



200102140047
Skagit County Auditor

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AFTER RECORDING RETURN TO:

Washington Mutual Bank doing business as Western Bank
720 S. Burlington Boulevard
Burlington, WA 98233

Attention: Bryan McDonald

SUBORDINATION, ATTORNMENT, AND NONDISTURBANCE
AGREEMENT

[Loan No. 0102008]

(1425 East Broadway Street, Mount Vernon, Washington)
(Parcel N)

SKAGIT VALLEY REAL ESTATE PARTNERSHIP,

a Washington general partnership

JAY SMITH, d/b/a Evergreen Physical Therapy

WASHINGTON MUTUAL BANK, a Washington

corporation doing business as Western Bank

Ptn. SW SE, Sec. 20, T34N, R4EWM; Lots 1-2, Bk. 1.,

Lot 1, Bk. 6, all of BROADWAY ADD. TO MT.

VERNON; Lot 7-12, Bk. 6, Lots 4, 3, 7, 8, 9-12, Bk. 7,

Lots 1-2, 10-12, Bk. 8, Lots 11 and 12, Bk. 9, all of

MILLETTS ADDITION TO MT. VERNON

Additional Legal(s) on Exhibit A

340420-0-086-0009; 3709-001-002-0004;

3741-008-012-0007; 340420-0-088-0015;

340420-0-087-0016; 3741-008-002-0009;

3741-007-008-0005; 3741-007-003-0000;

3741-006-010-0003; 3741-006-012-0001;

3741-007-004-0009; 3741-007-012-0009;

3741-009-012-0005; 3709-006-001-0004;

3709-001-001-0005

Grantor (Owner):

Grantor (Tenant):

Grantee (Lender):

Legal Description:

Assessor's Tax Parcel ID

Numbers:

THIS AGREEMENT, is made this 30th day of January, 2001 among
WASHINGTON MUTUAL BANK, a Washington corporation doing business as Western Bank
("Lender"); SKAGIT VALLEY REAL ESTATE PARTNERSHIP, a Washington general
partnership ("Owner"); and JAY SMITH, d/b/a Evergreen Physical Therapy ("Tenant").

Owner is the landlord and Tenant is the tenant under that certain lease dated
undated (the "Lease"). The Lease demises portions (the "Leased Premises") of
the improvements located on certain real property in Skagit County, Washington, more

improvements are collectively referred to as the "Property". Owner has obtained a commitment from Lender for financing for the Property (the "Loan") to be evidenced by three (3) promissory notes made by Owner in an aggregate amount equal to the principal amount of the Loan as follows: (i) the first of such notes ("Note 1") is in the principal amount of \$2,800,000, (ii) the second of such notes ("Note 2") is in the principal amount of \$4,200,000, and (iii) the third of such notes ("Note 3," and collectively with Note 1 and Note 2, the "Note") is in the principal amount of \$1,600,000, payment of which Note is to be secured by, among other things, a deed of trust, security agreement, assignment of leases and rents, and fixture filing (the "Deed of Trust") on the Property, and an assignment of leases and rents made by Owner as assignor in favor of Lender as assignee (the "Assignment of Rents," and collectively with the Deed of Trust, the "Security Documents").

In order to induce Lender to make the Loan to Owner, and in order to establish certain safeguards and priorities with respect to their respective rights in connection with the Leased Premises, Lender has requested that Owner obtain certain warranties and agreements from Tenant as hereinafter set forth.

In consideration of the mutual benefits accruing to each, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **Restriction Against Modification.** The Lease shall not be modified, amended, terminated, or superseded, nor shall the Leased Premises be sublet by Tenant, nor shall Tenant assign its rights under the Lease to a third party, without the express prior written approval of Lender, which approval shall not be unreasonably withheld.

2. **Acknowledgment of Collateral Assignment.** Tenant acknowledges that the Lease will be collateral assigned to Lender as security for the Loan and that the terms of the collateral assignment will prohibit the collection of rent more than one (1) month in advance or the collection of a security deposit exceeding two (2) months' rent. Upon written request by Lender accompanied by Lender's written certification that an event of default has occurred under the Note, or Security Documents, Tenant will commence paying the rental and other amounts due and owing to Owner under the Lease directly to Lender, and such payment to Lender shall constitute a full and complete discharge of the obligations of Tenant to Owner under the Lease to the extent of the amount(s) so paid.

