

MTC- 1396-5169

RECORDATION REQUESTED BY:

South Valley Bank & Trust
Commercial Branch
P O Box 8210
Klamath Falls, OR 97601

Vol M03 Page 53526

State of Oregon, County of Klamath

Recorded 07/29/2003 10:34 a mVol M03 Pg 53526-29

Linda Smith, County Clerk

Fee \$ 36.00 # of Pgs 4

WHEN RECORDED MAIL TO:

South Valley Bank & Trust
Commercial Branch
P O Box 8210
Klamath Falls, OR 97601

Attn: Cindy J.

SEND TAX NOTICES TO:

South Valley Bank & Trust
Commercial Branch
P O Box 8210
Klamath Falls, OR 97601

AMERITITLE, has recorded this instrument by request as an accommodation only, and has not examined it for regularity and sufficiency or as to its effect upon the title to any real property that may be described therein.

SPACE ABOVE THIS LINE IS FOR RECORDER'S USE ONLY

NOTICE: THIS SUBORDINATION OF MORTGAGE 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 OF MORTGAGE

THIS SUBORDINATION OF MORTGAGE dated February 6, 2003, is made and executed among Ernst Brothers LLC ("Borrower"); MGE, LLC, an Oregon Limited Liability Company ("Mortgagee"); and South Valley Bank & Trust ("Lender").

SUBORDINATED INDEBTEDNESS. Mortgagee has extended the following described financial accommodations (the "Subordinated Indebtedness") to Ernst Brothers, LLC, an Oregon Corporation ("Mortgagor"):

Indebtedness in the total amount of \$1,223,000.00 as follows:

Date of Note	Amount	Maturity Date
January 1, 1998	\$ 35,000.00	December 31, 2003
January 1, 1998 1999	1,000,000.00	January 17, 2001
January 17, 2000	148,000.00	March 30, 2002
September 27, 2001	40,000.00	

SUBORDINATED MORTGAGE. The Subordinated Indebtedness is secured by a mortgage dated September 27, 2001 from Mortgagor to Mortgagee (the "Subordinated Mortgage") recorded in Klamath County, State of Oregon as follows:

Recorded July 12, 2002 in Volume M02, Page 38582 in records of Klamath County.

REAL PROPERTY DESCRIPTION. The Subordinated Mortgage covers the following described real property (the "Real Property") located in Klamath County, State of Oregon:

Tract 1: Parcel 1 of Major Partition Plat No. 53-91, Records of Klamath County, Oregon

The Real Property or its address is commonly known as Gilchrist Compound, Gilchrist, OR 97737.

REQUESTED FINANCIAL ACCOMMODATIONS. Mortgagee, who may or may not be the same person or entity as Mortgagor, and Borrower each want Lender to provide financial accommodations to Borrower (the "Superior Indebtedness") 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 Mortgagee each represent and acknowledge to Lender that Mortgagee will benefit as a result of these financial accommodations from Lender to Borrower, and Mortgagee 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 mortgage or other lien on the Real Property ("Lender's Lien") be and remain superior to the Subordinated Mortgage.

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

SUBORDINATION. The Subordinated Mortgage and the Subordinated Indebtedness secured by the Subordinated Mortgage 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 the lien of the Subordinated Mortgage. Mortgagee also subordinates to Lender's Lien all other Security Interests in the Real Property held by Mortgagee, whether now existing or hereafter acquired. The words "Security Interest" mean and include without limitation any type of collateral security, whether in the form of a lien, charge, mortgage, deed of trust, assignment, pledge, 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.

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

MORTGAGEE WAIVERS. Mortgagee 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,

36M

**SUBORDINATION OF MORTGAGE
(Continued)**

53527 Page 2

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 Mortgagee, (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 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. Mortgagee 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 Mortgagee represents and warrants that he or she has authority to execute this Subordination and to subordinate the Subordinated Indebtedness and the Mortgagee's security interests in Mortgagee'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 Oregon. This Subordination has been accepted by Lender in the State of Oregon.

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

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 FEBRUARY 6, 2003.

BORROWER:

ERNST BROTHERS LLC

By: 

Wayne G. Ernst, Manager of Ernst Brothers LLC

SUBORDINATION OF MORTGAGE
(Continued)

53528

Page 3

MORTGAGEE:

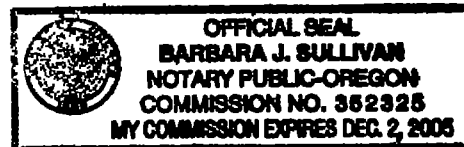
X [Signature]
MGE, LLC, an Oregon Limited Liability Company,
Individually

LENDER:

X [Signature]
Authorized Officer

LIMITED LIABILITY COMPANY ACKNOWLEDGMENT

STATE OF Oregon)
) ss
COUNTY OF Klamath)



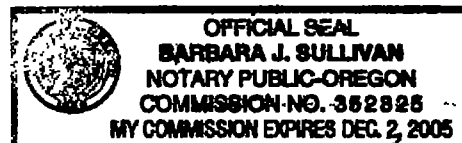
On this 23 day of July, 20 03, before me, the undersigned Notary Public, personally appeared Wayne G Ernst, Manager of Ernst Brothers LLC, and known to me to be a member or designated agent of the limited liability company that executed the Subordination of Mortgage and acknowledged the Subordination 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 Barbara J. Sullivan
Notary Public in and for the State of Oregon

Residing at South Valley Bank - Gilchrist, OR
My commission expires 12/02/05

INDIVIDUAL ACKNOWLEDGMENT

STATE OF Oregon)
) ss
COUNTY OF Klamath)



On this day before me, the undersigned Notary Public, personally appeared MGE, LLC, an Oregon Limited Liability Company, to me known to be the individual described in and who executed the Subordination of Mortgage, and acknowledged that he or she signed the Subordination as his or her free and voluntary act and deed, for the uses and purposes therein mentioned.

Given under my hand and official seal this 24 day of July, 20 03.

By Barbara J. Sullivan
Notary Public in and for the State of Oregon

Residing at South Valley Bank & Trust
My commission expires 12/02/05

SUBORDINATION OF MORTGAGE
(Continued)

53529

Page 4

LENDER ACKNOWLEDGMENT

STATE OF

Oregon

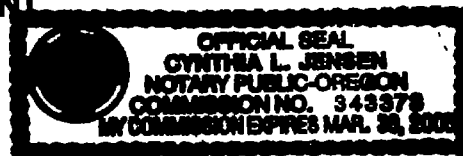
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) ss

)

COUNTY OF

Klamath



On this 28th day of July, 2003, before me, the undersigned Notary Public, personally appeared Dave Huckins and known to me to be the 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

Cynthia L. Jensen

Residing at

Klamath Falls

Notary Public in and for the State of

Oregon

My commission expires

3/30/05