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Document Title:

Subordination Agreement

Reference Number :

Grantor(s):

☐ additional grantor names on page ____

1. State of Washington Department of Community, Trade and Economic Development
2. Skagit State Bank

Grantee(s):

☐ additional grantee names on page ____

1. Guaranty Business Credit Corporation
- 2.

Abbreviated legal description:

☐ full legal on page(s) ____

Assessor Parcel / Tax ID Number:

340309-2-005-0009 (R21284)

☐ additional tax parcel number(s) on page ____

SUBORDINATION AGREEMENT

This SUBORDINATION AGREEMENT is entered into among the STATE OF WASHINGTON DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT ("Junior Lender"), SKAGIT STATE BANK ("Bank") and GUARANTY BUSINESS CREDIT CORPORATION, a Delaware corporation ("GBCC") on July __, 2002. (Bank and GBCC are sometimes referred to herein collectively as the "Senior Lenders.")

RECITALS

A. WASHINGTON ALDER LLC ("Borrower") and Bank are entering into a Loan Agreement dated 8/2/02 (as amended from time to time, the "Bank Loan Agreement"). The Bank Loan Agreement and the documents executed in connection therewith are referred to in this Agreement as the "Bank Loan Documents." All of Borrower's present and future indebtedness, liabilities and obligations under or in connection with the Bank Loan Documents (including without limitation the obligation to pay interest, including interest accruing after commencement of a bankruptcy or insolvency proceeding with respect to the Borrower, and the obligation to reimburse Bank for all reasonable costs, fees and expenses, including without limitation reasonable attorneys fees, as set forth in the Bank Loan Documents) are referred to in this Agreement collectively as the "Bank Debt."

B. Borrower and GBCC are entering into a Loan and Security Agreement dated July __, 2002 (as amended from time to time, the "GBCC Loan Agreement"). The GBCC Loan Agreement and the documents executed in connection therewith are referred to in this Agreement as the "GBCC Loan Documents." All of Borrower's present and future indebtedness, liabilities and obligations under or in connection with the GBCC Loan Documents (including without limitation the obligation to pay interest, including interest accruing after commencement of a bankruptcy or insolvency proceeding with respect to the Borrower, and the obligation to reimburse GBCC for all reasonable costs, fees and expenses, including without limitation reasonable attorneys fees, as set forth in the GBCC Loan Documents) are referred to in this Agreement collectively as the "GBCC Debt." (Bank Debt and GBCC Debt are sometimes referred to herein collectively as the "Senior Secured Debt").

C. 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



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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".

The parties agree as follows:

1. Definitions. As used in this Agreement, the following terms have the following meanings:

(a) "Collateral" means all present and future personal property assets of the Borrower, including without limitation the property described on Exhibit A hereto.

(b) "Enforcement Action" means and includes any one or more of the following: (i) any action, whether judicial or nonjudicial, to repossess, collect, accelerate, offset, recoup, give notification to third parties with respect to, sell, dispose of, foreclose upon, give notice of sale, disposition, or foreclosure with respect to, or obtain equitable or injunctive relief with respect to, any Collateral, and (ii) filing by Junior Lender of, or the joining in the filing by Junior Lender in, an involuntary bankruptcy or insolvency proceeding against Borrower.

2. Priorities.

(a) Priority. All security interests now or hereafter acquired by Senior Lenders in the Collateral shall at all times be prior and superior to all security interests and other interests or claims now held or hereafter acquired by Junior Lender in the Collateral, and all security interests and other interests and claims now or hereafter acquired by Junior Lender in the Collateral shall at all times be subject and subordinate to all security interests now held or hereafter acquired by Senior Lenders in the Collateral. The priorities between GBCC and Bank of their respective security interests in the Collateral shall be as may be agreed upon between them in writing from time to time.

(b) Priorities Effective. The priorities specified in this Agreement shall be applicable irrespective of the time or order of attachment or perfection of any security interest or the time or order of filing of any financing statements or other documents, or the giving of any notices of purchase money security interests or other notices, or possession of any Collateral, or any statutes, rules or law, or court decisions to the contrary.

3. Senior Lenders' Rights. Junior Lender agrees that the Senior Lenders may at any time, and from time to time, without the consent of the Junior Lender and without notice to the Junior Lender, renew or extend any of the Senior Secured Debt or that of any other person at any time directly or indirectly liable for the payment of any Senior Secured Debt, accept partial payments of the Senior Secured Debt, settle, release (by operation of law or otherwise), compound, compromise, collect or liquidate any of the Senior Secured Debt, release, exchange, fail to resort to, or realize upon any Collateral, change, alter or vary the interest charge on, or any other terms or provisions of the Senior Secured Debt or any present or future instrument, document or agreement with the Borrower, and take any other action or omit to take any other action with respect to its Senior Secured Debt as it deems necessary or advisable in its sole discretion. Junior Lender waives any



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right to require the Senior Lenders to marshal any Collateral or other assets in favor of it or against or in payment of any or all of the Senior Secured Debt.