3. **Notice and Opportunity To Cure Defaults.** Tenant agrees to notify Lender of any breach or default by Owner under the Lease and offer Lender the opportunity to cure such breach or default; and not to pursue any action or exercise any legal right or remedy that Tenant may have to terminate the Lease because of such breach or default for a period of thirty (30) days following the later of (a) expiration of the grace period, if any, that Owner is given to cure such default pursuant to the Lease or under applicable law and (b) the date upon which notice of such default was actually received by Lender. Tenant further agrees that it will not exercise any right or remedy that it may have to terminate the Lease because of a breach or default that Lender has failed to cure or cause to be cured within the aforementioned thirty (30)-day period if the breach or default is one that can be cured, but cannot with due



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thirty (30)-day period if the breach or default is one that can be cured, but cannot with due diligence be cured prior to the expiration of said thirty (30)-day period, if Lender gives notice of its intent to cure or cause such breach or default to be cured prior to the expiration of said thirty (30)-day period, and thereafter proceeds promptly with and prosecutes with all due diligence the curing of such breach or default.

Nothing contained herein shall be construed as obligating Lender to cure any breach or default or perform any obligation of Owner under the Lease.

Notices that Lender is entitled to receive pursuant to this Section 3 shall be delivered personally or by reputable overnight courier service such as Federal Express to the address set forth below (or to such other address or addresses as Lender may from time to time designate in writing):

Washington Mutual Bank doing business as Western Bank
720 S. Burlington Boulevard
Burlington, Washington 98233
Attention: Bryan McDonald

4. **Subordination.** The Lease is and at all times shall continue to be subject and subordinate to the Note and the lien of the Deed of Trust and to all advances made or to be made thereunder, and to any renewals, extensions, modifications, or replacements thereof.

Specifically, and without limiting the generality of the foregoing, Tenant agrees that with respect to (a) any damage to or destruction of the Property or any portion thereof by hazards insured against and for which compensation is paid, payable, or recoverable; (b) any taking of the Property or any portion thereof by partial or total condemnation (or a transfer in lieu thereof); or (c) damages awarded for change of grade or loss of any use or enjoyment of the Property or any portion thereof, Tenant's claims thereto shall be subordinate to those of Lender under the Deed of Trust notwithstanding the covenants of Lender under Section 6 below.

Tenant shall not subordinate the Lease to any lien, claim, mortgage, deed of trust, or other encumbrance of any kind, except as provided in this Section 4, and any such other subordination shall be deemed a default under the Lease and this Agreement.

Until such time as the Loan has been repaid in full and the Deed of Trust fully reconveyed of record, any provisions of the Lease that purport to make the Lease automatically subordinate to any other existing or future mortgage, ground lease, deed of trust, or other encumbrance of any kind shall be of no force or effect, and the Lease shall be deemed to have been amended to delete such provisions.

5. **Attornment.** In the event of a foreclosure or sale of the Property pursuant to the trustee's power of sale, the Lease shall be recognized as a direct lease from Lender, the purchaser at the sheriff's or trustee's sale, or any subsequent owner (collectively, "Purchaser"), except Purchaser shall not be (a) liable for any previous act or omission of



against Owner, (c) subject to any obligation with respect to any security deposit or prepaid rental for greater than one (1) month under the Lease unless such security deposit or prepaid rental has been physically delivered to Purchaser, or (d) bound by any previous modification of the Lease unless such modification shall have been expressly approved in writing by Lender.

The provisions of the immediately preceding paragraph shall be equally applicable if Lender elects to accept from Owner a deed in lieu of foreclosure.

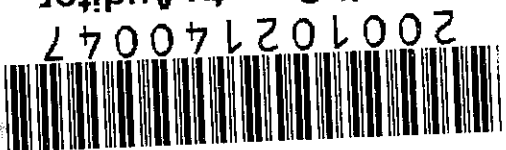
6. **Nondisturbance.** So long as no default exists, nor any event has continued to exist for such period of time (after notice, if any, required by the Lease) as would entitle Owner under the Lease to terminate the Lease or would cause, without any further action of Owner, the termination of the Lease or would entitle Owner to dispossess Tenant thereunder, the Lease shall not be terminated, nor shall Tenant's use, possession, or enjoyment of the Leased Premises be interfered with, nor shall the leasehold estate granted by the Lease be affected in any foreclosure, or in any action or proceeding instituted under or in connection with the Deed of Trust.

