

RETURN ADDRESS:

Horizon Bank
Commercial Banking
Center
2211 Rimland Drive, Suite
230
Bellingham, WA 98226



200307310240

Skagit County Auditor

7/31/2003 Page 1 of 5 3:58PM

CHICAGO TITLE C27414

NOTICE: THIS SUBORDINATION AGREEMENT - LEASE 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.

SUBORDINATION AGREEMENT - LEASE

Reference # (if applicable): 200307310 236

Additional on page _____

Grantor(s):

1. Stanislaw Properties, L.L.C.

Grantee(s)

1. Horizon Bank

Legal Description: Lts 1, 2 and 3, SP 11-84; and ptn SW SE 18-35-5

Additional on page _____

Assessor's Tax Parcel ID#: 350518-4-029-0003 (P39412).

THIS SUBORDINATION AGREEMENT - LEASE dated July 31, 2003, is made and executed among Stanislaw Properties, L.L.C. ("Lessor"); Janicki Industries, Inc. ("Borrower"); and Horizon Bank ("Lender").

**SUBORDINATION AGREEMENT - LEASE
(Continued)**

Loan No: 1460013173

Page 2

LEASE. Lessor has executed one or more leases of the following described property (the "Subordinated Lease").

REAL PROPERTY DESCRIPTION. The Lease covers a portion of the following described real property located in Skagit County, State of Washington:

See Exhibit A, which is attached to this Subordination and made a part of this Subordination as if fully set forth herein.

The Real Property or its address is commonly known as 24595 State Route 20, Sedro Woolley, WA 98284. The Real Property tax identification number is 350518-4-029-0003 (P39412).

REQUESTED FINANCIAL ACCOMMODATIONS. Borrower and Lessor each want Lender to provide financial accommodations to Borrower in the form of (A) new credit or loan advances, (B) an extension of time to pay or other compromises regarding all or part of Borrower's present indebtedness to Lender, or (C) other benefits to Borrower. Borrower and Lessor each represent and acknowledge to Lender that Lessor will benefit as a result of these financial accommodations from Lender to Borrower, and Lessor acknowledges receipt of valuable consideration for entering into this Subordination.

LENDER'S LIEN. As a condition to the granting of the requested financial accommodations, Lender has required that its lien on the Real Property ("Lender's Lien") be and remain superior to the Subordinated Lease.

NOW THEREFORE THE PARTIES TO THIS SUBORDINATION HEREBY AGREE AS FOLLOWS:

SUBORDINATION. All of Lessor's right, title, and interest in and to the Subordinated Lease is and shall be subordinated in all respects to Lender's Lien and the Superior Indebtedness, and it is agreed that Lender's Lien shall be and remain, at all times, prior and superior to Lessor's interests in the Subordinated Lease. Lessor also subordinates to Lender's Lien all other Security Interests in the Real Property held by Lessor, whether now existing or hereafter acquired.

LESSOR'S REPRESENTATIONS AND WARRANTIES. Lessor represents and warrants to Lender that: (A) no representations or agreements of any kind have been made to Lessor which would limit or qualify in any way the terms of this Subordination; (B) this Subordination is executed at Borrower's request and not at the request of Lender; (C) Lender has made no representation to Lessor as to the creditworthiness of Borrower; and (D) Lessor has established adequate means of obtaining from Borrower on a continuing basis information regarding Borrower's financial condition. Lessor agrees to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect Lessor's risks under this Subordination, and Lessor further agrees that Lender shall have no obligation to disclose to Lessor information or material acquired by Lender in the course of its relationship with Borrower.

LESSOR WAIVERS. Lessor waives any right to require Lender: (A) to make, extend, renew, or modify any loan to Borrower or to grant any other financial accommodations to Borrower whatsoever; (B) to make any presentment, protest, demand, or notice of any kind, including notice of any nonpayment of any Superior Indebtedness secured by Lender's Lien, or notice of any action or nonaction on the part of Borrower, Lender, any surety, endorser, or other guarantor in connection with the Superior Indebtedness, or in connection with the creation of new or additional indebtedness; (C) to resort for payment or to proceed directly or at once against any person, including Borrower; (D) to proceed directly against or exhaust any collateral held by Lender from Borrower, any other guarantor, or any other person; (E) to give notice of the terms, time, and place of any public or private sale of personal property security held by Lender from Borrower or to comply with any other applicable provisions of the Uniform Commercial Code; (F) to pursue any other remedy within Lender's power; or (G) to commit any act or omission of any kind, at any time, with respect to any matter whatsoever.

