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DOC # 0670371
03/22/2006 10:40 AM Deputy: KLJ

OFFICIAL RECORD

Requested By:

D B SULLIVAN

Assessor's Parcel Number: _____

Recording Requested By:

✓ Name: Cliff Lachman

Address: 2455 Byron Pl.

City/State/Zip Los Angeles Ca 90046

Real Property Transfer Tax: \$ 0

Douglas County - NV
Werner Christen - Recorder
Page: 1 of 10 Fee: 23.00
BK-0306 PG- 7501 RPTT: 0.00



Subordination Agreement

(Title of Document)

This page added to provide additional information required by NRS 111.312 Sections 1-2. (Additional recording fee applies)

This cover page must be typed or legibly hand printed.

RECORDING REQUESTED BY:

[Name of party requesting recording]

WHEN RECORDED, MAIL TO:

[Name of party to whom deed of trust is to be returned following recording]

SUBORDINATION AGREEMENT
(Deed of Trust to Deed of Trust)

NOTICE: THIS SUBORDINATION AGREEMENT 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.

THIS SUBORDINATION AGREEMENT ("Agreement") is entered into as of February 14, 2006 by Daniel Sullivan ("Owner") and Cliff Lachman ("Subordinate Lender"), in favor of Diane Keitrn ("Lender").

RECITALS

A. Subject to the terms and provisions of that certain Deed of Trust dated February __, 2006, executed by Owner in favor of Subordinate Lender, and recorded contemporaneously herewith in the Official records of Douglas County, Nevada ("Subordinate Lender's Deed of Trust"), Owner granted to Subordinate Lender a security interest in and to the property described in Exhibit A attached hereto and incorporated herein (which property, together with all improvements now or hereafter located on the property, is hereinafter collectively referred to as the "Property") to secure Owner's obligations to Subordinate Lender (the "Subordinated Debt").

B. Owner has executed a deed of trust and assignment of rents ("Lender's Deed of Trust") securing, among other things, a loan agreement between Owner and Lender dated February 14, 2006 (the "Loan Agreement") and promissory note (the "Note") in the principal sum of \$ 400,000.00, dated February 14, 2006, in favor of Lender (the "Loan"). Lender's Deed of Trust is being recorded in the official records of Douglas County, Nevada concurrently herewith.

C. As a condition to Lender making the Loan (the "Senior Debt"), Lender requires that Lender's Deed of Trust be unconditionally and at all times remain a lien or charge upon the Property, prior and superior to all the rights of Subordinate Lender under its deed of trust and that Subordinate Lender specifically and unconditionally subordinates its deed of trust to the lien or charge of Lender's Deed of Trust.

D. Subordinate Lender and Owner agree to the subordination in favor of Lender.

NOW THEREFORE, for good and valuable consideration and the receipt and adequacy of which is hereby acknowledged, and to induce Lender to make the Loan, Owner and Subordinate Lender hereby agree for the benefit of Lender as follows:

Section 1. Subordination.

Lender's Deed of Trust securing the Note in favor of Lender, and any modifications, renewals or extensions thereof, shall unconditionally be and at all times remain a lien or charge on the Property prior and superior to Subordinate Lender's Deed of Trust.

Section 2. Entire Agreement.

This Agreement shall be the whole agreement with regard to the subordination of Subordinate Lender's Deed of Trust to the lien or charge of Lender's Deed of Trust and shall supersede and cancel, but only insofar as would affect the priority of Lender's Deed of Trust, any prior agreements as to such subordination, including, without limitation, those provisions, if any, contained in Subordinate Lender's deed of trust which provide for the subordination of the deed of trust to a deed or deeds of trust or to a mortgage or mortgages.

Section 3. Limitation on Subordination.

The principal amount of the Subordinated Debt secured by the Property shall not exceed Forty-Five Thousand Dollars (\$45,000).

Section 4. Lien Subordination.