4. Standstill Agreement. For so long the Bank Loan Documents or GBCC Loan Documents are in effect, Junior Lender shall not take any Enforcement Action with respect to the Collateral, without the prior written consent of Bank and GBCC, which shall be a matter of Bank's and GBCC's sole discretion, until 240 days after the date the Senior Lenders give Junior Lender written notice that an Event of Default has occurred and is continuing under the GBCC Loan Documents or the Bank Loan Documents; provided that if, prior to the expiration of such 240-day period, (a) a Senior Lender has commenced a judicial proceeding or non-judicial action to collect or enforce the Senior Secured Debt or its rights in the Collateral, or (b) a case or proceeding by or against Borrower is commenced under the United States Bankruptcy Code or any other insolvency law, then such period shall be extended for the period of time such proceeding or action is pending, but Junior Lender may take such action in any such proceeding or action referred to in clause (a) or (b) above as it deems necessary in its good faith judgment to protect its interests in any such proceeding or action. Any Enforcement Action by Junior Lender with respect to any Collateral after the expiration of said time period shall be subject to the priorities set forth in this Agreement.

5. No Commitment by Senior Lenders. This Agreement shall in no way be construed as a commitment or agreement by Bank or GBCC to provide financing to the Borrower or continue financing arrangements with Borrower, which matters shall be governed exclusively by the agreements between Bank and Borrower and between GBCC and Borrower. Bank and GBCC may terminate such arrangements at any time.

6. Insurance. The Senior Lenders shall, subject to their rights under their agreements with Borrower, have the sole and exclusive right, as against the Junior Lender, to adjust settlement of any insurance policy in the event of any loss affecting the Collateral. All proceeds of such policy shall be paid to the Senior Lender having the senior claim as set forth in their Intercreditor Agreement. Subject to applicable law, after payment of the Senior Secured Debt, any remaining proceeds shall be promptly remitted to the Junior Lender for application to the indebtedness owing to it.

7. Bankruptcy Financing. In the event of any financing of Borrower by a Senior Lender during any bankruptcy, arrangement, or reorganization of Borrower, Junior Lender agrees that the "Senior Secured Debt" shall include without limitation all indebtedness, liabilities and obligations incurred by Borrower in any such case or proceeding, and the "Collateral" shall include without limitation all Collateral arising during any such case or proceeding, and this Agreement shall continue to apply during any such case or proceeding.

8. Notices of Default. Each party shall use commercially reasonable efforts to give to the other parties copies of any written notice of the occurrence or existence of an event of default sent to Borrower, simultaneously with the sending of such notice to Borrower, but the failure to do so shall not affect the validity of such notice or create a cause of action against or liability on the part of the party failing to give such notice, nor shall it create any claim or right on behalf of the other



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party, the Borrower or any third party. The sending of such notice shall not give the recipient the obligation to cure such default or event of default.

9. Revivor. If, after payment of any Senior Secured Debt, Borrower thereafter becomes liable to on account of such Senior Secured Debt, or any payment made on any Senior Secured Debt shall for any reason be required to be returned or refunded by the Senior Lender, this Agreement shall thereupon in all respects become effective with respect to such subsequent or reinstated Senior Secured Debt, without the necessity of any further act or agreement between parties.

10. Notices. Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except informal documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by certified mail, postage prepaid, return receipt requested, or by facsimile, or by reputable overnight delivery service, to the parties, at their respective addresses or fax numbers set forth below:

If to Bank:

Skagit State Bank
301 E. Fairhaven Avenue
Burlington, WA 98233
Attn: James E. Bishop, II
(tel. 360-755-0411, fax: 360-755-9695)

If to GBCC:

Guaranty Business Credit Corporation
333 S. Grand Ave. Suite 1650
Los Angeles, CA 90071
Attn: Mr. Ron Montgomery
(tel. 213-253-4606, fax: 213-625-2466)

If to Junior Lender:

State of Washington Department of Community,
Trade and Economic Development
906 Columbia Street Southwest
Olympia, Washington 98504-8300
Attn: Steve Saylor
(tel. 360-725-4046, fax: 360-586-3098)

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other. All notices shall be deemed to have been given upon delivery in the case of notices personally delivered, or at the expiration of one business day following delivery to the private delivery service, or two business days following the deposit thereof in the United States mail, with postage prepaid or on the first business day of receipt during business hours in the case of notices sent by fax.



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11. Relationship Of Parties. The relationship among the parties is, and at all times shall remain solely that of lenders. The parties shall not under any circumstances be construed to be partners or joint venturers of one another; nor shall the parties under any circumstances be deemed to be in a relationship of confidence or trust or a fiduciary relationship with one another, or to owe any fiduciary duty to one another. The parties do not undertake or assume any responsibility or duty to one another to select, review, inspect, supervise, pass judgment upon or otherwise inform each other of any matter in connection with Borrower's property, any Collateral held by any party or the operations of Borrower. Each party shall rely entirely on its own judgment with respect to such matters, and any review, inspection, supervision, exercise of judgment or supply of information undertaken or assumed by any party in connection with such matters is solely for the protection of such party.

