

WTC 87603-MS

2011-003185

Klamath County, Oregon



00098455201100031850050054

RECORDING REQUESTED BY

498201875 9001 / 9002 SA
Sonoma Bank
3558 Round Barn Blvd, Ste 300
Santa Rosa, CA 95403

03/04/2011 11:40:08 AM

Fee: \$57.00

AND WHEN RECORDED MAIL TO:

Sonoma Bank
3558 Round Barn Blvd, Ste 300
Santa Rosa, CA 95403

Space Above This Line for Recorder's Use

SUBORDINATION AGREEMENT

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

THIS AGREEMENT, made this 15 day of FEBRUARY 2011, by NORTHSTATE PROPERTIES, LLC, AN OREGON LIMITED LIABILITY COMPANY, owner of the land hereinafter described and hereinafter referred to as "Owner", and NORTHSTATE PACKAGING, INC., A CALIFORNIA CORPORATION, present owner and holder of the leasehold estate created by the lease hereinafter described and hereinafter referred to as "Lessee";

WITNESSETH

THAT WHEREAS, NORTHSTATE PROPERTIES, LLC, AN OREGON LIMITED LIABILITY COMPANY, as Lessor, executed a lease dated 3/1/11 covering that certain premises described as: SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF; in favor of NORTHSTATE PACKAGING, INC., A CALIFORNIA CORPORATION, as Lessee;

WHEREAS, Owner has executed, or is about to execute, a deed of trust and note in the sum of \$377,000 dated FEBRUARY 15, 2011 AND \$291,795 dated FEBRUARY 15, 2011 in favor of Sterling Savings Bank, hereinafter referred to as "Lender", payable with interest and upon the terms and conditions described therein, which deed of trust is to be recorded concurrently herewith; and

WHEREAS, it is a condition precedent to obtaining said loan that said deed of trust last above mentioned shall unconditionally be and remain at all times a lien or charge upon the land hereinbefore described, prior and superior to the lease above described and to the leasehold estate created thereby; and

WHEREAS, Lender is willing to make said loan provided the deed of trust securing the same is a lien or charge upon said land prior and superior to the lease above described and to the leasehold estate created thereby and provided that Lessee will specifically and unconditionally subordinate and subject the lease above described the leasehold estate created thereby together with all rights and privileges of Lessee thereunder, to the lien or charge of the deed of trust in favor of Lender; and

WHEREAS, it is to the mutual benefit of the parties hereto that Lender make such loan to Owner; and lessee is willing that the deed of trust securing the same shall, when recorded, constitute a lien or charge upon said land which is unconditionally prior and superior to the lease above described and to the leasehold estate created thereby.

NOW, THEREFORE, in consideration of the mutual benefits accruing to the parties hereto and other valuable consideration, the receipt and sufficiency of which consideration is hereby acknowledged, and in order to induce Lender to make the loan above referred to, it is hereby declared, understood and agreed as follows:

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1. That said deed of trust securing said note in favor of Lender, any renewals and extensions thereof, shall unconditionally be and remain at all times a lien or charge on the land described therein, prior and superior to the lease above described, to the leasehold estate created thereby and to all rights and privileges of Lessee thereunder, and said lease, the leasehold estate created thereby together with all rights and privileges of Lessee thereunder is hereby subject, and made subordinate, to the lien or charge of the deed of trust in favor of Lender.
2. That Lender would not make its loan above described without this subordination agreement.
3. That this agreement shall be the whole and only agreement with regard to the subjection and subordination of the lease above described and the leasehold estate created thereby together with all rights and privileges of Lessee thereunder to the lien or charge of the deed of trust in favor of Lender above referred to and shall supersede and cancel, but only insofar as would affect the priority between the lease and the deed of trust hereinbefore specifically described, any prior agreements as to such subjection or subordination, including, but not limited to, those provisions, if any, contained in the lease above described, which provide for the subjection or subordination of said lease and the leasehold estate created thereby to a deed or deeds of trust or to a mortgage or mortgages.