Subordinate Lender intentionally and unconditionally waives, relinquishes and subordinates all of Subordinate Lender's right, title and interest in and to the Property to the lien or charge of Lender's Deed of Trust upon the Property and understands that in reliance upon, and in consideration of, this waiver, relinquishment and subordination, specific loans and advances are being and will be made by Lender 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 and subordination.

Section 5. Payment Subordination.

The payment of any and all of the Subordinated Debt is hereby expressly made subordinate and junior in right of payment to the payment of the principal amount of, and all interest on, and all other amounts in respect of, the Senior Debt, to the extent and in the manner set forth herein. Notwithstanding any provision contained herein to the contrary, as long as no Event of Default under the Loan (other than a Cross Default as defined below) has occurred and is continuing, Subordinate Lender may receive and retain monthly payments payable pursuant to the Subordinate Lender's Loan Documents with Owner.

Section 6. Rights Upon Insolvency.

In the event of (1) any insolvency, bankruptcy, receivership, liquidation, reorganization, arrangement, assignment for the benefit of creditors, or other similar proceeding relative



to the Owner, its creditors or its property (as defined in the Loan Agreement), or (2) any proceeding for the voluntary or involuntary liquidation, dissolution or other winding up of the Owner whether or not involving insolvency or bankruptcy proceedings, then and in any such event:

- (a) the principal amount of, and all interest on, and all other amounts in respect of, the Senior Debt (including interest thereon accruing after the commencement of any such proceeding, whether or not such interest shall be allowed in such proceeding) shall be paid in full before any payment or distribution of any character, whether in cash, securities or other property, shall be made in respect of the Subordinated Debt; and
- (b) any payment or distribution of any character, whether in cash, securities or other property, which would otherwise (but for the terms hereof) be payable or deliverable in respect of Subordinated Debt (including any payment or distribution in respect of the Subordinated Debt by reason of any other indebtedness of the Owner being subordinated to the Subordinated Debt), shall be paid or delivered directly to the Lender, or its representatives, until the principal amount of, and all interest and premium on, and all other amounts in respect of, the Senior Debt shall have been paid in full and the Subordinate Lender or any other holder of the Subordinated Debt irrevocably authorizes, empowers and directs all receivers, trustees, liquidators, conservators and others having authority in the premises to effect all such payments and deliveries.

Section 7. Rights Upon Senior Event of Default.

At any time that Lender notifies Subordinate Lender that an event of default is outstanding under the Senior Debt, the Owner shall not make, and the Subordinate Leader shall not receive, accept or retain, any payments of principal or interest or other amount on account of the Subordinated Debt

Section 8. Owner Obligations.

The Owner agrees that, in the event that any note or other obligation of the Owner not evidencing Senior Debt, or any portion thereof, shall become due and payable before its expressed maturity for any reason, the Owner will give prompt notice, in writing, of such occurrence to the Lender.

Section 9. Rights of Lender.

- (a) Subordinate Lender further declares, agrees and acknowledges for the benefit of the Lender, that Lender, in making disbursement pursuant to any such agreement (whether obligatory or optional), 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, an 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.
- (b) Except as otherwise provided herein, so long as any of the Senior Debt shall remain unpaid, the Lender may at all times exercise any and all powers and rights which it now has or may hereafter acquire with respect to the Loan Agreement, any other Security Document (as defined in the Loan Agreement) or any of the collateral subject to the Loan Agreement or any other Security Document without having to obtain any consent or approval of the Subordinate Lender and without any accountability to the Subordinate



Lender, nor shall it have any liability to the Subordinate Lender for any action taken or failure to act with respect to this Agreement, the Loan Agreement, any other Security Document or the aforesaid collateral. Notwithstanding the foregoing:

