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10
11 UNITED STATES BANKRUPTCY COURT
12 DISTRICT OF NEVADA
13

14 In re:
15
16 METHOD ART CORPORATION,
17
18 Debtors.

Case No. BK-N-12-50745-btb

**STIPULATION FOR ORDER FOR
INTERIM USE OF CASH COLLATERAL
AND ADEQUATE PROTECTION [6151
Lakeside Drive, Reno, Nevada]**

Hearing Date: N/A
Hearing Time: N/A

19 *This Stipulation for Interim Use of Cash Collateral and Adequate Protection*
20 (“Stipulation”) is entered into as of the date below by and between StanCorp Mortgage Investors,
21 LLC, an Oregon limited liability company (“SMI”), on its own behalf and as the authorized
22 representative of Standard Insurance Company, an Oregon corporation (“Standard”), Liberty
23 Life Assurance Company of Boston, a Massachusetts stock insurance corporation (“LL”),
24 Liberty Mutual Fire Insurance Company, a Massachusetts stock insurance corporation (“LF”),
25 Liberty Mutual Insurance Company, a Massachusetts stock insurance corporation (“LM”), and
26 Peerless Insurance Company, a New Hampshire corporation (“Peerless”) (Standard, LL, LF, LM
27 and Peerless are sometimes collectively referred to herein as “Lender”. SMI and Lender are
28 sometimes collectively referred to herein as “StanCorp”), by and through their counsel, Robison,
Belaustegui, Sharp & Low, and Method Art Corporation, a California corporation (“Debtor”), by

1 and through its counsel, Darby Law Practice, Ltd. (StanCorp and Debtor collectively the
2 “Parties”). The Parties hereby stipulate to the Court entering an order for interim use of cash
3 collateral and adequate protection and respectfully request the Court approve the same by entry
4 of an Order approving this Stipulation. The Parties hereby further stipulate and agree as follows:

5 1. As of the date of the Debtor filing bankruptcy, Debtor was indebted to Lender in
6 the total amount of at least \$901,693.45, plus reasonable attorneys’ fees, interest and costs which
7 continue to accrue (the “Indebtedness”).

8 2. The Indebtedness of the Debtor to Lender is evidenced by the following
9 documents (collectively the “Loan Documents”):

10 a. Note dated September 3, 2003 in the original amount of \$1,200,000.00
11 (the “Note”), attached hereto as **Exhibit 1**.

12 b. Deed of Trust, Assignment of Rents, Security Agreement and Fixture
13 Filing dated September 3, 2003 and recorded on September 17, 2003, as Document No.
14 2923127, Official Records, Washoe County, Nevada (the “Deed of Trust”), attached hereto as
15 **Exhibit 2**.

16 c. Assignment of Lessor’s Interest in Leases dated September 3, 2003 and
17 recorded on September 17, 2003 as Document No. 2923128, Official Records, Washoe County,
18 Nevada (the “Assignment of Leases”), attached hereto as **Exhibit 3**.

19 d. Certificate and Indemnity Agreement Regarding Hazardous Substances
20 dated September 3, 2003 (the “Indemnity”), attached hereto as **Exhibit 4**.

21 e. Tenant Estoppel Certificate dated August 13, 2003, attached hereto as
22 **Exhibit 5** (the “Tenant Estoppel”).

23 f. Borrower Warranty Letter dated September 3, 2003 (the “Borrower
24 Letter”) attached hereto as **Exhibit 6**.

25 g. Endorsement Form dated October 10, 2005 and Assignment of Beneficial
26 Interest in Deed of Trust and Related Loan Documents dated October 10, 2005, and recorded on
27 November 8, 2005, as Document No. 3304403, Official Records, Washoe County, Nevada
28 (collectively the “1st Assignment of Interest”), attached hereto as **Exhibit 7**.

1 h. Allonge Endorsement Form dated December 31, 2006 and Assignment of
2 Beneficial Interest in Deed of Trust and Related Loan Documents dated December 31, 2006, and
3 recorded on February 14, 2007, as Document No. 3497915, Official Records, Washoe County,
4 Nevada (collectively the "2nd Assignment of Interest"), attached hereto as **Exhibit 8**.

5 3. The Deed of Trust encumbers, among other things, the real property commonly
6 known as 6151 Lakeside Drive, Reno, Nevada 89511, APN 042-222-18 (the "Real Property").

7 4. In addition to the Real Property, the Deed of Trust also includes the assignment of
8 the following rights, contracts and interests of the Debtor, as well as the grant of a UCC Security
9 Interest in the following property of the Debtor: (a) all rents, income, contract rights, receipts,
10 proceeds, accounts receivable, payments, issues and profits now due or which may become due
11 under or by virtue of any lease, rental agreement or other contract, whether written or oral, for
12 the use or occupancy of the Real Property, or any part thereof, (b) all buildings and
13 improvements now or hereafter thereon, and all appurtenances, easements, rights in party walls,
14 water and water rights, pumps and pumping plants and all shares of stock evidencing the same;
15 (c) all fixtures and property now or hereafter attached to or used in the operation of the Real
16 Property; (d) all awards, compensation and settlements in lieu thereof made as a result of the
17 taking by power of eminent domain of the whole or any part of the Real Property; (e) all trade
18 names by which all or any part of the Real Property is known, any books and records relating to
19 the use and operation of all or any portion of the Real Property, all present and future plans and
20 specifications and contracts relevant to the design, construction, management or inspection of
21 any construction on any improvements on the Real Property and all present and future licenses,
22 permits, approvals and agreements with or from any municipal corporation, county, state or other
23 governmental or quasi-governmental entity relevant to the development, improvement or use of
24 all or any portion of the Real Property; and (f) all rights of Debtor in and to any escrow or
25 withhold agreements, surety bonds, warranties, management contracts, leasing or sales
26 agreements with any real estate agents or brokers, and service contracts with any entity, and all
27 rights of first refusal, options and rights of first offer or similar rights and options which are in
28 any way relevant to the development, improvement, leasing, sale or use of the Real Property or

1 any personal property located thereon; and (g) all rights of Debtor in and to all refunds, rebates,
2 reimbursements, governmentally registered credits (such as emissions reduction credits) or other
3 credits relating to any or all of the Real Property or the development thereof, and all the estate,
4 interest or other claim or demand, including insurance, in law as well as in equity, which Debtor
5 now has or may hereafter acquire, related to any of the property subject to the lien of the Deed of
6 Trust (collectively the "Personal Property").

