

RETURN ADDRESS:

Frontier Bank
Bellingham
3410 Woburn St.
P.O. Box 32270
Bellingham, WA 98226



200509300195

Skagit County Auditor

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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): BELL - XX2084 / TITLE NO B85512

Additional on page _____

Grantor(s):

1. SAMISH RIVER PROPERTIES, LLC

FIRST AMERICAN TITLE CO.

Grantee(s)

1. Frontier Bank

B85512E-4

Legal Description: LOTS 5, 6 AND 7, BLOCK 1, "EDISON HALLER'S ADDITION". SITUATE IN SKAGIT COUNTY, WASHINGTON STATE

Additional on page 2

Assessor's Tax Parcel ID#: 4099-001-007-0005 P72947

DT 200509300193

THIS SUBORDINATION AGREEMENT - LEASE dated September 30, 2005, is made and executed among SMITH AND VALLEE WOODWORKS, INC ("Lessee"); SAMISH RIVER PROPERTIES, LLC ("Borrower"); and Frontier Bank ("Lender").

**SUBORDINATION AGREEMENT - LEASE
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LEASE. Lessee has executed a lease dated August 17, 2005 of the property described herein (the "Subordinated Lease"). The following information is the summary of the basic terms and conditions of the Subordinated Lease: The term of the Lease shall be for five years, commencing November 1, 2005, and shall terminate on October 31st, 2010. The base rent shall be \$2,000 per month payable on or before the 1st of each month.

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

LOTS 5, 6 AND 7, BLOCK 1, "HALLER'S SECOND ADDITION TO THE TOWN OF EDISON", AS PER PLAT RECORDED IN VOLUME 2 OF PLATS, PAGES 87, RECORDS OF SKAGIT COUNTY, WASHINGTON.

The Real Property or its address is commonly known as 5742 GILKEY AVENUE, BOW, WA 98232. The Real Property tax identification number is 4099-001-007-0005 P72947.

REQUESTED FINANCIAL ACCOMMODATIONS. Lessee and Borrower 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 Lessee each represent and acknowledge to Lender that Lessee will benefit as a result of these financial accommodations from Lender to Borrower, and Lessee 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 Lessee's right, title, and interest in and to the Subordinated Lease and the Real Property 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 Lessee's interests in the Subordinated Lease and the Real Property. Lessee also subordinates to Lender's Lien all other Security Interests in the Real Property held by Lessee, whether now existing or hereafter acquired.

LESSEE'S REPRESENTATIONS AND WARRANTIES. Lessee hereby represents and warrants to Lender that Lessee has heretofore delivered to Lender a true, correct and complete copy of the Lease, which constitutes the entire agreement between the parties thereto and Lessee further acknowledges that the Lease is in full force and effect and that no default by Lessee or, to Lessee's knowledge, by other party under the terms and provisions of the Lease exists as of the date hereof.

LESSEE WAIVERS. Lessee 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 Lessee, (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. In the event of a corporate reorganization or corporate arrangement of Borrower under the provisions of the Bankruptcy Code, as amended, this Subordination shall remain in full force and effect and the court having jurisdiction over the reorganization or arrangement is hereby authorized to preserve such priority and subordination provided under this Subordination in approving any such plan of reorganization or arrangement. Any default by Borrower under the terms of the Subordinated Lease 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 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. Lessee 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 Lessee represents and warrants that he or



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**SUBORDINATION AGREEMENT - LEASE
(Continued)**

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she has authority to execute this Subordination and to subordinate the Subordinated Indebtedness and the Lessee's security interests in Lessee'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 federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Washington without regard to its conflicts of law provisions. This Subordination has been accepted by Lender in the State of Washington.

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

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 Lessee, shall constitute a waiver of any of Lender's rights or of any of Lessee'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.

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 Lessee 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.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Subordination. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Subordination shall have the meanings attributed to such terms in the Uniform Commercial Code:

Borrower. The word "Borrower" means SAMISH RIVER PROPERTIES, LLC and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Lender. The word "Lender" means Frontier Bank, its successors and assigns.

Real Property. The words "Real Property" mean the real property, interests and rights, as further described in this Subordination.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

Security Interest. The words "Security Interest" mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.

