

03 OCT 17 #11:30

Vol M03 Page 77360

Recording Requested By  
And When Recorded Mail To:  
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1125 NWCouch Street, Suite 800  
Portland, OR 97209

State of Oregon, County of Klamath  
Recorded 10/17/03 11:30 a. m  
Vol M03 Pg 77360-62  
Linda Smith, County Clerk  
Fee \$ 31.00 # of Pgs 3

*Aspen 56827*

## SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT (the "Agreement"), dated as of this 16th day of October, 2003, by and between THE CITY OF KLAMATH FALLS, OREGON, an Oregon municipal corporation, ("City"), and U.S. BANK NATIONAL ASSOCIATION, formerly known as U.S. Bank Trust National Association, a national banking association ("U.S. Bank").

### RECITALS

A. U.S. Bank is the mortgagee under a Leasehold Mortgage, Security Agreement, Assignment of Rents and Fixture Filing executed by the City as mortgagor, dated effective April 1, 1999, and filed in the Office of Klamath County, on April 27, 1999, in Book M-99, Page 15635 ("Senior Lien Leasehold Mortgage"), and that certain Chattel Mortgage Filing dated effective April 1, 1999, recorded in Klamath County, Oregon on April 27, 1999, in Book M-99, Page 15721 ("Senior Lien Chattel Mortgage"), as modified by Instrument dated June 25, 2003, recorded July 17, 2003, in Book M-03, page 50177 (collectively, the "Senior Lien Mortgages").

B. U.S. Bank is the mortgagee under a Leasehold Mortgage, Security Agreement, Assignment of Rents and Fixture Filing executed by the City as mortgagor, dated effective April 1, 1999, and filed in the Office of Klamath County, on April 27, 1999, in Book M-99, Page 15663 ("Second Lien Leasehold Mortgage"), and that certain Chattel Mortgage Filing dated effective April 1, 1999, recorded in Klamath County, Oregon on April 27, 1999, in Book M-99, Page 15724 ("Second Lien Chattel Mortgage"), as modified by Instrument dated June 25, 2003, recorded July 17, 2003, in Book M-03, page 50188 (collectively, the "Second Lien Mortgages"), together with a Financing Statement recorded April 27, 1999, in Book M-99, page 15738, as modified by amendment recorded July 17, 2003, in Book M-03, page 50195 (collectively, the "Second Lien Obligations").

C. U.S. Bank is the mortgagee under a Leasehold Mortgage, Security Agreement, Assignment of Rents and Fixture Filing executed by the City as mortgagor, dated effective April 1, 1999, and filed in the Office of Klamath County, on April 27, 1999, in Book M-99, Page 15692 ("Credit Facility Leasehold Mortgage"), and that certain Chattel Mortgage Filing dated effective April 1, 1999, recorded in Klamath County, Oregon on April 27, 1999, in Book M-99, Page 15727 ("Credit Facility Chattel Mortgage"), as modified by Instrument dated June 25, 2003, recorded July 17, 2003, in Book M-03, page 50188 (collectively, the "Credit Facility Mortgages"), together with a Financing Statement recorded April 27, 1999, in Book M-99, page

15746, as modified by amendment recorded July 17, 2003, in Book M-03, page 50206 (collectively the "Credit Facility Obligations").

D. The City and U.S. Bank have entered into a Second Agreement to Modification of Mortgages (Senior Lien Obligations) modifying the Senior Lien Mortgages to include the following Additional Bonds to be secured by the Senior Lien Mortgages: (a) \$12,900,000 City of Klamath Falls, Oregon Tax-Exempt Senior Lien Electric Revenue Bonds, Series 2003 (Klamath Cogeneration Project); and (b) \$12,100,000 City of Klamath Falls, Oregon Taxable Senior Lien Electric Revenue Bonds, Series 2003 (Klamath Cogeneration Project) ("Senior Lien Second Modification").

E. The parties hereto wish to subordinate the Second Lien Obligations and Credit Facility Obligations to the Senior Lien Second Modification.

NOW, THEREFORE, for good and valuable consideration paid by each to the other, the receipt and sufficiency of which is hereby acknowledged, City and U.S. Bank hereby agree as follows:

1. Subordination. The Second Lien Obligations and the Credit Facility Obligations are now and shall at all times continue to be subject and subordinate in each and every respect to the lien of and security interest created by the Senior Lien Mortgages, as modified by the Senior Lien Second Modification, and to any and all renewals, extensions, modifications, substitutions or replacements thereof.

2. Successors and Assigns; Binding Effect. This Agreement shall be binding upon U.S. Bank and its successors and assigns.

3. Entire Agreement. This Agreement contains the whole agreement between the parties hereto as to the priority of the obligations described herein, and there are no agreements, written or oral, outside or separate from this Agreement, and all prior negotiations, if any, are merged into this Agreement.

4. Governing Law. This Agreement will be governed and construed in accordance with the laws of the state of Oregon.

5. Counterparts. This Agreement may be executed in any number of counterparts, all of which shall constitute one and the same instrument and any party hereto may execute this Agreement by signing and delivering one or more counterparts.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first shown above.

THE CITY OF KLAMATH FALLS, OREGON

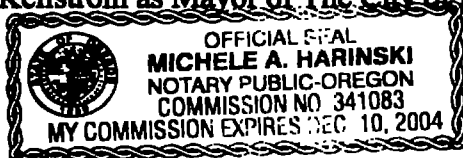
By: Todd Kellstrom  
Todd Kellstrom, Mayor

U.S. BANK NATIONAL ASSOCIATION

By: Cheryl K. Nelson  
Cheryl K. Nelson, Vice President

State of Oregon                    )  
  ) ss.  
County of Multnomah            )

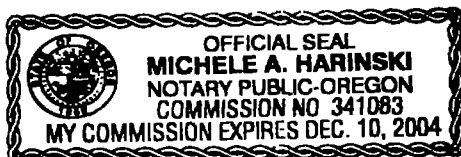
This instrument was acknowledged before me on this 16th day of October, 2003, by Todd Kellstrom as Mayor of The City of Klamath Falls, Oregon, an Oregon municipal corporation.



Michele A. Harinski  
Notary Public for Oregon  
My Commission Expires: 12/10/04

State of Oregon                    )  
  ) ss.  
County of Multnomah            )

This instrument was acknowledged before me on this 16th day of October, 2003, by Cheryl K. Nelson as Vice President of U.S. Bank National Association, formerly known as United States National Bank of Oregon.



Michele A. Harinski  
Notary Public for Oregon  
My Commission Expires: 12/10/04

SIGNATURE PAGE