(i) In the event of an Event of Default under the Loan solely as a result of the existence of an Event of Default on the Subordinated Debt (a "Cross Default"). Lender hereby agrees, for the benefit of Subordinate Lender only, to delay the commencement of foreclosure proceedings or otherwise enforcing its remedies under the Loan Documents as a result of such default until after the ninetieth (90th) day following such default, so long as Subordinate Lender is diligently and in good faith pursuing its remedies under the Subordinate Lender's Loan Documents or a resolution of the default with Owners during said ninety (90) day period; provided, however, that the foregoing forbearance shall automatically terminate and be of no further force or effect in the event another Event of Default under the Senior Debt (other than Cross Default) has occurred and is continuing. The provisions of this Section 1.9(b)(i) shall be solely for the benefit of Subordinate Lender (and not for the benefit of Owner). Nothing contained in this Section 1.9(b)(i) shall be deemed or construed to limit or affect in any manner any of Lender's rights or remedies under the Loan Documents with respect to any default other than the Cross Default (whether or not the Cross Default then exists and whether or not Subordinate Lender is then pursuing its remedies under the Subordinate Lender's Loan Documents or a resolution of the default under the Subordinate Lender's Loan Documents with Owner).

(ii) In the event of an Event of Default on the Loan, Lender will provide to Subordinate Lender a copy of any related notice of default delivered to Owner and such notice shall be sent to Subordinate Lender in the manner provided for in Section 1.14. In the event of an Event of Default under Subordinate Lender's Loan Documents, Subordinate Lender will provide to Lender a copy of any related notice of default delivered to Owner and such notice shall be sent to Lender in the manner provided for in Section 1.14. If the notice delivered by Lender relates to a default by Owner in its obligation to pay money under the Loan Documents (a "Monetary Default"), Lender agrees that Subordinate Lender shall have the right, but not the obligation, to cure such Monetary Default. If the notice delivered by Lender relates to a default by Owner with respect to its failure to perform any of its other obligations (other than an obligation to pay money) under the Loan Documents (a "Non-Monetary Default"), Lender agrees that Subordinate Lender shall have the right, but not the obligation, to cure such Non-Monetary Default. Lender shall accept performance by Subordinate Lender of any of the obligations Owner within the time periods set forth in the Loan Documents for Owner's performance as though performed by Owner.

Section 10. Constructive Trust.

If, notwithstanding the provisions of this Agreement, any payment or distribution of any character (whether in cash, securities or other property) shall be received by the Subordinate Lender in contravention of the terms of this Agreement, such payment or distribution shall not be commingled with any asset of the Subordinate Lender, but shall be held in trust for the benefit of, and shall be paid over or delivered and transferred to, the Lender, or its representatives or agents, for application to the payment of all Senior Debt remaining unpaid, until the principal amount of, and all interest and premium (including interest thereon accruing after the commencement of any proceedings



described herein) on, and all other amounts in respect of, the Senior Debt shall have been paid in full.

Section 11. Successors and Assigns.

This Agreement, without further reference, shall pass to and may be relied on and enforced by any transferee or subsequent holder of the Senior Debt and the Subordinated Debt.

Section 12. Modification.

The terms of this Agreement, the subordination effectuated hereby, and the rights of the Lender and the obligations of the Subordinate Lender arising hereunder, shall not be affected, modified or impaired in any manner or to any extent by: (I) any amendment or modification of or supplement to the Loan Agreement, any other Security Document or any other instrument or document executed or delivered pursuant thereto, provided, however, that so long as no Event of Default has occurred and is continuing on the Senior Debt, no extension, substitution, modification, amendment, renewal, refinancing, replacement or consolidation shall increase the principal amount of the Loan to an amount in excess of \$ _____, increase the interest rate thereof or accelerate the maturity date thereof (any such change, a "Material Adverse Change") unless Lender shall have obtained Subordinate Lender's prior written consent thereto; (ii) the lack of validity, legality or enforceability of any of such documents; (iii) any exercise or non-exercise of any right, power or remedy under or in respect of the Senior Debt or any of such instruments or documents referred to in clause (i) above or arising at law; or (iv) any waiver, consent, release, indulgence, extension, renewal, modification, delay or other action, in action or omission in respect of the Senior Debt or any of the instruments or documents referred to in clause (i) above, whether or not the Subordinate Lender shall have had notice or knowledge of any of the foregoing and whether or not it shall have consented thereto.

Section 13. Notices.

