

After Recording Mail To:

NORTH SOUND BANK

P. O. Box 1779

Poulsbo, WA 98370

Attn: Loan Servicing Center

Loan No. 709876163



200002030088

Kathy Hill, Skagit County Auditor

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FIRST AMERICAN TITLE CO.

59823-7

SUBORDINATION AND ATTORNMENT AGREEMENT

This Agreement is made this 24th day of January, 2000, between NORTH SOUND BANK, a Washington banking corporation ("**Lender**"), and Fidalgo Inn Operating, LLC ([**individually and collectively referred to as**] "**Tenant**").

Recitals

A. Fidalgo Country Inn, LLC and Commodore Motor Hotel, Inc. ([**individually and collectively referred to as**] "**Landlord**"), [**is/are**] owner[s] of the real property ("**Property**") legally described on Exhibit A.

B. Tenant is a tenant of a portion of the Property ("**Premises**") under a lease ("**Lease**") with Landlord dated _____, 2000.

C. Lender has agreed to make a loan ("**Loan**") to Landlord, secured by a Short Form Deed of Trust, Assignment of Rents and Leases, Security Agreement and Fixture Filing ("**Deed of Trust**") encumbering the Property. The Deed of Trust includes an assignment to Lender of all right, title and interest of Landlord under the Lease. The Deed of Trust is recorded under Skagit County Auditor's File No. AK 200002030084

D. Lender's agreement to make the Loan is conditioned on Tenant's subordination of the Lease to the Deed of Trust and Tenant's agreement to attorn to Lender if Lender obtains possession of the Property by foreclosure or deed in lieu of foreclosure. Tenant is willing to do so in consideration of the benefits to Tenant from the Loan and Lease.

Agreement

NOW, THEREFORE, Lender and Tenant agree as provided below.

1. **Subordination.** Tenant Hereby subordinates the Lease and all of its rights thereunder to the Deed of Trust and all of Lender's rights thereunder, including any and all renewals, modifications and extensions thereof. Without limiting the generality of the foregoing, such subordination shall include all rights of Tenant in connection with the application of any insurance or condemnation proceeds with respect to the Premises or Property.

2. **Attornment.** If Lender obtains possession of the Property by foreclosure or deed in lieu of foreclosure and the Lease has not been terminated as a result of any such foreclosure, Tenant shall attorn to Lender and recognize Lender as the landlord under the Lease for the unexpired term of the Lease. Such attornment shall be effective without Lender being (I) subject to any offsets or defenses, or otherwise liable, for any prior act or omission of Landlord, (II) bound by any amendment, modification, or waiver of any of the provisions of the Lease, or by any separate agreement between Landlord and Tenant relating to the Premises or Property, unless any such action was taken with the prior written consent of Lender, (III) liable for the return of any security or other deposit unless the deposit has been paid to Lender, (IV) bound by any payment of rent under the Lease made by Tenant more than one (1) month in advance of the due date, or (V) bound by any option, right of first refusal, or similar right of Tenant to Lease any portion of the Property (other than the Premises) or to purchase all or any portion of the Property. Lender's obligations as landlord under the Lease after obtaining possession of the Property by foreclosure or deed in lieu of foreclosure shall terminate upon Lender's subsequent transfer of its interest in the Property.

3. **Covenants of Tenant.** Tenant covenants and agrees with Lender as follows:

(a) Tenant shall pay to Lender all rent and other payments otherwise payable to Landlord under the Lease upon written demand from Lender. The consent and approval of Landlord to this Agreement shall constitute an express authorization for Tenant to make such payments to Lender and a release and discharge of all liability of Tenant to Landlord for any such payments made to Lender.

(b) Tenant shall enter into no material amendment or modification of any of the provisions of the Lease without Lender's prior written consent.

(c) Tenant shall not subordinate its rights under the Lease to any other mortgage, deed of trust, or other security instrument without the prior written consent of Lender.