7 5. The Indebtedness is absolutely and unconditionally owing from the Debtor to
8 Lender, without defense, offset or counterclaim.

9 6. By and through the Loan Documents, Lender has a first priority, properly
10 perfected lien in, on and to, among other things, the property specifically defined in the Deed of
11 Trust which includes, without limitation: (i) the Real Property; (ii) all existing and subsequently
12 erected or affixed buildings, improvements, fixtures and property now or hereafter attached to or
13 used in the operation of the Real Property; (iii) any and all other property interests and rights
14 related to the Real Property as more particularly described in the Deed of Trust; and (iv) the
15 Personal Property (hereinafter collectively referred to as the "Property").

16 7. Pursuant to Page 12 of the Deed of Trust and the Assignment of Leases, Lender
17 was assigned all the Debtor's right, title and interest in and to all present and future leases of the
18 Property and all rents, income, contract rights, receipts, proceeds, accounts receivable, payments,
19 issues and profits now due or which may become due under or by virtue of any lease, rental
20 agreement or other contract, whether written or oral, for the use or occupancy of the Real
21 Property, or any part thereof, together with all tenant security deposits, as more particularly
22 described therein, for the purpose of securing the Note and other obligations of Debtor to
23 Standard.

24 8. Lender has a properly perfected, first priority security interest in the Property.

25 9. Lender has designated and appointed SMI as its agent with respect to the Loan,
26 the Property, the Debtor and this bankruptcy proceeding.

27 10. On April 1, 2012, Debtor filed a Petition in this Court seeking relief under
28 Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code").

1 11. Lender’s properly perfected, first priority security interest in the Property includes
 2 a security interest in “cash collateral” as defined in Section 363(1) of the Bankruptcy Code,
 3 including a security interest in all of the Debtor’s post-petition accounts and funds, monies cash,
 4 deposit accounts and other cash equivalents within the meaning of Section 363(a) of the
 5 Bankruptcy Code (collectively the “Cash Collateral”).

6 12. At this time, Debtor requires additional funds in order to continue the ordinary
 7 course of its business as a debtor-in-possession pursuant and subject to the provisions of the
 8 Bankruptcy Code.

9 13. StanCorp hereby consents to the Debtor’s use of Cash Collateral in the ordinary
 10 course of business subject to the terms and provisions of this Stipulation and pursuant to an entry
 11 of an Order of this Court approving this Stipulation and granting Lender the liens, security
 12 interests, adequate protection and other treatment provided for herein (the “Cash Collateral
 13 Order”). The consent of StanCorp pursuant to this Stipulation is not and shall not under any
 14 circumstances be deemed (a) consent to any further or additional use of Cash Collateral, or (b)
 15 consent to any liability for any claims which are or may be asserted pursuant to Section 506(c) of
 16 the Bankruptcy Code. No person, firm or entity shall be authorized to collect Cash Collateral on
 17 behalf of Debtor without the prior written consent of StanCorp, and without such person’s, firm’s
 18 or entity’s written agreement to be bound by the terms of this Stipulation.

19 a. The Cash Collateral shall be used by Debtor for the following monthly
 20 operating expenses for the Property:

Operating Expense	Amount
Loan Payment (as hereinafter defined)	\$8,109.00
Escrow Payment (as hereinafter defined)	\$2,493.00
Insurance	\$375.00
Administrative	\$500.00
Cleaning	\$930.00
Building Repairs and Maintenance	\$1,027.00
Elevator Service	\$215.00

1	Ground Maintenance	\$715.00
2	Fire Alarm Services	\$395.00
3	Utilities Expense	\$2,000.00
4	Trash Removal	\$325.00
5	Pest Control	\$70.00
6	Total	\$17,154.00

7
8 b. Contemporaneously with the payment of the Adequate Protection Payment
9 (as hereinafter defined), Debtor shall deliver a report to Lender at the address set forth in
10 Paragraph 17, below, itemizing the operating expenses for the Property for the prior month.

11 14. Additionally, the Debtor stipulates and agrees that it shall not engage in any use
12 of the Property or sell, lease, hypothecate or transfer any of the Property other than in the
13 ordinary course of business without prior written consent of StanCorp or Order of the Court after
14 notice to StanCorp and a hearing. The Debtor stipulates and agrees that it shall keep insured and
15 properly care for the Property and that it shall designate StanCorp Mortgage Investors, LLC, or
16 its assigns, as sole loss payee on the insurance policy covering the Property.

17 15. In order to provide adequate protection for the interest of Lender in the Property,
18 the Debtor consents to the creation of and grants to Lender a post-petition replacement lien to the
19 extent of cash collateral used (the "Replacement Lien"), in the same priority as existed pre-
20 petition, upon all inventory, property, and accounts receivable of Debtor, whether such assets
21 were in existence prior to commencement of this case or have been acquired by Debtor after the
22 commencement of this case. The Replacement Lien shall: (1) secure the return of the Property,
23 including all cash and non-cash collateral, utilized by Debtor pursuant to this Stipulation; (2)
24 where such lien constitutes a first lien, have priority over any and all claims and expenses in this
25 case; and (3) be subordinate only to enforceable and perfected liens and security interests in
26 existence at the time this case was commenced with a priority senior interest of Standard. In
27 consenting to the creation of this lien, Debtor acknowledges that (a) the Property also shall
28 secure all financial obligations of Debtor incurred pursuant to this Stipulation, and (b) the
creation of the Replacement Lien shall not under any circumstances be deemed to be a waiver of

1 any of Lender's rights to request a lien on additional post-petition assets in any future extensions
2 or agreements with Debtor.

