



200307310146
Skagit County Auditor

7/31/2003 Page

1 of

4 11:55AM

WHEN RECORDED RETURN TO:

108731P
LAND TITLE COMPANY OF SKAGIT COUNTY

Name: Horizon Bank
Address: 2211 Rimland Drive, Suite 230
City, State, Zip: Bellingham, WA 98226

SUBORDINATION AGREEMENT

NOTICE: THIS SUBORDINATION AGREEMENT RESULTS IN YOUR SECURITY INTEREST IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY INSTRUMENT:

The undersigned subordinator and owner agrees as follows:

1. Peoples Bank, referred to herein as "subordinator", is the owner and holder of a security interest in goods under the provisions of the Uniform Commercial Code, RCW 62A, disclosed by financing statement filed in the office of the county auditor under auditor's file No. 9904050053 records of Skagit County.
2. Horizon Bank, referred to herein as "lender" is the owner and holder of the Deed of Trust dated July 30, 2003, executed by KKAR Enterprises, LLC (which is to be recorded concurrently herewith). Recorded 7/31/03 Auditors# 200307310145
3. KKAR Enterprises, LLC, referred to herein as "owner", is the owner of all the real property described in the Deed of Trust identified above in Paragraph 2.
4. In consideration of benefits to "subordinator" from "owner", receipt and sufficiency of which is hereby acknowledged, and to induce "lender" to advance funds under its Deed of Trust and all agreements in connection therewith, the "subordinator" does hereby unconditionally subordinate the lien of his security interest identified in Paragraph 1 above to the lien of "lender's" Deed of Trust, identified in Paragraph 2 above, and all advances or charges made or accruing thereunder, including any extension or renewal thereof.
5. "Subordinator" acknowledges that, prior to the execution hereof, he has had the opportunity to examine the terms of "lender's" Deed of Trust, note and agreements relating thereto, consents to and approves same, and recognizes that "lender" has no obligation to "subordinator" to advance any funds under its Deed of Trust or see to the application of "lender's" mortgage, and any application or use of such funds for purposes other than those provided for in which Deed of Trust, note or agreements shall not defeat the subordination herein made in whole or in part.
6. It is understood by the parties hereto that "lender" would not make the loan secured by the Deed of Trust in Paragraph 2 without this agreement.
7. This agreement shall be the whole and only agreement between the parties hereto with regard to the subordination of the lien or charge of the security interest first above mentioned to the lien or charge of the Deed of Trust in favor of "lender" above referred to and shall supersede and cancel any prior agreements as to such, or any, subordination including, but not limited to, those provisions, if any, contained in the security interest first above mentioned, which provide for the subordination of the lien or charge thereof to a mortgage or mortgages to be thereafter executed.
8. The heirs, administrators, assigns and successors in interest of the "subordinator" shall be bound by this agreement. Where the word "mortgage" appears herein it shall be considered as "deed of trust", and gender and number of pronouns considered to conform to undersigned.

Executed this 31st day of July, 2003

NOTICE: THIS SUBORDINATION AGREEMENT CONTAINS A PROVISION WHICH
ALLOWS THE PERSON OBLIGATED ON YOUR REAL PROPERTY SECURITY TO
OBTAIN A LOAN A PORTION OF WHICH MAY BE EXPENDED FOR OTHER
PURPOSES THAN IMPROVEMENT OF THE LAND. IT IS RECOMMENDED THAT,
PRIOR TO THE EXECUTION OF THIS SUBORDINATION AGREEMENT, THE
PARTIES CONSULT WITH THEIR ATTORNEYS WITH RESPECT THERETO.

Owner: KKAR Enterprises, LLC

By:

James H. Grenz
Name & Title

Subordinator: Peoples Bank

By:

James M. Vanderhey
Name & Title

Lender: Horizon Bank

By:

John K. Stewart, Sr. V.P.
Name & Title

State of Washington
County of Whatcom

On this 30th day of July, 2003, before me, the undersigned Notary Public,
personally appeared James H. Grenz and personally known to be or proved
to me on the basis of satisfactory evidence to the Manager
authorized agent for the Lender that executed the within and foregoing instrument and
acknowledged said instrument to be the free and voluntary act and deed of the said
Lender, duly authorized by the Lender through its board of directors or otherwise, for the
uses and purposes therein mentioned, and on oath stated that he or she is authorized to
execute this said instrument and that the seal affixed is the corporate seal of said Lender.