(d) In the event the Lease is rejected or deemed rejected in any bankruptcy proceeding with respect to Landlord, Tenant shall not exercise its option to treat the Lease as terminated under 11 U.S.C. § 365(h), as amended.

(e) Tenant shall not accept any waiver or release of Tenant's obligations under the Lease by Landlord, or any termination of the Lease by Landlord, without Lender's prior written consent.

(f) Tenant shall promptly deliver written notice to Lender of any default by Landlord under the Lease. Lender shall have the right to cure such default and Tenant agrees not to invoke any of its remedies for the default, during any period that Lender is proceeding to cure the default with due diligence, or is attempting to obtain the right to enter the Premises to cure the default.



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(g) Tenant shall execute a subordination, nondisturbance and attornment agreement for any first lien mortgage loan used to refinance and pay off the Loan; provided that the form of agreement required by the new mortgage lender shall be substantially the same as this Agreement.

6. **Effect of Assignment.** Notwithstanding that Landlord has made a present assignment of all of its rights under the Lease to Lender, Lender shall not be liable for any of the obligations of Landlord to Tenant under the Lease until Landlord has obtained possession of the Property by foreclosure or deed in lieu of foreclosure and then only to the extent provided in Section 2.

7. **Representations and Warranties.** Tenant represents and warrants to Lender that (I) the Lease constitutes the entire agreement between Landlord and Tenant relating to the Premises and the Property, (II) the Lease is in full force and effect, and has not been amended, modified, or assigned by Tenant, (III) no payments to become due under the Lease have been paid more than one (1) month in advance of the due date, (IV) Tenant has no present claim, offset or defense under the Lease and Tenant has no knowledge of any uncured default by Landlord under the Lease, (V) Tenant has no knowledge of any prior sale, transfer, assignment, hypothecation or pledge of Landlord's interest under the Lease or of the rents due under the Lease, and (VI) except as otherwise provided in the Lease, Tenant has made no agreements with Landlord concerning free rent, partial rent, rebate of rental payments, setoff, or any other type of rental concession.

8. **Costs and Attorney's Fees.** In the event of any claim or dispute arising out of this Agreement, the party that substantially prevails shall be awarded, in addition to all other relief, all attorney's fees and other costs and expenses incurred in connection with such claim or dispute; including without limitation those fees, costs and expenses incurred before or after suit and in any arbitration and any appeal, any proceedings under any present or future bankruptcy act or state receivership and any post-judgment proceedings.

9. **Notices.** All notices to be given under this Agreement shall be in writing and personally delivered or mailed, postage prepaid, certified or registered mail, return receipt requested, to Lender at the address indicated on the first page of this Agreement, and to Tenant at its address indicated below. All notices which are mailed shall be deemed given three (3) days after the postmark thereof. Either party may change their address by delivery of written notice to the other party.


10. **Miscellaneous.** This agreement may not be modified except in writing and executed by the parties hereto or their successors in interest. This agreement shall inure to the benefit of and be binding upon the parties hereto and their successors and assigns. As used herein, "**Landlord**" shall include Landlord's predecessors and successors in interest under the Lease, and "**Lender**" shall include any purchaser of the Property at any foreclosure sale. If any provision of this Agreement is determined to be invalid, illegal or unenforceable, such provision shall be considered severed from the rest of this Agreement and the remaining provisions shall continue in full force and effect as if such provision had not been included. This Agreement shall be governed by the laws of the State of Washington. This Agreement is to be recorded concurrently with the recording of the Deed of Trust and Tenant authorizes Lender or its agent to insert the appropriate recording number.



IN WITNESS WHEREOF, the parties execute this Agreement as of the day and year first
First above written.