3 16. The Debtor shall not grant any liens on or security interests in any of its assets or
4 properties (including any real property, machinery, or equipment), whether under Section 364(d)
5 of the Bankruptcy Code or otherwise, other than pursuant to a stipulation with SMI and Lender,
6 or pursuant to an Order of the Bankruptcy Court.

7 17. As additional adequate protection for the Debtor's use of Cash Collateral, Debtor
8 stipulates and agrees to provide Lender through SMI with regular monthly adequate protection
9 payments payable to SMI as follows: (i) an amount equal to the amount of the regular monthly
10 payment due under the Note, which is currently \$8,109.00, and which amount is subject to
11 interest rate adjustments as set forth in the Note (the "Loan Payment"); plus (ii) an escrow
12 payment for taxes and assessments in the amount of \$2,493.00, which amount is subject to
13 adjustment should tax assessments change (the "Escrow Payment"). The Loan Payment and the
14 Escrow Payment are collectively referred to herein as the "Adequate Protection Payment". The
15 Adequate Protection Payment is currently \$10,602.00. Debtor shall deliver each of the Adequate
16 Protection Payments to Lender, c/o SMI, Attn: Loan Administration, 19225 NW Tanasbourne
17 Drive, 3rd Floor, Hillsboro, Oregon, 97124, throughout the term of the Cash Collateral Order.
18 The Adequate Protection Payments shall be made as set forth below:

19 a. Debtor shall continue to make timely Loan Payments, as required under
20 the Loan Documents; and

21 b. Debtor shall continue to make timely Escrow Payments as set forth in the
22 Loan Documents.

23 18. This Stipulation shall be effective immediately upon entry by the Court of the
24 Cash Collateral Order approving this Stipulation and shall continue to be effective until the
25 earliest of the following to occur: the conversion or dismissal of this case; the payment of the
26 Indebtedness in full; the confirmation of a plan of reorganization; a Court approved sale of the
27 Property and the full payment of the Indebtedness; mutual agreement of the Parties; or Order of
28 this Court (the "Termination Date"). Upon the Termination Date, this Stipulation and the Cash

1 Collateral Order shall expire automatically unless otherwise extended by the Parties or by
2 additional Order of the Court.

3 19. The Debtor stipulates and agrees that:

4 a. During the pendency of this case, Debtor shall not grant to any other
5 creditor holding a secured claim, adequate protection with the Property, except to the extent that
6 the lien of such creditor is presently prior to the lien of Lender, without either the consent of
7 Lender or an Order of the Court obtained by the Debtor after notice to StanCorp and a hearing;

8 b. The terms of this Stipulation are in its best interest and will not impose
9 undue hardship on the Debtor;

10 c. A check drawn against insufficient funds shall not constitute any payment;
11 and

12 d. SMI is authorized and allowed to send monthly billing statements to the
13 Debtor.

14 20. It shall be an event of default if any of the Adequate Payments due under the
15 terms of the Stipulation, which must be in good funds, are not received by SMI within five (5)
16 days after the due date specified in the Loan Documents. In the event of such default, SMI shall
17 transmit, or cause its counsel to transmit, a notice of such default by facsimile or email to the
18 Debtor's counsel and the Debtor shall have fifteen (15) days from the date such notice is
19 facsimiled or emailed to cure such payment default (the "Cure Period"). If the default is not
20 cured in its entirety within the Cure Period, or in the event of any default under this Stipulation:
21 (1) the Debtor's right to use Cash Collateral shall automatically terminate without further notice,
22 hearing or Order of the Bankruptcy Court, and (2) SMI shall file an Affidavit of Default and an
23 Order Terminating the Automatic Stay, and the Debtor shall be conclusively deemed to have
24 consented to such relief and waived any and all defenses to claims of StanCorp for possession of
25 the Property.

26 21. Nothing in this Stipulation shall prevent StanCorp from filing a motion seeking
27 modification or termination of the Order approving this Stipulation in the event of any material
28 adverse change in the financial condition or performance of the Debtor.

1 22. Nothing in this Stipulation shall prevent StanCorp from filing a motion seeking
2 the appointment of a Chapter 11 Trustee if SMI or Lender believes grounds exist or from filing a
3 motion seeking termination of the automatic stay at any time, including prior to the Termination
4 Date.

5 23. It shall be an event of default and StanCorp shall file an Affidavit of Default and
6 an Order Terminating the Stay, and the Debtor shall be conclusively deemed to have consented
7 to such relief, if:

8 a. Any of the Property is lost for any reason, including but not limited to,
9 auction by a mechanic or material man;

10 b. Any of the Property is rented, leased or sold in violation of the terms of
11 this Stipulation;

12 c. Insurance on any of the Property is cancelled or at any time SMI is not
13 designated as loss payee on such insurance;

14 d. The Debtor fails to timely pay all taxes relating to the Property as they
15 come due;

16 e. The Debtor at any time discontinues or is ordered to discontinue the
17 conduct of its business in the ordinary course;

18 f. The Debtor's case is converted to a Chapter 7 case under the Bankruptcy
19 Code;

20 g. A Trustee is appointed under any chapter of the Bankruptcy Code;

21 h. Any warranty, representation or statement contained in this Stipulation
22 made or furnished to Lender or SMI by or on behalf of Debtor in connection with this Stipulation
23 or to induce Lender or SMI to enter into this Stipulation proves to have been false in any material
24 respect when made or furnished;

25 i. Any material adverse change in Debtor's business, operations, prospects
26 or assets, or in the markets in which Debtor does business, or in the Property any of which may
27 jeopardize the adequate protection intended to be provided by this Stipulation; or
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1 j. The Debtor fails to pay any amount when due or perform any duty or
2 obligation under the terms of this Stipulation.