7. **Hazardous Substances.** Tenant represents, warrants, covenants, and agrees that any use or occupancy of the Property by Tenant is presently and shall throughout the term of the Lease be in compliance with all state, federal, and local laws and regulations governing or in any way relating to the generation, handling, treatment, storage, use, dumping, discharge, or disposal of any "Hazardous Substance" (as defined below); and that Tenant has not at any time engaged in or permitted any material dumping, discharge, or disposal of such Hazardous Substances, at, on, in, above, under, or about the Property. Tenant agrees to indemnify, protect, defend, and hold Lender harmless from any claims, actions, proceedings, judgments, damages, penalties, fines, costs, liabilities, losses, and expenses of any kind that arise from any misrepresentation or breach by Tenant of the representations, warranties, covenants, and agreements contained in this Section 7. For purposes of this Agreement, "Hazardous Substance" means any hazardous or toxic substances, materials, or wastes listed in the United States Department of Transportation Hazardous Materials Table (49 CFR Part 172.101) or by the Environmental Protection Agency as hazardous substances (40 CFR Part 302) and amendments thereto, or now or in the future defined in or regulated under any applicable local, state, or federal law, rule, regulation, or ordinance.

8. **Further Documents.** Owner and Tenant shall execute and deliver to Lender or to any party to whom Tenant hereby agrees to attorn, in form and substance satisfactory to Lender or such other party, such other instruments or assurances as Lender or such other party shall request in order to more fully carry out the intents and purposes of this Agreement.

9. **Binding Effect.** This Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns, and the holder from time to time of the

Note.



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10. **Modification.** This Agreement may not be modified other than by an agreement in writing, signed by the parties hereto or their respective successors in interest.

11. **Entire Agreement.** This Agreement constitutes the entire agreement of the parties with respect to the subordination of the Lease to the lien of the Deed of Trust. By its acceptance of Tenant's signature on this Agreement, Lender has not agreed to any conditions to Tenant's agreement to subordinate the Lease to a future mortgage or deed of trust that are contained in the Lease itself and are not restated in this Agreement, including, but not limited to, provisions that purport to obligate Lender for items with respect to which Lender has been relieved of responsibility pursuant to Section 5, or provisions that purport to require Lender, as a condition to Tenant's subordination, to make condemnation and insurance proceeds available to Owner or Tenant and/or to apply such proceeds toward the cost of restoring or repairing the Property.

12. **Effect on Lease.** Except as herein modified, all of the terms and provisions of the Lease shall remain in full force and effect. In the event of a conflict between the Lease and this Agreement, the terms and provisions of this Agreement shall control.

13. **Counterparts.** This Agreement may be executed in a number of identical counterparts and by each party on a separate counterpart. If so executed, all of such counterparts shall collectively constitute one agreement.

14. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Washington.

[END OF TEXT]



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DATED as of the day and year first above written.

LENDER:

WASHINGTON MUTUAL BANK, a
Washington corporation doing business as
Western Bank

By

Its

Bylan McDaniel

OWNER:

SKAGIT VALLEY REAL ESTATE
PARTNERSHIP, a Washington general
partnership

By

John S. Halsey
John S. Halsey, M.D., managing partner
and member of management committee

By

Mark L. Johnson
Mark L. Johnson, M.D., member of
management committee

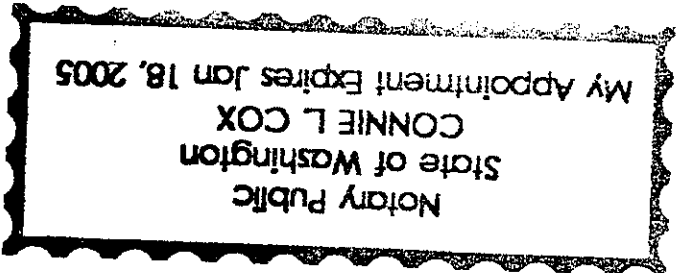
By

John W. Erbstoesser
John W. Erbstoesser, M.D., member of
management committee

TENANT:

Jay Smith
JAY SMITH





STATE OF WASHINGTON
COUNTY OF Skagit

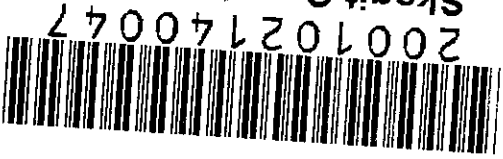
SS.