"LENDER"

NORTH SOUND BANK, a Washington
Banking corporation


By: Gary E. Kuntz
Its: Vice President and Manager

"TENANT"

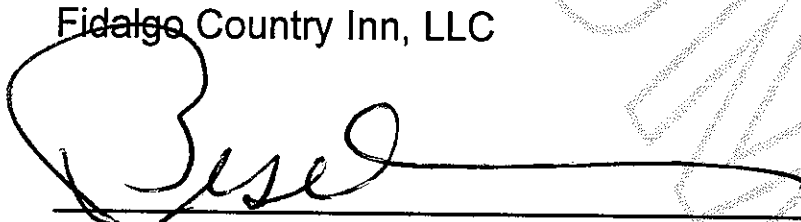
Fidalgo Inn Operating, LLC

By: Mark L. Raden
Commodore Motor Hotel, Inc. President

The undersigned Landlord hereby consents and agrees to the foregoing Subordination,
and Attornment Agreement.

'LANDLORD'

Fidalgo Country Inn, LLC


By: Richard D. Beselin, Agent
Auto Mall Associates, LLC

Commodore Motor Hotel, Inc.

By: Mark L. Raden, President



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Kathy Hill, Skagit County Auditor
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LENDER ACKNOWLEDGMENT

STATE OF Washington)
COUNTY OF Kitsap) SS



On this 27 day of January, 2000, before me, the undersigned Notary Public, personally appeared Gary Kuntz, and personally known to me or proved to me on the basis of satisfactory evidence to be the Vice President, 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 Kristi L. Sutton Residing at Bainbridge Island
Notary Public in and for the State of Washington My commission expires 9-6-2001

CORPORATE ACKNOWLEDGMENT

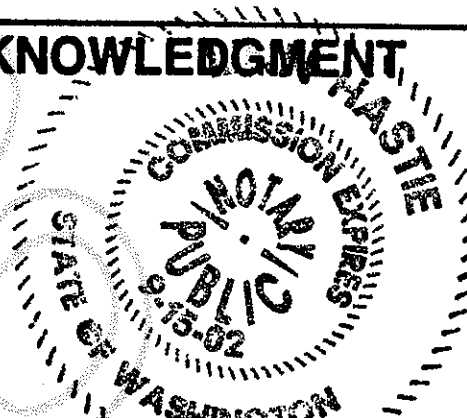
STATE OF _____)
COUNTY OF _____) SS

On this _____ day of _____, 20____, before me, the undersigned Notary Public, personally appeared **MARK L. RADEN, PRESIDENT of COMMODORE MOTOR HOTEL, INC.**, and personally known to me or proved to me on the basis of satisfactory evidence to be an authorized agent of the corporation that executed the Hazardous Substances Certificate and Indemnity Agreement and acknowledged the Agreement to be the free and voluntary act and deed of the corporation, by authority of its Bylaws or by resolution of its board of directors, for the uses and purposes therein mentioned, and on oath stated that he or she is authorized to execute this Agreement and in fact executed the Agreement on behalf of the corporation.

By _____ Residing at _____
Notary Public in and for the State of _____ My commission expires _____

LIMITED LIABILITY COMPANY ACKNOWLEDGMENT

STATE OF WA)
COUNTY OF Ingraham) SS



On this 28th day of Jan, 2000, before me, the undersigned Notary Public, personally appeared **RICHARD D. BESELIN, Manager of FIDALGO COUNTRY INN, LLC**, and personally known to me or proved to me on the basis of satisfactory evidence to be a member or designated agent of the limited liability company that executed the Hazardous Substances Certificate and Indemnity Agreement and acknowledged the Agreement to be the free and voluntary agreement, for the uses and purposes therein mentioned, and on oath stated that he or she is authorized to execute this Agreement and in fact executed the Agreement on behalf of the limited liability company.

By Linn Hastie Residing at Edmonds
Notary Public in and for the State of WA My commission expires 9-15-02

LIMITED LIABILITY COMPANY ACKNOWLEDGMENT

STATE OF _____)
COUNTY OF _____) SS

On this _____ day of _____, 20____, before me, the undersigned Notary Public, personally appeared **AUTO MALL ASSOCIATES LLC/RICHARD D. BESELIN, AGENT**, and personally known to me or proved to me on the basis of satisfactory evidence to be a member or designated agent of the limited liability company that executed the Hazardous Substances Certificate and Indemnity Agreement and acknowledged the Agreement 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 Agreement and in fact executed the Agreement on behalf of the limited liability company.