All notice, consents, approvals, requests, demands, instruments or other communications to be made, given or furnished pursuant to, under or by virtue of their Agreement (each, a "Notice") shall be in writing and shall be deemed given or furnished if addressed to the party intended to received the same at the address or such party as set forth below (i) upon receipt when personally delivered at such address, (ii) three (3) Business Days after the same is deposited in the United States mail as first class registered or certified mail, return receipt requested, postage prepaid, or (iii) one Business Day after the date of delivery of such notice to a nationwide, reputable commercial courier service:

If to Lender

If to Subordinate Lender:

Cliff Lachman
2655 Byron Place
Los Angeles, California 90046

Any party may change the address to which any notice is to be delivered to any other address within the United States of America by furnishing written notice of such change at least fifteen (15) days prior to the effective date of such change to the other parties in the manner set forth above, but no such notice of change shall be effective unless and until received by such other parties. Notices may be given on behalf of any party by its attorneys.

Section 14. Miscellaneous.

This Agreement may not be amended or modified orally but may be amended or modified only in writing, signed by all parties hereto. No waiver of any term or provision of this Agreement shall be effective unless it is in writing, making specific reference to this Agreement and signed by the party against whom such waiver is sought to be enforced. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof. This Agreement shall be binding upon the parties hereto and their respective heirs, legal representatives, successors and assigns. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Section 15. Definitions.

Terms used in this Agreement and not defined herein shall have the respective meanings ascribed to them in the Loan Agreement. The recitals hereto shall be a part of this Agreement.

Section 16. Termination.

This Agreement shall terminate upon the final and indefeasible payment in full of the principal amount of, and all interest and premium on, and all other amounts in respect of, the Senior Debt.

Section 17. Counterparts.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute and be construed as one and the same instrument.

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 ON OTHER PURPOSES THAN IMPROVEMENT OF THE LAND.



IT IS RECOMMENDED THAT, PRIOR TO THE EXECUTION OF THIS AGREEMENT, THE PARTIES CONSULT WITH THEIR ATTORNEYS WITH RESPECT HERETO.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date hereof.

Daniel Sullivan

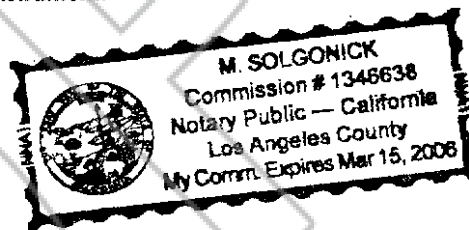
By: [Signature] Date: 3-15-06
Daniel Sullivan, Owner

State of California,
County of Los Angeles) S.S.

On, 3.15.06, before me, M. Solgonick, notary public (here insert name and title of the officer, personally appeared Daniel Sullivan, personally known to me (or 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.

WITNESS my hand and official seal.

Signature [Signature]



LENDER

By: _____ Date: _____
Lender

State of California,
County of _____) S.S.

On, _____, before me, _____, (here insert name and title of the officer, personally appeared _____, personally known to me (or 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.

WITNESS my hand and official seal.

Signature _____



Cliff Lachman

By:

Cliff Lachman
Cliff Lachman, Subordinate Lender

Date:

3/14/06

State of California,

County of Los Angeles) S.S.

On, 3-14-06, before me, M Solgonick, Notary Public, (there insert name and title of the officer, personally appeared

Cliff Lachman, personally known to me (or 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.

WITNESS my hand and official seal.

Signature

[Handwritten Signature]

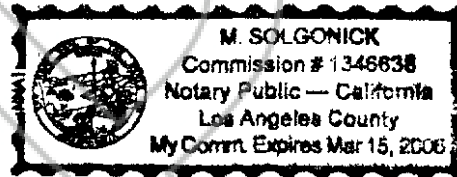


EXHIBIT A TO SUBORDINATION AGREEMENT

Property Description:

Lot 1 Block E as shown on the Amended Map of Zephyr Cove Properties, Inc. in section 10, township 13 North, Range 18 East, M. D. B. & M., filed in the Office of County Recorder of Douglas County, Nevada on August 5, 1929.