3 24. The replacement liens and security interests granted herein are valid, enforceable
4 and fully perfected, and no further filings or recordation or other act in accordance with any
5 applicable local, state or federal law, rule or regulation are necessary to create or perfect such
6 liens and security interests. Notwithstanding the above, the Debtor shall cooperate with Lender
7 and SMI to execute such documents and instruments and do such other things as Lender and SMI
8 reasonably request to evidence and perfect such replacement liens and security interests, and the
9 automatic stay is hereby modified to allow Lender and SMI to file such financing statements and
10 other documents as Lender and SMI may deem necessary to perfect the liens and security
11 interests granted herein.

12 25. The Debtor hereby forever releases, relieves, forgives and discharges any and/or
13 all pre-petition claims, demands, rights, causes of action, remedies and objections and avoidance
14 powers it has, may or claim to have against Lender and SMI, and any of their employees,
15 officers, directors, agents, representatives, attorneys and affiliates, whether known or unknown,
16 liquidated or unliquidated, matured or unmatured, arising at any time from the entry of the Loan
17 Documents and/or contracts and hereafter including, but not limited to, any and all claims,
18 demands, causes of action and/or remedies, rights and objections arising out of or in any way
19 related to: (i) the extension of credit by SMI or Lender to the Debtor; (ii) the Loan Documents
20 and/or contracts entered into by and between the Debtor and SMI/Lender; (iii) SMI and
21 Lender's lending or leasing relationship with the Debtor; and (iv) any and all pre-petition
22 conduct and/or representations of SMI, Lender or any of their employees, officers, directors,
23 agents, representatives, attorneys or affiliates.

24 26. This Stipulation is supplemental to and not in lieu of the Loan Documents and/or
25 other contracts between StanCorp and the Debtor.

26 27. This Stipulation shall be binding upon the Debtor and its respective successors
27 and assigns.

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28. This Stipulation shall not be modified or amended without the consent of StanCorp in writing or pursuant to an Order of the Court after notice to StanCorp and a hearing before the Court unless such hearing is waived by StanCorp.

29. This Stipulation is effective immediately upon entry by the Court of the Cash Collateral Order approving the same in the form attached hereto as **Exhibit 9**.

ROBISON, BELAUSTEGUI, SHARP &
LOW, a Professional Corporation

DARBY LAW PRACTICE, LTD.

By: /s/ Stefanie T. Sharp
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Attorneys for Debtor

Dated: June 12, 2012

Dated: June 12, 2012

Exhibit 1
Note

SIC Loan No. A3070704

NOTE

\$1,200,000.00

September 3, 2003

FOR VALUE RECEIVED, the undersigned ("Borrower"), jointly and severally, promises to pay in lawful money of the United States, to the order of **Standard Insurance Company, an Oregon corporation** ("Lender"), at its office in Portland, Oregon, or such other place as Lender may designate, the principal amount of a loan ("Loan") of **One Million Two Hundred Thousand and No/100ths Dollars (\$1,200,000.00)**, together with interest thereon, on the following agreements, terms and conditions.

1. **Payments.** Borrower shall make payments of principal and interest to Lender in **One Hundred Twenty (120)** equal monthly amounts of **Eight Thousand One Hundred Nine and No/100ths Dollars (\$8,109.00)** payable on the first day of each month, commencing with the first day of **November, 2003** ("First Payment Date"), together with such other sums as may become due hereunder or under any instrument securing this Note, until the entire indebtedness is fully paid, except that any remaining indebtedness if not sooner paid shall be finally due and payable on the first day of **October, 2013**, which is the maturity date of this Note ("Maturity Date"). Every payment received with respect hereto shall be applied, in any order that may be determined by Lender in its sole discretion, to sums under this Note, including, without limitation: (a) late charges; (b) expenses paid or funds advanced by Lender with interest thereon at the Default Rate when applicable (as hereinafter defined); (c) any prepayment fees due with respect to any payment and any other fees which may remain unpaid; (d) accrued interest on the principal balance from time to time remaining unpaid; and (e) subject to the prepayment provisions herein, the principal balance hereunder.

2. **Interest.** The interest included in the aforesaid payments, unless increased as otherwise provided in this Note, shall be calculated at the rate of **Five and Seven-Eighths percent (5.875%)** per annum ("Note Rate") upon the unpaid balance of principal of this Note. Borrower, jointly and severally, also promises to pay interest at the Note Rate from the date of disbursement of the Loan proceeds evidenced by this Note ("Disbursement Date") to the date from which interest is included in the first payment previously described.

3. **Prepayment Restrictions; Fees.** Borrower shall have the right to prepay, in full but not in part, the obligation evidenced by this Note upon giving Lender (i) not less than thirty (30) days' prior written notice of (a) Borrower's intention to so prepay this Note, and (b) the date upon which such prepayment will be received by Lender ("Prepayment Date"), and (ii) payment to Lender of the Prepayment Fee (as hereinafter defined), if any, then due to Lender as hereinafter provided.

- (a) As used herein, the term "Prepayment Fee" shall mean an amount which is the greater of
- (i) one percent (1%) of the outstanding principal balance of this Note at the time of prepayment or
 - (ii) the sum of
 - (A) the Present Value (as hereinafter defined) of the scheduled monthly payments due under this Note from the Prepayment Date to the Maturity Date and
 - (B) the Present Value of the amount of principal and interest due under this Note on the Maturity Date (assuming all scheduled monthly payments due prior to the Maturity Date were made when due), minus
 - (C) the outstanding principal balance of this Note as of the Prepayment Date.

The "Present Values" described in (A) and (B) shall be computed on a monthly basis as of the Prepayment Date discounted at a rate that is equal to the yield-to-maturity of the U.S. Treasury Note or Bond closest in maturity to the Maturity Date of this Note as reported in the Wall Street Journal (or, if the Wall Street Journal is no longer published, as reported in such other daily financial publication of national circulation which shall be designated by Lender) on the fifth (5th) business day preceding the Prepayment Date. Borrower shall be obligated to prepay this Note on the Prepayment Date set forth in the written notice to Lender required hereinabove, after such notice has been delivered to Lender.