12. CHOICE OF LAW AND VENUE: JURY TRIAL WAIVER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF WASHINGTON, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. EACH OF THE PARTIES HEREBY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS LOCATED IN THE STATE OF WASHINGTON. THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS.

13. General. Each party shall execute all such documents and instruments and take all such actions as the other shall reasonably request in order to carry out the purposes of this Agreement, including without limitation appropriate amendments to financing statements executed by the Borrower in favor of a party in order to refer to this Agreement (but this Agreement shall remain fully effective notwithstanding any failure to execute any additional documents, instruments, or amendments). Each party represents and warrants to the other that it has not heretofore transferred or assigned any financing statement naming Borrower as debtor and it as secured party, and that it will not do so without first delivering a copy of this Agreement to the proposed transferee or assignee, and any transfer or assignment shall be subject to all of the terms of this Agreement. This Agreement is solely for the benefit of Senior Lenders and their successors and assigns, and neither the Borrower nor any other person (including any successor-in-interest) shall have any right, benefit, priority or interest under, or because of the existence of, this Agreement. This Agreement sets forth in full the terms of agreement among the parties with respect to the subject matter hereof, and may not be modified or amended, nor may any rights hereunder be waived, except in a writing signed by the parties. In the event of any litigation between the parties based upon or arising out of this Agreement, the prevailing party shall be entitled to recover all of its costs and expenses (including without limitation attorneys' fees) from



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the non-prevailing party. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute the same instrument.

GUARANTY BUSINESS CREDIT
CORPORATION

By RSM
Title S.V.P.
Name Ronald S. Montgomery

SKAGIT STATE BANK

By JAMES E. BOND
Title VICE PRESIDENT
Name JAMES E. BOND PH

STATE OF WASHINGTON DEPARTMENT
OF COMMUNITY, TRADE AND ECONOMIC
DEVELOPMENT

By Mark Schumock
Title Assistant Director
Name Aug 2, 2002

Approved as to form:

By Mark Schumock
Name: Mark Schumock
Title: Assistant Attorney General



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BORROWER'S CONSENT AND AGREEMENT

Borrower consents to the terms of this Subordination Agreement and agrees not to take any actions inconsistent therewith. Borrower agrees to execute all such documents and instruments and take all such actions as a Secured Lender shall reasonably request in order to carry out the purposes of this Agreement, including without limitation appropriate amendments to financing statements. The Borrower agrees that any default or event of default by the Borrower under any present or future instrument or agreement between the Borrower and Junior Lender shall constitute a default and event of default under all present and future instruments and agreements between the Borrower and GBCC and between Borrower and Bank. Borrower further agrees that, at any time and from time to time, the foregoing Agreement may be altered, modified or amended by Junior Lender, Bank and GBCC without notice to or the consent of Borrower.

WASHINGTON ALDER LLC

By [Signature]
Title CEO & President



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Exhibit A

"Collateral" includes without limitation the following: all of the following types of property, in which the Borrower now has or hereafter acquires any ownership, leasehold or other interest, wherever located: all tangible and intangible property of every kind and description, including (but not limited to) all of the following: all Accounts; all Inventory; all Equipment; all Deposit Accounts; all General Intangibles (including without limitation all Intellectual Property); all Investment Property; all Other Property; and any and all claims, rights and interests in any of the above, and all guaranties and security for any of the above, and all substitutions and replacements for, additions, accessions, attachments, accessories, and improvements to, and proceeds (including proceeds of any insurance policies, proceeds of proceeds and claims against third parties) of, all of the above, and all Borrower's books relating to any of the above.

As used herein, the following terms have the following meanings: The terms "Accounts", "Inventory", "Equipment", "Deposit Accounts", "General Intangibles" and "Investment Property" as used in this Exhibit have the meanings given such terms by the California Uniform Commercial Code in effect on the date hereof. "Intellectual Property" means all present and future (a) copyrights, copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished, (b) trade secret rights, including all rights to unpatented inventions and know-how, and confidential information; (c) mask work or similar rights available for the protection of semiconductor chips; (d) patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same; (e) trademarks, servicemarks, trade styles, and trade names, whether or not any of the foregoing are registered, and all applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by any such trademarks; (f) computer software and computer software products; (g) designs and design rights; (h) technology; (i) all claims for damages by way of past, present and future infringement of any of the rights included above; (j) all licenses or other rights to use any property or rights of a type described above. "Investment Property" means all present and future investment property, securities, stocks, bonds, debentures, debt securities, partnership interests, limited liability company interests, options, security entitlements, securities accounts, commodity contracts, commodity accounts, and all financial assets held in any securities account or otherwise, wherever located, and all other securities of every kind, whether certificated or uncertificated. "Other Property" means the following as defined in the California Uniform Commercial Code in effect on the date hereof with such additions to such term as may hereafter be made, and all rights relating thereto: all present and future "commercial tort claims", "documents", "instruments", "promissory notes", "chattel paper", "letters of credit", "letter-of-credit rights", "fixtures", "farm products" and "money"; and all other goods and personal property



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Handwritten signature
CUSTODIAN
of every kind, tangible and intangible, whether or not governed by the California Uniform Commercial Code.



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