Superior Indebtedness. The words "Superior Indebtedness" mean the indebtedness described in the section of this Subordination titled "Superior Indebtedness".

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 SEPTEMBER 30, 2005.

BORROWER:

SAMISH RIVER PROPERTIES, LLC

By: [Signature]
ANDREW VALLEE, Manager & Member of SAMISH RIVER PROPERTIES, LLC

By: [Signature]
WESLEY A. SMITH, Manager & Member of SAMISH RIVER PROPERTIES, LLC

LESSEE:

SMITH AND VALLEE WOODWORKS, INC

By: [Signature]
Authorized Signer for SMITH AND VALLEE WOODWORKS, INC

By: [Signature]
Authorized Signer for SMITH AND VALLEE WOODWORKS, INC



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SUBORDINATION AGREEMENT - LEASE
(Continued)

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LENDER:

FRONTIER BANK

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Authorized Officer

LIMITED LIABILITY COMPANY ACKNOWLEDGMENT

STATE OF

Washington

)

) SS

COUNTY OF

Skagit

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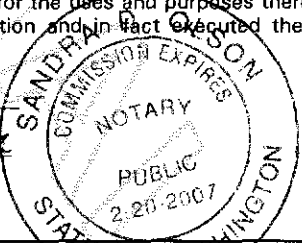
On this 29th day of September, 2005, before me, the undersigned Notary Public, personally appeared ANDREW VALLEE, Manager & Member of SAMISH RIVER PROPERTIES, LLC, and personally known to me or proved to me on the basis of satisfactory evidence to be a member or designated agent of the limited liability 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

Sandra Olson

Notary Public in and for the State of

WA



Residing at

Burlington

My commission expires

2-20-07

LIMITED LIABILITY COMPANY ACKNOWLEDGMENT

STATE OF

Washington

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) SS

COUNTY OF

Skagit

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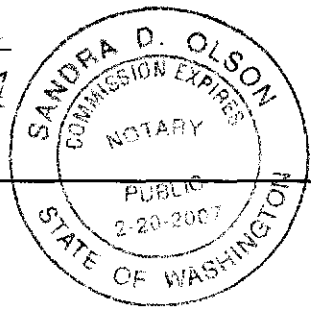
On this 29th day of September, 2005, before me, the undersigned Notary Public, personally appeared WESLEY A. SMITH, Manager & Member of SAMISH RIVER PROPERTIES, LLC, and personally known to me or proved to me on the basis of satisfactory evidence to be a member or designated agent of the limited liability 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

Sandra Olson

Notary Public in and for the State of

WA



Residing at

Burlington

My commission expires

2-20-07



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SUBORDINATION AGREEMENT - LEASE
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CORPORATE ACKNOWLEDGMENT

STATE OF Washington)
) SS
COUNTY OF Skagit)

On this 29th day of September, 2005, before me, the undersigned
Notary Public, personally appeared Andrew Valice

and personally known to me or proved to me on the basis of satisfactory evidence to be (an) authorized agent(s) 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/they is/are authorized to execute this Subordination and in fact executed the Subordination on behalf of the corporation.

By Sandra D Olson
Notary Public in and for the State of WA

Residing at Burlington
My commission expires 2-20-07

CORPORATE ACKNOWLEDGMENT

STATE OF Washington)
) SS
COUNTY OF Skagit)

On this 29th day of September, 2005, before me, the undersigned
Notary Public, personally appeared Wesley A Smith

and personally known to me or proved to me on the basis of satisfactory evidence to be (an) authorized agent(s) 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/they is/are authorized to execute this Subordination and in fact executed the Subordination on behalf of the corporation.

By Sandra D Olson
Notary Public in and for the State of WA

Residing at Burlington, WA
My commission expires 2-20-07

LENDER ACKNOWLEDGMENT

STATE OF WA)
) SS
COUNTY OF Whatcom)

On this 27th day of September, 2005, before me, the undersigned
Notary Public, personally appeared Bob Fullsmae

and personally known to me or proved to me on the basis of satisfactory evidence to be the V.P. Loan Officer, 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 Bob Fullsmae
Notary Public in and for the State of WA

Residing at Sedro Woolley
My commission expires 10-30-2006



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