- (b) Notwithstanding the foregoing or any other provision herein to the contrary, if Lender elects to apply insurance proceeds, condemnation awards, or any escrowed amounts, if applicable, to the reduction of the outstanding principal balance of this Note in the manner provided in the Deed of Trust, no Prepayment Fee shall be due or payable as a result of such application and the monthly installments due and payable hereunder shall be reduced accordingly.
- (c) In the event the Maturity Date is accelerated by Lender at any time due to a default by Borrower in the payment of principal and/or interest due under this Note or in the performance of the terms, covenants or conditions contained in this Note, the Deed of Trust or any of the other Loan Documents (as hereinafter defined), then a tender of payment in an amount necessary to satisfy the entire outstanding principal balance of this Note together with all accrued unpaid interest hereon made by Borrower, or by anyone on behalf of Borrower, at any time prior to, at, or as a result of, a foreclosure sale or sale pursuant to power of sale, shall constitute a voluntary prepayment

hereunder prior to the contracted Maturity Date of this Note thus requiring the payment to Lender of a Prepayment Fee equal to the applicable Prepayment Fee as set forth in paragraph (a) above; provided, however, that in the event such Prepayment Fee is construed to be interest under the laws of the State of Nevada in any circumstance, such payment shall not be required to the extent that the amount thereof, together with other interest payable hereunder, exceeds the maximum rate of interest that may be lawfully charged under applicable law.

- (d) Notwithstanding anything contained herein to the contrary, during the ninety (90) day period immediately preceding the Maturity Date of this Note, the entire outstanding principal balance and all accrued unpaid interest on this Note may be prepaid in whole, but not in part, at par, without incurring a Prepayment Fee.

4. **Waiver.** To the extent permitted by law, each and every Borrower, surety, guarantor, endorser or signator to this Note, in whatever capacity, hereby waives presentment, demand, protest, notice of dishonor and all other notices, and agrees that Lender may exercise its rights hereunder in any order and at any time, and may, without notice to or consent of any such person, and without in any way diminishing the obligations of any such person: (a) deal with any such person with reference to this Note by way of forbearance, extension, modification, compromise or otherwise; (b) extend, release, surrender, exchange, compromise, discharge or modify any right or obligation secured by or provided by the Deed of Trust securing this Note ("Deed of Trust") or any other instrument securing this Note; or (c) take any other action which Lender may deem reasonably appropriate to protect its security interest in the property securing this Note ("Property"). Any such action(s) taken under the preceding sentence may be taken against one, all, or some of such persons, and Lender may take any such action against one differently than another of such persons, in Lender's sole discretion.

5. **Default; Default Rate.** Time is material and of the essence hereof. Each of the following shall be an Event of Default under this Note: (a) failure to make any payment of principal and/or interest or any other payment required by the provisions of this Note or of any instrument securing this Note on the date such payment or payments are due; (b) failure to perform any other provision of this Note or of any instrument securing this Note; or (c) falsity in any material respect of the warranties in the Deed of Trust or of any representation, warranty or information furnished by Borrower or its agents to Lender in connection with the loan evidenced by this Note ("Loan"). Upon the occurrence of any Event of Default, any sum not paid as provided in this Note or in any instrument securing this Note, shall, at the option of Lender, without notice, bear interest from such due date at a rate of interest ("Default Rate") equal to four (4) percentage points per annum greater than the Note Rate, or the maximum rate of interest permitted by law, whichever is the lesser, and, at the option of Lender, the unpaid balance of principal, accrued interest, plus any other sums due under this Note, or under any instrument securing this Note shall at once become due and payable, without notice except as described in Paragraph 12, and shall bear interest at the Default Rate. If an Event of Default occurs during a period of time in which prepayment is permitted only on payment of a prepayment fee, such fee shall be computed as if the sum declared due on default were a prepayment and shall be added to the sums due and payable hereunder. The parties agree that, upon the occurrence of an Event of Default, interest is to be compounded as provided in this paragraph.

6. **Late Charges.** If any payment is not received by Lender (or by the correspondent if a correspondent has been designated by Lender to receive payments) within five (5) calendar days after its due date, Lender, at its option, may assess a late charge equal to five cents for each \$1.00 of each overdue payment or the maximum late charge permitted by the laws of the state in which the Property is located, whichever is less. Such late charge shall be due and payable on demand, and Lender, at its option, may (a) refuse any late payment or any subsequent payment unless accompanied by such late charge, (b) add such late charge to the principal balance of this Note or (c) treat the failure to pay such late charge as demanded as an Event of Default hereunder. If such late charge is added to the principal balance of this Note, it shall bear interest at the Default Rate.

7. **Acknowledgments Regarding Default Rate, Late Charges and Prepayment Fees.**

- (a) Borrower acknowledges and agrees that (i) a default in making the payments herein agreed to be paid when due will result in the Lender incurring additional expense in servicing the loan, loss to Lender of the use of the money due, and in frustration to Lender in meeting its other commitments, (ii) if for any reason it fails to pay any amounts due hereunder, Lender shall be entitled to damages for the detriment caused thereby, but that it is extremely difficult and impractical to ascertain the extent of such damages, and (iii) the Default Rate and the late charge described in this Note are a reasonable estimate of such damages.
- (b) Borrower acknowledges and agrees that (i) prepayment prior to the maturity date may result in loss to Lender, (ii) the amount of the loss will depend on the interest rates at the time of prepayment, the amount of principal prepaid and the length of time remaining between the prepayment date and the scheduled maturity date, (iii) prepayment is most likely to occur when interest rates have dropped below the Note Rate, and (iv) because it is extremely difficult and impractical to ascertain now the amount of loss Lender may suffer in the event of prepayment, (A) Lender shall be entitled to damages for the loss caused by prepayment and (B) the prepayment fee described in this Note is a reasonable measure of such damages. Borrower agrees that the prepayment fee described in this Note shall be imposed, to the extent permitted by law, whether the prepayment is voluntary, involuntary or by operation of law, in connection with an Event of Default, or required by Lender in connection with a transfer or contract to transfer the Property, provided that no prepayment fee shall be added to sums prepaid with casualty insurance proceeds or condemnation awards.
- (c) Borrower expressly (i) waives any right to prepay the loan evidenced hereby without payment of the prepayment fee described above in connection with a transfer or contract to transfer the Property by the undersigned, or a successor in interest of the undersigned, and (ii) agrees to pay such prepayment fee as provided above in connection with such a transfer or contract to transfer.