LENDER'S RIGHTS. Lender may take or omit any and all actions with respect to Lender's Lien without affecting whatsoever any of Lender's rights under this Subordination. In particular, without limitation, Lender may, without notice of any kind to Lessor, (A) make one or more additional secured or unsecured loans to Borrower; (B) repeatedly alter, compromise, renew, extend, accelerate, or otherwise change the time for payment or other terms of the Superior Indebtedness or any part of it, including increases and decreases of the rate of interest on the Superior Indebtedness; extensions may be repeated and may be for longer than the original loan term; (C) take and hold collateral for the payment of the Superior Indebtedness, and exchange, enforce, waive, and release any such collateral, with or without the substitution of new collateral; (D) release, substitute, agree not to sue, or deal with any one or more of Borrower's sureties, endorsers, or guarantors on any terms or manner Lender chooses; (E) determine how, when and what application of payments and credits, shall be made on the Superior Indebtedness; (F) apply such security and direct the order or manner of sale of the security, as Lender in its discretion may determine; and (G) transfer this Subordination to another party.

DEFAULT BY BORROWER. If Borrower becomes insolvent or bankrupt, this Subordination shall remain in full force and effect. Any default by Borrower under the terms of the Subordinated Indebtedness also shall constitute an event of default under the terms of the Superior Indebtedness in favor of Lender.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Subordination:

Amendments. This Subordination, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Subordination. No alteration of or amendment to this Subordination shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. If Lender institutes any suit or action to enforce any of the terms of this Subordination, Lender shall be entitled to recover such sum as the court may adjudge reasonable as attorneys' fees at trial and upon any appeal. Whether or not any court action is involved, and to the extent not prohibited by law, all reasonable expenses Lender incurs that in Lender's opinion are necessary at any time for the protection of its interest or the enforcement of its rights shall become a part of the Indebtedness payable on demand and shall bear interest at the Note rate from the date of the expenditure until repaid. Expenses covered by this paragraph include, without limitation, however subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees and expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services, the cost of searching records, obtaining title reports (including foreclosure reports), surveyors' reports, and appraisal fees and title insurance, to the extent permitted by applicable law. Lessor also will pay any court costs, in addition to all other sums provided by law.

Authority. The person who signs this Subordination as or on behalf of Lessor represents and warrants that he or she has authority to execute this Subordination and to subordinate the Subordinated Indebtedness and the Lessor's security interests in Borrower's property, if any.

Caption Headings. Caption headings in this Subordination are for convenience purposes only and are not to be used to interpret or define the provisions of this Subordination.

Governing Law. This Subordination will be governed by, construed and enforced in accordance with federal law and the laws of the State of Washington. This Subordination has been accepted by Lender in the State of Washington.



200307310240

Skagit County Auditor

7/31/2003 Page

2 of

5 3:58PM

**SUBORDINATION AGREEMENT - LEASE
(Continued)**

Loan No: 1460013173

Page 3

Choice of Venue. If there is a lawsuit, Lessor agrees upon Lender's request to submit to the jurisdiction of the courts of Whatcom County, State of Washington.

Successors. This Subordination shall extend to and bind the respective heirs, personal representatives, successors and assigns of the parties to this Subordination, and the covenants of Borrower and Lessor herein in favor of Lender shall extend to, include, and be enforceable by any transferee or endorsee to whom Lender may transfer any or all of the Superior Indebtedness.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Subordination unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Subordination shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Subordination. No prior waiver by Lender, nor any course of dealing between Lender and Lessor, shall constitute a waiver of any of Lender's rights or of any of Lessor's obligations as to any future transactions. Whenever the consent of Lender is required under this Subordination, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Waive Jury. All parties to this Subordination hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

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.

EACH PARTY TO THIS SUBORDINATION ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS SUBORDINATION, AND EACH PARTY AGREES TO ITS TERMS. THIS SUBORDINATION IS DATED JULY 31, 2003.

BORROWER:

JANICKI INDUSTRIES, INC.

By: [Signature]

John P Janicki, President of Janicki Industries, Inc.

LESSOR:

STANISLAW PROPERTIES, L.L.C.