By

John J. Voith

Residing at Mount Vernon, WA.

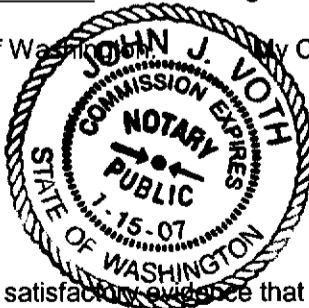
Notary Public in and for the State of Washington My Commission Expires:

1-15-07

(Individual capacity)

State of Washington
County of Skagit

I certify that I know or have satisfactory evidence that James H. Grenz is the
person who appeared before me, and said person acknowledged that he
signed this instrument, on oath stated that he was authorized to execute
the instrument and acknowledged it as Manager of KKAR Ent. LLC to be the
free and voluntary act of such party for the uses and purposes mentioned in the
instrument.



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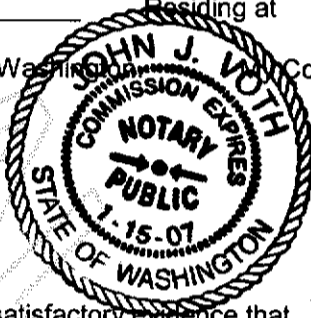
State of Washington
County of Whatcom

On this _____ day of _____, 2003, before me, the undersigned Notary Public, personally appeared _____ and personally known to be or proved to me on the basis of satisfactory evidence to the _____, authorized agent for the Owner that executed the within and foregoing instrument and acknowledged said instrument to be the free and voluntary act and deed of the said Owner, duly authorized by the Owner through its board of directors or otherwise, for the uses and purposes therein mentioned, and on oath stated that he or she is authorized to execute this said instrument and that the seal affixed is the corporate seal of said Owner.

By _____ Residing at _____
Notary Public in and for the State of Washington Commission Expires: _____

(Individual capacity)

State of Washington
County of Skagit



I certify that I know or have satisfactory evidence that John K. Stewart is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as Senior VP of Horizon Bank to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: 7-30-03

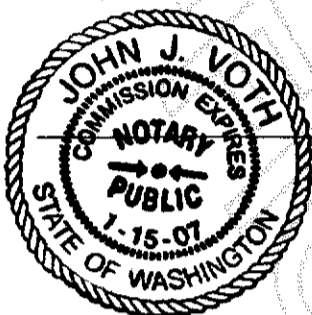
John J. Woth
Notary Public in and for the state of
Washington

My appointment expires: 1-15-07



200307310146
Skagit County Auditor

Dated: 7-30-03



[Signature]

Notary Public in and for the state of

Washington

My appointment expires: 1-15-07

State of Washington
County of Whatcom

On this _____ day of _____, 2003, before me, the undersigned Notary Public, personally appeared _____ and personally known to be or proved to me on the basis of satisfactory evidence to the _____ authorized agent for the Subordinator that executed the within and foregoing instrument and acknowledged said instrument to be the free and voluntary act and deed of the said Subordinator, duly authorized by the Subordinator through its board of directors or otherwise, for the uses and purposes therein mentioned, and on oath stated that he or she is authorized to execute this said instrument and that the seal affixed is the corporate seal of said Subordinator.

By _____

Residing at _____

Notary Public in and for the State of Washington.

My Commission Expires: _____

(Individual capacity)

State of Washington
County of Skagit

I certify that I know or have satisfactory evidence that James M. Vander Mey is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as Senior Vice President of Peoples Bank to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: July 31, 2003

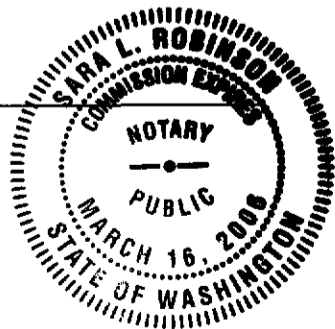
[Signature]

Notary Public in and for the state of

Washington

My appointment expires:

March 16, 2006



200307310146
Skagit County Auditor