Lessee declares, agrees and acknowledges that:

- a. He consents to and approves (i) all provisions of the note and deed of trust in favor of Lender above referred to, and (ii) all agreements, including but not limited to any loan or escrow agreements, between Owner and Lender for the disbursement of the proceeds of Lender's Loan;
 - b. Lender in making disbursements pursuant to any such agreement is under no obligation or duty to, nor has Lender represented that it will, see to the application of such proceeds by the person or persons to whom Lender disburses such proceeds and any application or use of such proceeds for purposes other than those provided for in such agreement or agreements shall not defeat the subordination herein made in whole or in part; and
 - c. He intentionally and unconditionally waives, relinquishes, subjects and subordinates the lease above described, the leasehold estate created thereby together with all rights and privileges of Lessee thereunder in favor of the lien or charge upon said land of the deed of trust in favor of Lender above referred to and understands that in reliance upon, and in consideration of, this waiver, relinquishment, subjection and subordination specific loans and advances are being and will be made and, as part and parcel thereof, specific monetary and other obligations are being and will be entered into which would not be made or entered into but for said reliance upon this waiver, relinquishment, subjection and subordination.
4. **ALTERNATE DISPUTE RESOLUTION.** In any judicial action or proceeding arising out of or relating to this Agreement or any agreements or instruments relating hereto or delivered in connection herewith, including, without limitation, a claim based on or arising from an alleged tort, we or you may elect to have all decisions of fact and law determined by a referee in accordance with California Code of Civil Procedure Section 638 et seq. If such an election is made, the parties will designate to the court a referee or referees selected under the auspices of the American Arbitration Association in the same manner as arbitrators are selected in Association-sponsored proceedings. The presiding referee of the panel, or the referee if there is a single referee, will be an active attorney or retired judge. Judgment upon the award rendered by such referee or referees will be entered in

the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

NOTICE: THIS SUBORDINATION AGREEMENT CONTAINS A PROVISION WHICH ALLOWS THE PERSON OBLIGATED ON YOUR LEASE TO OBTAIN A LOAN A PORTION OF WHICH MAY BE EXPENDED FOR OTHER PURPOSES THAN IMPROVEMENT OF THE LAND.

LESSEE: NORTHSTATE PACKAGING, INC., A CALIFORNIA CORPORATION

OWNER: NORTHSTATE PROPERTIES, LLC, AN OREGON LIMITED LIABILITY COMPANY

BY: [Signature]
DENNIS VANACKER, PRESIDENT

BY: [Signature]
JOHN CRAWFORD, PRESIDENT

BY: [Signature]
JOHN CRAWFORD, VICE PRESIDENT

BY: [Signature]
JAMES LYMAN, VICE PRESIDENT

BY: [Signature]
EDGAR STAUNTON, SECRETARY

BY: [Signature]
JAMES BAILEY, SECRETARY

BY: [Signature]
JAMES BAILEY, TREASURER

BY: [Signature]
LORI BAILEY, TREASURER

State of Oregon }

County of }



On _____ before me _____, Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of Oregon that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

NOTARY ACKNOWLEDGEMENT TO BE ATTACHED TO SUBORDINATION AGREEMENT

State of Oregon
County of Klamath

The foregoing instrument was acknowledged before me this 24th day of February, 2011 by John Crawford, President, James Lyman, Vice President, James Baley, Secretary, and by Lori Baley, Treasurer of NorthState Properties, LLC, an Oregon Limited Liability Company

WITNESS My hand and official seal.




Notary Public for Oregon
My Commission expires: 12-20-14



State of Oregon
County of Klamath

The foregoing instrument was acknowledged before me this 24th day of February, 2011 by Dennis VanAcker, President, John Crawford, Vice President, Edgar Staunton, Secretary, and James Baley, Treasurer of NorthState Packaging, Inc., a California Corporation

WITNESS My hand and official seal.



Notary Public for Oregon
My Commission expires: 12-20-14

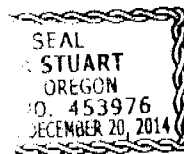
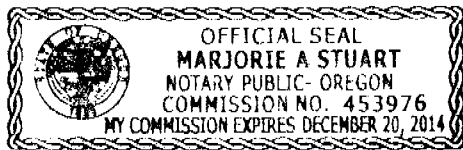


EXHIBIT "A"
LEGAL DESCRIPTION

Parcel 2 of Land Partition 27-10, situated in the W1/2 of Government Lot 14 and a portion of Government Lot 20 in the SW1/4 of Section 15, Township 41 south, Range 11 east of the Willamette Meridian, Klamath County Oregon. Recorded January 4, 2011 in 2011-000097, records of Klamath County, Oregon

Together with a 30 foot wide private access easement as delineated on the recorded plat of Land Partition 27-10.