6.10 Construction and Interpretation. The headings or titles of the sections of this Agreement are intended for ease of reference only and shall have no effect whatsoever on the construction or interpretation of any provision of this Agreement. The use in this Agreement of the words "including," "such as," and words of similar import following any general statement, term, or matter shall not be construed to limit such statement, term, or matter in any manner, whether or not language of non-limitation (such as "without limitation" or "but not limited to") is used in connection therewith, but rather shall be deemed to refer to all other items or matters that could reasonably fall within the scope of the general statement, term, or matter. All provisions of this Agreement have been negotiated at arms length and this Agreement shall not be construed for or against any party by reason of the authorship or alleged authorship of any provision hereof.

6.11 Counterparts. This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

State of Washington Department of
Community, Trade and Economic
Development

By: _____
Name: _____
Title: _____

“Junior Lender”

WASHINGTON ALDER, LLC
a Washington limited liability company

By: _____
Michael C. Knobel, President

“Borrower”

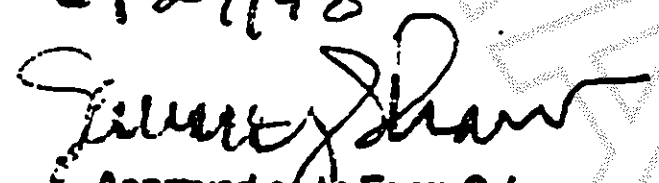
CAPITAL CONSULTANTS, INC.
an Oregon corporation, as agent for certain
participant lenders

By: Nancy Kimmel
Name: Nancy Kimmel
Title: Vice President

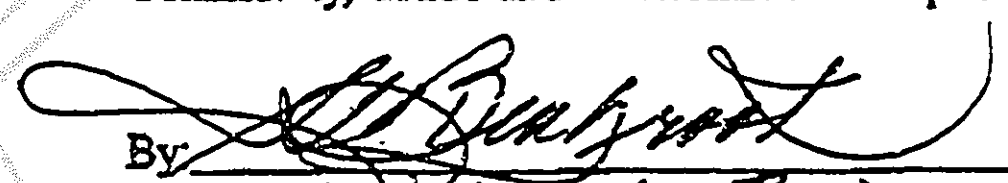
“CCR”

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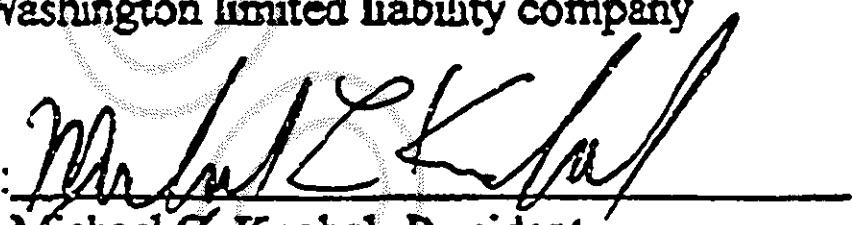
6/29/98

Approved as to Form Only
CHRISTINE O. GREGOIRE
Attorney General

State of Washington Department of
Community, Trade and Economic Development

By: 
Name: Sandra L. Benbrook
Title: Assistant Director

"Junior Lender"

WASHINGTON ALDER, LLC
a Washington limited liability company

By: 
Michael E. Knobel, President

"Borrower"

CAPITAL CONSULTANTS, INC.
an Oregon corporation, as agent for certain
participant lenders

By: _____
Name: _____
Title: _____

"CCI"

STATE OF WASHINGTON)

) ss.

COUNTY OF)

I certify that I know or have satisfactory evidence that she, who appeared before me, and said person acknowledged that Sandi Benbrook signed this instrument, on oath stated that he is authorized to execute the instrument and acknowledged it as the Assistant Director to be his free and voluntary act of such parties for the uses and purposes mentioned in this instrument.

DATED: June 29, 1998

[Signature]

NOTARY PUBLIC for the State of Washington, residing at Thurston County

My appointment expires: Aug. 11, 2001

STATE OF WASHINGTON)

) ss.

COUNTY OF)

I certify that I know or have satisfactory evidence that Michael Knobel, who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he is authorized to execute the instrument and acknowledged it as the President to be the free and voluntary act of such parties for the uses and purposes mentioned in this instrument.

DATED: June 29, 1998

[Signature]

NOTARY PUBLIC for the State of Washington, residing at Thurston County

My appointment expires: Aug. 11, 2001

STATE OF OREGON)

) ss.

County of Multnomah)

This instrument was acknowledged before me on _____, 1998, by
_____ as _____ of Capital Consultants, Inc. as Agent for
certain participant lenders.

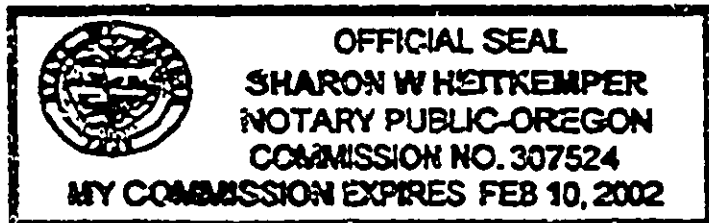
Notary Public for Oregon
My commission expires:

STATE OF OREGON)

County of Multnomah)

) ss.

This instrument was acknowledged before me on June 29, 1998, by Nancy Kessel as Vice President of Capital Consultants, Inc. as Agent for certain participant lenders.



Sharon W. Heitkemper
Notary Public for Oregon
My commission expires: 2.10.2002

EXHIBIT A

Real Property Description

Legal Description:

The South 966.00 feet of Lot 3 Skagit County Short Plat No. 7-89, approved March 1, 1989, and recorded March 2, 1989 in Volume 8 of Short Plats, pages 112 and 113, records of Skagit County, Washington, being a portion of the Southwest ¼ of the Northwest ¼ of Section 9, township 34 North, Range 3 East, W.M.

EXCEPT the East 210.00 feet thereof;

AND EXCEPT any portion thereof lying Northeasterly of a line drawn parallel with and 25 feet Southwesterly of the Southwesterly bank of the existing drainage ditch maintained by Drainage District No. 19, running along the toe of the hill.

SUBJECT TO AND TOGETHER WITH easements, reservations, restrictions, covenants, liens and other instruments of record.

Situated in the County of Skagit, State of Washington.

Assessor's Property Tax Parcel Account Number(s): 340309-2-005-0009