I certify that I know or have satisfactory evidence that Bryan McDonald is the person who appeared before me, and said person acknowledged that said person signed this instrument, on oath stated that said person was authorized to execute the instrument, and acknowledged it as the VP of WASHINGTON MUTUAL BANK, a corporation doing business as Western Bank, to be the free and voluntary act of such corporation for the uses and purposes mentioned in the instrument.

Dated this 12th day of February, 2001.

Connie L. Cox
(Signature of Notary)

Connie L. Cox
(Legibly Print or Stamp Name of Notary)
Notary public in and for the state of Washington,
residing at Deane Valley
My appointment expires 1-18-2005



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STATE OF WASHINGTON
COUNTY OF SKAGIT

SS.

I certify that I know or have satisfactory evidence that JOHN S. HALSEY, M.D., is the person who appeared before me, and said person acknowledged that said person signed this instrument, on oath stated that said person was authorized to execute the instrument and acknowledged it as the managing general partner and member of the management committee of SKAGIT VALLEY REAL ESTATE PARTNERSHIP, a general partnership, to be the free and voluntary act of such partnership for the uses and purposes mentioned in the instrument.

Dated this 13 day of FEBRUARY, 2001.

Marcie K. Paleck

(Signature of Notary)

MARCIE K. PALECK

(Legibly Print or Stamp Name of Notary)

Notary public in and for the state of Washington,
residing at Mount Vernon

My appointment expires Oct. 15, 2004



STATE OF WASHINGTON
COUNTY OF SKAGIT

ss.

I certify that I know or have satisfactory evidence that JOHN W. ERBSTOESZER, M.D., is the person who appeared before me, and said person acknowledged that said person signed this instrument, on oath stated that said person was authorized to execute the instrument and acknowledged it as a member of the management committee of SKAGIT VALLEY REAL ESTATE PARTNERSHIP, a general partnership, to be the free and voluntary act of such partnership for the uses and purposes mentioned in the instrument.

Dated this 13th day of FEBRUARY, 2001.

Marcie K. Paleck

(Signature of Notary)

MARCIE K. PALECK

(Legibly Print or Stamp Name of Notary)

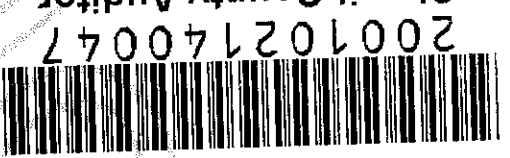
Notary public in and for the state of Washington,
residing at *Moent + Vennar*

My appointment expires Oct. 15, 2004



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STATE OF WASHINGTON
COUNTY OF SKAGIT

ss.

I certify that I know or have satisfactory evidence that MARK L. JOHNSON, M.D., is the person who appeared before me, and said person acknowledged that said person signed this instrument, on oath stated that said person was authorized to execute the instrument and acknowledged it as a member of the management committee of SKAGIT VALLEY REAL ESTATE PARTNERSHIP, a general partnership, to be the free and voluntary act of such partnership for the uses and purposes mentioned in the instrument.

Dated this 13th day of FEBRUARY, 2001.

Marcie K. Paleck
(Signature of Notary)

MARCIE K. PALECK
(Legibly Print or Stamp Name of Notary)

Notary public in and for the state of Washington,
residing at *Mount Vernon*

My appointment expires *Oct 15 2004*

STATE OF WASHINGTON

COUNTY OF

Skagit

SS.

I certify that I know or have satisfactory evidence that JAY SMITH is the person who appeared before me, and said person acknowledged that said person signed this instrument, on oath stated that said person was authorized to execute the instrument and acknowledged it to be the free and voluntary act of said person for the uses and purposes mentioned in the instrument.

Dated this 8th day of February, 2001.

Winetta Stratton

(Signature of Notary)

(Legibly Print or Stamp Name of Notary)

Notary public in and for the state of Washington,
residing at Mt. Vernon, WA

My appointment expires 8-16-03



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EXHIBIT A

The land is located in the county of Skagit, state of Washington, and is described as

follows:

PARCEL A:

That portion of the Southwest Quarter of the Southeast Quarter of Section 20, Township 34 North, Range 4 East of the Willamette Meridian, described as follows:

Commencing at a point 30.83 feet South of the Northwest corner of said Southwest Quarter of the Southeast Quarter, Thence North 89°47'30" East parallel with the North line of said Southwest Quarter of the Southeast Quarter, a distance of 225.0 feet; Thence South 01°08'15" East along the Westerly line of Block 1, Broadway Addition to Mount Vernon, according to the plat thereof recorded in Volume 6 of Plats, page 7, records of Skagit County, Washington, a distance of 260.0 feet to the North line of Broadway Street produced; Thence South 89°47'30" West a distance of 225.0 feet; Thence North 01°08'15" West along the West line of said Southwest Quarter of the Southeast Quarter, a distance of 260.0 feet to the point of beginning.