- (d) Borrower represents that it is a knowledgeable real estate investor and fully understands the effect of the fees, charges, waiver and agreement contained above. Borrower acknowledges and agrees that the making of the loan by Lender at the interest rate and with the other terms described herein is sufficient consideration for such fees, charges, waiver and agreement, and that Lender would not make this loan on these terms without such fees, charges, waiver and agreement.

8. **Expenses and Attorney Fees.** If Lender refers this Note to an attorney for collection or seeks legal advice following a default alleged in good faith under the Note; if Lender is the prevailing party in any litigation instituted in connection with the Note; or if Lender or any other person initiates any judicial or nonjudicial action, suit or proceeding in connection with the Note or the security therefor or if Lender becomes a party to any action to enjoin foreclosure or other legal proceedings instituted by Borrower, and an attorney is employed by Lender to (a) appear in any such action, suit or proceeding, or (b) reclaim, seek relief from a judicial or statutory stay, sequester, protect, preserve or enforce Lender's interest in the Note, the Deed of Trust, or any other security for the Note (including but not limited to proceedings at appellate levels, under federal bankruptcy law, in eminent domain, under probate proceedings, or in connection with any state or federal tax lien), then, in any such event, Borrower shall pay attorneys' fees and costs and expenses incurred by Lender and/or its attorneys in connection with the above-mentioned events and any appeals related to such events, including but not limited to costs incurred in searching records, the cost of title reports, the cost of appraisals, and the cost of surveyors' reports. If not paid within ten (10) days after such fees, costs and expenses become due and written demand for payment is made upon Borrower, such amount may, at Lender's option, be added to the principal of the Note and shall bear interest at the Default Rate.

9. **No Usury.** In no event shall any payment of interest or any other sum payable hereunder both (a) violate the usury laws of the state in which the Property is located and (b) allow Borrower to bring a claim for usury or raise usury as a defense in any action on this Note. If it is established that both (a) and (b) have occurred, and any payment exceeding lawful limits has been received, Lender shall refund such excess or, at its option, credit the excess amount to principal, but such payments shall not affect the obligation to make periodic payments required herein.

10. **Security.** The indebtedness evidenced by this Note is secured by the Deed of Trust of even date and may be secured by other security instruments.

11. **Due on Sale or Encumbrance.** As provided in the Deed of Trust securing this Note, and subject to any exceptions provided therein, transfers or encumbrances of the Property, or of ownership interests in Borrower, cause all sums evidenced by this Note and/or secured by the Deed of Trust or by any other Loan Document to become immediately due and payable. By signing this Note, Borrower acknowledges that Borrower has received and reviewed a copy of the Deed of Trust and is familiar with the provisions restricting the transfer of the Property and the ownership interests therein.

12. **Notice and Opportunity to Cure.** Notwithstanding any other provision of this Note, Lender shall not accelerate the sums evidenced hereby because of a nonmonetary default (defined below) by Borrower unless Borrower fails to cure the default within fifteen (15) days after Lender

mails or delivers written notice of the default to Borrower. For purposes of this Note, the term "nonmonetary default" means a failure by Borrower or any other person or entity to perform any obligation contained in this Note or any other document, or instrument evidencing or securing the Loan (collectively, "Loan Documents"), other than the obligation to make payments provided for in the Note or any other Loan Document. If a nonmonetary default is capable of being cured and the cure cannot reasonably be completed within the statutory cure period, the cure period shall be extended up to sixty (60) days so long as Borrower has commenced action to cure within the fifteen (15) day cure period, and in Lender's opinion, Borrower is proceeding to cure the default with due diligence. None of the foregoing shall be construed to obligate Lender to forbear in any other manner from exercising its remedies and Lender may pursue any other rights or remedies which Lender may have because of a default.

13. **Commercial Purpose.** The obligation evidenced by this Note is exclusively for commercial or business purposes.

14. **Governing Law.** The law of the state where the Property is located shall govern the validity, interpretation, construction and performance of this Note.

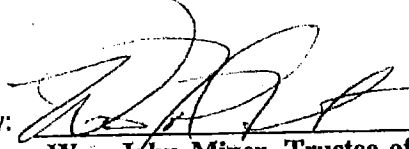
15. **Successors and Assigns.** Whenever used herein, the words "undersigned", "Borrower" and "Lender" shall be deemed to include their respective heirs, personal representatives, successors and assigns.

NOTICE TO THE BORROWER

DO NOT SIGN THIS NOTE BEFORE YOU READ IT. THIS NOTE PROVIDES FOR THE PAYMENT OF A FEE IF THE NOTE IS REPAYED PRIOR TO THE DATE PROVIDED FOR REPAYMENT IN THE NOTE AND OTHER CHARGES IF PAYMENTS ARE LATE. IF YOU HAVE ANY QUESTIONS ABOUT THIS NOTE, YOU SHOULD CONSULT YOUR ATTORNEY.