By _____ Residing at _____
Notary Public in and for the State of _____ My commis: _____



IN WITNESS WHEREOF, the parties execute this Agreement as of the day and year first
First above written.

"LENDER"

NORTH SOUND BANK, a Washington
Banking corporation

By: Gary E. Kuntz
Its: Vice President and Manager

"TENANT"

Fidalgo Inn Operating, LLC


By: Mark L. Raden
Commodore Motor Hotel, Inc. President


The undersigned Landlord hereby consents and agrees to the foregoing Subordination,
and Attornment Agreement.

'LANDLORD'

Fidalgo Country Inn, LLC

By: Richard D. Beselin, Agent
Auto Mall Associates, LLC

Commodore Motor Hotel, Inc.


By: Mark L. Raden, President



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LENDER ACKNOWLEDGMENT

STATE OF _____)

) SS

COUNTY OF _____)

On this _____ day of _____, 20____, before me, the undersigned Notary Public, personally appeared _____, and personally known to me or proved to me on the basis of satisfactory evidence 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 _____ Residing at _____

Notary Public in and for the State of _____ My commission expires _____

CORPORATE ACKNOWLEDGMENT

STATE OF Washington)

) SS

COUNTY OF King)

On this 28th day of January, 2000, before me, the undersigned Notary Public, personally appeared **MARK L. RADEN, PRESIDENT of COMMODORE MOTOR HOTEL, INC.**, and personally known to me or proved to me on the basis of satisfactory evidence to be an authorized agent of the corporation that executed the Hazardous Substances Certificate and Indemnity Agreement and acknowledged the Agreement to be the free and voluntary act and deed of the corporation, by authority of its Bylaws or by resolution of its board of directors, for the uses and purposes therein mentioned, and on oath stated that he or she is authorized to execute this Agreement and in fact executed the Agreement on behalf of the corporation.

By Cathryn Was Residing at Kent

Notary Public in and for the State of Washington My commission expires 09-09-01

LIMITED LIABILITY COMPANY ACKNOWLEDGMENT

STATE OF _____)

) SS

COUNTY OF _____)

On this _____ day of _____, 20____, before me, the undersigned Notary Public, personally appeared **RICHARD D. BESELIN, Manager of FIDALGO COUNTRY INN, LLC**, and personally known to me or proved to me on the basis of satisfactory evidence to be a member or designated agent of the limited liability company that executed the Hazardous Substances Certificate and Indemnity Agreement and acknowledged the Agreement 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 Agreement and in fact executed the Agreement on behalf of the limited liability company.

By _____ Residing at _____

Notary Public in and for the State of _____ My commission expires _____

LIMITED LIABILITY COMPANY ACKNOWLEDGMENT

STATE OF _____)

) SS

COUNTY OF _____)

On this _____ day of _____, 20____, before me, the undersigned Notary Public, personally appeared **AUTO MALL ASSOCIATES LLC/RICHARD D. BESELIN, AGENT**, and personally known to me or proved to me on the basis of satisfactory evidence to be a member or designated agent of the limited liability company that executed the Hazardous Substances Certificate and Indemnity Agreement and acknowledged the Agreement 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 Agreement and in fact executed the Agreement on behalf of the limited liability company.

By _____ Residing at _____

Notary Public in and for the State of _____ My commission expires _____



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**EXHIBIT A
TO
SUBORDINATION AND ATTORNMENT AGREEMENT**

Legal Description



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Exhibit 'A'

County of Skagit, State of Washington:

Lots 1 and 2, Skagit County Short Plat No. 90-45, recorded January 24, 1991, under Auditor's File No. 9101240033, records of Skagit County, Washington, according to the Plat recorded in Volume 9 of Short Plats, page 308; being a portion of the Northeast quarter of the Southwest quarter and Government Lot 3, Section 5, Township 34 North, Range 2 East, W.M.



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