PARCEL B:

Lot 1, Block 1, BROADWAY ADDITION TO MOUNT VERNON, according to the plat thereof recorded in Volume 6 of Plats, page 7, records of Skagit County, Washington;

EXCEPT the South 41.0 feet thereof;

AND EXCEPT all that portion thereof lying North of a line that is 30.83 feet South of and parallel with the North line of the Southwest Quarter of the Southeast Quarter of Section 20, Township 34 North, Range 4 East of the Willamette Meridian.

PARCEL C:

Lot 2, Block 1, BROADWAY ADDITION TO MOUNT VERNON, according to the plat thereof recorded in Volume 6 of Plats, page 7, records of Skagit County, Washington.

PARCEL D:

Lots 10, 11 and 12, Block 8, MAP OF MILLETT'S ADDITION TO MT. VERNON, according to the plat thereof recorded in Volume 2 of Plats, page 63, records of Skagit County, Washington.

Continued



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EXHIBIT A
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PARCEL E:

That portion of the Southwest Quarter of the Southeast Quarter of Section 20, Township 34 North, Range 4 East of the Williamette Meridian, described as follows:

Beginning at a point 360 feet South and 75 feet East of the Northwest corner;

Thence East a distance of 75 feet;

Thence South a distance of 135 feet;

Thence West a distance of 75 feet;

Thence North a distance of 135 feet to the point of beginning.

PARCEL F:

That portion of the Southwest Quarter of the Southeast Quarter of Section 20, Township 34 North, Range 4 East of the Williamette Meridian, described as follows:

Beginning at a point 360 feet South of the Northwest corner of said Southwest Quarter of the

Southeast Quarter;

Thence East a distance of 75 feet;

Thence South a distance of 135 feet;

Thence West a distance of 75 feet;

Thence North a distance of 135 feet to the point of beginning.

PARCEL G:

Lots 1 and 2, Block 8, MAP OF MILLETT'S ADDITION TO MT. VERNON, according to the plat thereof recorded in Volume 2 of Plats, page 63, records of Skagit County, Washington.

PARCEL H:

Lots 7 and 8, Block 7, MAP OF MILLETT'S ADDITION TO MT. VERNON, according to the plat thereof recorded in Volume 2 of Plats, page 63, records of Skagit County, Washington.

PARCEL I:

Lot 3, Block 7, MAP OF MILLETT'S ADDITION TO MT. VERNON, according to the plat thereof recorded in Volume 2 of Plats, page 63, records of Skagit County, Washington.

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EXHIBIT A
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PARCEL J: Lots 7 through 12, Block 6, MAP OF MILLETT'S ADDITION TO MT. VERNON, according to the plat thereof recorded in Volume 2 of Plats, page 63, records of Skagit County, Washington.

PARCEL K: Lot 4, Block 7, MAP OF MILLETT'S ADDITION TO MT. VERNON, according to the plat thereof recorded in Volume 2 of Plats, page 63, records of Skagit County, Washington.

PARCEL L: Lots 9 through 12, Block 7, MAP OF MILLETT'S ADDITION TO MT. VERNON, according to the plat thereof recorded in Volume 2 of Plats, page 63, records of Skagit County, Washington.

PARCEL M: Lots 11 and 12, Block 9, MAP OF MILLETT'S ADDITION TO MT. VERNON, according to the plat thereof recorded in Volume 2 of Plats, page 63, records of Skagit County, Washington.

PARCEL N: Lot 1, Block 6, BROADWAY ADDITION TO MOUNT VERNON, according to the plat thereof recorded in Volume 6 of Plats, page 7, records of Skagit County, Washington.

PARCEL O: The South 41 feet of Lot 1, Block 1, BROADWAY ADDITION TO MOUNT VERNON, according to the plat thereof recorded in Volume 6 of Plats, page 7, records of Skagit County, Washington.

Parcels A through O situated in Skagit County, Washington.