By: [Signature]

Robert W Janicki

LENDER:

x [Signature]

Authorized Officer

CORPORATE ACKNOWLEDGMENT

STATE OF Washington

)

) SS

COUNTY OF Skagit

)

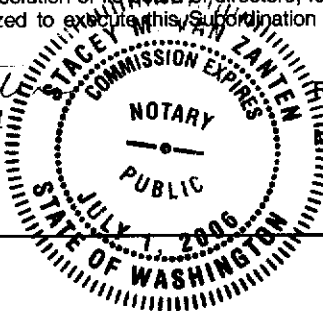
On this 30 day of July, 20 03, before me, the undersigned Notary Public, personally appeared **John P Janicki, President of Janicki Industries, Inc.**, and personally known to me or proved to me on the basis of satisfactory evidence to be an authorized agent of the corporation that executed the Subordination Agreement - Lease and acknowledged the Subordination to be the free and voluntary act and deed of the corporation, by authority of its Bylaws or by resolution of its board of directors, for the uses and purposes therein mentioned, and on oath stated that he or she is authorized to execute this Subordination and in fact executed the Subordination on behalf of the corporation.

By Stacey M. Van Zanten

Notary Public in and for the State of WA

Residing at Sedro Woolley

My commission expires 07-01-06



200307310240
Skagit County Auditor

7/31/2003 Page 3 of 5 3:58PM

SUBORDINATION AGREEMENT - LEASE
(Continued)

Loan No: 1460013173

Page 4

LIMITED LIABILITY COMPANY ACKNOWLEDGMENT

STATE OF Washington)
) SS
COUNTY OF Skagit)

On this 30 day of July, 20 03, before me, the undersigned Notary Public, personally appeared Robert W Janicki, of Stanislaw Properties, L.L.C., and personally known to me or proved to me on the basis of satisfactory evidence to be a member of the limited liability company that executed the Subordination Agreement - Lease and acknowledged the Subordination to be the free and voluntary act and deed of the limited liability company, by authority of statute, its articles of organization or its operating agreement, for the uses and purposes therein mentioned, and on oath stated that he or she is authorized to execute this Subordination and in fact executed the Subordination on behalf of the limited liability company.

By Stacey M. Van Zant Residing at Sedro-Woolley
Notary Public in and for the State of WA My commission expires 07-01-06

LENDER ACKNOWLEDGMENT

STATE OF WASHINGTON)
) SS
COUNTY OF WHATCOM)

On this 30th day of JULY, 20 03, before me, the undersigned Notary Public, personally appeared MICHAEL BAYLESS and personally known to me or proved to me on the basis of satisfactory evidence to be the VICE PRESIDENT, 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 A. WOUTERS Residing at FERNDALE
Notary Public in and for the State of WA My commission expires 6/7/05



200307310240
Skagit County Auditor

EXHIBIT "A"

PARCEL A:

Tracts 1, 2 and 3, SKAGIT COUNTY SHORT PLAT NO. 11-84, approved May 23, 1984 and recorded October 17, 1984 in Volume 6 of Short Plats, pages 179 and 180, under Auditor's File No. 8410170004, records of Skagit County, Washington; being a portion of the Southwest Quarter of the Southeast Quarter in Section 18, Township 35 North, Range 5 East of the Willamette Meridian;

PARCEL B:

That portion of the East Half of the Southwest Quarter of the Southeast Quarter of Section 18, Township 35 North, Range 5 East of the Willamette Meridian, lying Northerly of the Great Northern Railway Company right-of-way;

EXCEPT the West 30 feet thereof;

ALSO EXCEPT the North 60 feet thereof;

AND ALSO EXCEPT that portion thereof lying Southerly of a sewer line as the same existed on May 1, 1970 and was referred to in Real Estate Contract recorded May 18, 1970, under Auditor's File No. 739080, records of Skagit County, Washington; and which runs in a Westerly direction from a point on the West line of the county road along the East line of said subdivision which is 351 feet, more or less, North of the centerline of the State Highway 20;

AND ALSO EXCEPT the East 20 feet for a road conveyed to Skagit County by Deed recorded under Auditor's File No. 57468, records of Skagit County, Washington;

AND FURTHER EXCEPTING any portion lying within the boundaries of Short Plat 92-019 recorded August 30, 1995 under Auditor's File No. 9508300056, records of Skagit County, Washington;

All situated in Skagit County, Washington.

- END OF EXHIBIT "A" -



200307310240
Skagit County Auditor

7/31/2003 Page

5 of

5 3:58PM