Method Art Corporation,
a California corporation

By: 
Wm. John Miner, President

By: 
Wm. John Miner, Trustee of the
Von Oppenheim Family Trust
u/d/t dated June 28, 1993, as
amended March 23, 1998


Wm. John Miner, Individually

Exhibit 2

Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing

OC # 2923127
09/17/2003 03:30P Fee:60.00
BK1
Requested By
FIRST AMERICAN TITLE
Washoe County Recorder
Kathryn L. Burke - Recorder
Pg 1 of 22 RPTT 0.00



Assessor's Parcel No.: 042-222-18

WHEN RECORDED RETURN TO:

StanCorp Mortgage Investors, LLC
920 SW SIXTH AVENUE
PORTLAND, OREGON 97204-1203

ATTN: Susan M. Deters, PSB11E

SIC LOAN NO. **A3070704**

**DEED OF TRUST, ASSIGNMENT OF LEASES AND RENTS, SECURITY
AGREEMENT AND FIXTURE FILING**

THIS DEED OF TRUST made this **September 3, 2003**, is among **Method Art Corporation**, a California corporation ("Trustor"), and **First American Title Insurance Company**, a California corporation ("Trustee"), and **Standard Insurance Company**, an Oregon corporation ("Beneficiary").

The Tax Account Numbers for the property subject to the lien of this instrument are/is: **042-222-18**.

Commonly known as: **6151 Lakeside Drive, Reno, Nevada, 89511**

Trustor irrevocably grants, bargains and sells to Trustee in trust, with power of sale, that property in the City of **Reno**, County of **Washoe**, State of **Nevada**, described as follows ("Real Property"):

Parcel 1 of Parcel Map No. 1867 for SOUTHWEST INVESTORS, according to the map thereof, filed in the office of the **Washoe County Recorder**, State of **Nevada** on **July 24, 1985** as **Document no. 1011330**.

Together with (a) all rents, income, contract rights, issues and profits now due or which may become due under or by virtue of any lease, rental agreement or other contract, whether written or oral, for the use or occupancy of the Real Property, or any part thereof, together with all tenant security

deposits, subject, however, to the right, power and authority hereinafter given to and conferred upon Trustor to collect and apply such rents, issues, income, contract rights, security deposits and profits prior to any default hereunder; (b) all Trustor's interests as the lessor in any leases or subleases; (c) all buildings and improvements now or hereafter thereon, and all appurtenances, easements, right in party walls, water and water rights, pumps and pumping plants and all shares of stock evidencing the same; (d) all fixtures and property now or hereafter attached to or used in the operation of the Real Property, including but not limited to machinery, equipment, appliances and fixtures for generating or distributing air, water, heat, electricity, light, fuel or refrigeration, or for ventilating or sanitary purposes, or for the exclusion of vermin or insects, or for the removal of dust, refuse or garbage, all wallbeds, wallsafes, built-in furniture and installations, shelving, lockers, partitions, door stops, vaults, elevators, dumbwaiters, awnings, window shades, venetian blinds, light fixtures, fire hoses and brackets and boxes for same, fire sprinklers, alarm systems, drapery rods and brackets, screens, linoleum, carpets, plumbing, laundry tubs and trays, ice boxes, refrigerators, heating units, stoves, water heaters, incinerators, communication systems and all installations for which any such building is specifically designed; (e) all awards, compensation and settlements in lieu thereof made as a result of the taking by power of eminent domain of the whole or any part of the Real Property; (f) all trade names by which all or any part of the Real Property is known, any books and records relating to the use and operation of all or any portion of the Real Property, all present and future plans and specifications and contracts relevant to the design, construction, management or inspection of any construction on any improvements on the Real Property and all present and future licenses, permits, approvals and agreements with or from any municipal corporation, county, state or other governmental or quasi-governmental entity relevant to the development, improvement or use of all or any portion of the Real Property; and (g) all rights of Trustor in and to any escrow or withhold agreements, surety bonds, warranties, management contracts, leasing or sales agreements with any real estate agents or brokers, and service contracts with any entity, which are in any way relevant to the development, improvement, leasing, sale or use of the Real Property or any personal property located thereon; and all of said items whether now or hereafter installed being hereby declared to be, for all purposes of this Deed of Trust, a part of the realty; and all the estate, interest or other claim or demand, including insurance, in law as well as in equity, which Trustor now has or may hereafter acquire, in and to the aforesaid property; the specific enumerations herein not excluding the general. The Real Property and all of the foregoing shall constitute the "Property". All of the foregoing Property, however, does not include any Gaming device as defined in NRS 463.0155, or any rents, issues, profits, income, or revenue the receipt of which would require a gaming license under Chapter 463, Nevada Revised Statutes.

This Deed of Trust is made for the purpose of securing, in such order of priority as Beneficiary may elect: (a) payment of the indebtedness in the sum of **\$1,200,000.00** evidenced by that certain Note of even date herewith ("Note") the signers of which are hereinafter collectively referred to as "Borrower", delivered to Beneficiary and payable to its order, with final payment due on the **1st day of October, 2013**, which is the maturity date of this Deed of Trust, and any and all modifications, extensions or renewals thereof, whether hereafter evidenced by the Note or otherwise; (b) payment of interest on said indebtedness according to the terms of the Note; (c) payment of all other sums, with interest as herein provided, becoming due and payable under the provisions hereof to Trustee or Beneficiary; (d) performance of each and every condition, obligation, covenant, promise and



agreement of Trustor contained herein, or in the Note, or in any loan agreement relative to any indebtedness evidenced by the Note ("Loan"), or in any security agreement or deed of trust at any time given to secure any indebtedness hereby secured or any part thereof; and (e) payment of such additional sums with interest thereon as may be hereafter advanced by or borrowed from the Beneficiary, its successors or assigns, by the then record owner or owners of the Property when evidenced by another promissory note or notes which are by the terms thereof secured by this Deed of Trust. To the extent permitted by law, any sums hereafter advanced by or borrowed from Beneficiary, its successors or assigns, shall have the same priority as the original sums advanced by Beneficiary and secured hereby.

Trustor's Covenants and Warranties. Trustor hereby warrants that: (a) Trustor is the owner in fee simple absolute of the Property and every part thereof; (b) the Property is free, and will be kept free, from all liens and encumbrances, except those accepted by Beneficiary in writing, and Trustor will defend the title hereby granted to and in favor of Trustee and Beneficiary as against all and every person claiming or to claim the same; (c) the loan proceeds are not for use primarily for personal, family or household purposes; (d) to the best of Trustor's knowledge after due inquiry into previous ownership and use of the Property, there are no Hazardous Substances (as defined below) located on the Property and Trustor will not place or permit to be placed on the Property any Hazardous Substances (as defined below), except in minor quantities as necessary for the operation and maintenance of the Property, used and stored in accordance with applicable law, or in the form of consumer products held for retail sale in sealed containers; (e) the Property is zoned for the existing or contemplated use of the Property; (f) the Property is in compliance with all zoning, subdivision, and environmental laws, regulations, and ordinances applicable thereto; all deed restrictions, subdivision and building ordinances and other applicable governmental laws (including the Fair Housing Act and the Americans With Disabilities Act, as each is amended from time to time) have been fully complied with; and Trustor has all licenses and permits required by governmental authorities with respect to the Property, its operation, improvement and use; (g) the Property has indefeasible access to public rights of way as now improved and open to public passage, and is not encroached upon by improvements or rights of others, nor do the improvements on the Property encroach upon the property of others; (h) there are no actions, lawsuits, or other proceedings pending or threatened against or affecting the Property or Borrower which might adversely affect the ability of Borrower to perform its obligations under the Note or other documents which evidence or secure the Loan (collectively "Loan Documents"), or which might adversely affect the priority of Beneficiary's first lien on the Property; (i) consummation of the loan secured hereby and performance under the loan documents will not conflict with or result in a breach of any law, regulation or court order applicable to Borrower or the Property; (j) no condemnation proceeding is pending or, to the knowledge of Trustor, threatened with respect to the Property; (k) there has been no material adverse change in the financial condition of Trustor or Borrower which might adversely affect the ability of Trustor or Borrower to perform its obligations under the loan documents, or which might adversely affect the priority of Beneficiary's first lien on the Property; (l) all services and utilities, such as water, electricity and sewer, are available to the Property; and (m) with respect to each Trustor who is an individual, no part of the Property constitutes any part of Trustor's business homestead or residential homestead. As used in this Deed of Trust, Hazardous Substances means: (a) any "hazardous waste" as defined in the Resource Conservation and Recovery Act of 1976 (42 U.S.C. § 6901 et seq.), as amended from time to time, and regulations



promulgated thereunder, (b) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. § 9601 et seq.), as amended from time to time, and regulations promulgated thereunder; (c) radon, asbestos, polychlorinated biphenyls (PCB's), explosives, radioactive substances, and material quantities of petroleum products; (d) any substance the presence of which on the Property is regulated by any federal, state or local law relating to the protection of the environment or public health including but not limited to the substances defined in NRS 40.504; and (e) any other substance which by law requires special handling in its collection, storage, treatment or disposal.

A. Trustor agrees as follows:

1. **Payment of Indebtedness; Performance of Covenants.** Trustor shall pay each and every installment of principal and interest on the Note and all other indebtedness secured hereby, as and when the same shall become due, and perform and observe all of the covenants, agreements and provisions contained herein, in the Note and any other instrument given as security for the payment of the Note.

2. **Maintenance; Compliance; Inspection.** Trustor shall: keep the Property in good condition and repair; not permit or suffer any extraordinary repairs or removal or demolition of, or a structural change in any building, fixture, equipment, or other improvement on the Property; comply with all laws, ordinances, regulations, covenants, conditions and restrictions affecting the Property or requiring any alteration or improvements to be made thereon (including the Fair Housing Act and the Americans With Disabilities Act, as each is amended from time to time); not commit or permit waste thereon; not commit, suffer or permit any act upon the Property in violation of law; cultivate, irrigate, fertilize, prune and do all other acts which from the character or use of the Property may be reasonably necessary, the specific enumeration herein not excluding the general; and keep the Property free from all encumbrances, except those accepted by Beneficiary in writing. Trustor shall permit Beneficiary, or its agents, upon reasonable prior notice, to inspect the Property, including the interior of any structure.

3. **Hazardous Waste and Substances; Environmental Requirements.**

(a) Trustor shall comply with all laws, governmental standards and regulations applicable to Trustor or to the Property in connection with occupational health and safety, Hazardous Substances, and environmental matters. Trustor shall promptly notify Beneficiary of its receipt of any notice of (i) a violation of any such law, standard or regulation; (ii) all claims made or threatened by any third party against Trustor or the Property relating to any loss or injury resulting from any Hazardous Substances; and (iii) Trustor's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Property that could cause the Property or any part thereof to be subject to any restrictions on the ownership, occupancy, transferability or use of the Property under any environmental law. The use, generation, storage, release, threatened release, discharge, disposal or presence on, under or about the Property of Hazardous Substances by Trustor, Trustor's agents, or any tenant or sublessee



occupying part or all of the Property, except in minor quantities as necessary for the operation and maintenance of the Property, used and stored in accordance with applicable law, or in the form of consumer products held for retail sale in sealed containers, shall be an event of default under this Deed of Trust, and Trustor shall not engage in or permit such activities or events to occur upon the Property.

- (b) Trustor shall indemnify and hold Beneficiary, its directors, officers, employees, agents, successors and assigns harmless from all loss, cost, damage, claim and expense (including attorneys' fees and costs, whether at trial, on appeal or otherwise) incurred by Beneficiary in connection with the falsity in any material respect of the covenants contained herein or of Trustor's failure to perform the obligations of this paragraph 3.
- (c) Beneficiary may enter upon and inspect the Property for the purpose of determining the existence, location, nature and magnitude of any past or present release or threatened release of any hazardous substance into, onto, beneath or from the Property. Any costs incurred by Beneficiary in obtaining the appointment of a receiver and performing the inspections, including reasonable attorneys' fees, shall be paid by Trustor. If not paid within ten (10) days after such fees, costs and expenses become due and written demand for payment is made upon Trustor, such amount may, at Beneficiary's option, be added to the principal balance of the Note ("Principal Balance") and shall bear interest at the Default Rate.

4. Building Laws.

- (a) Trustor shall comply with all federal, state and local laws, statutes, regulations, ordinances and requirements, now or hereafter in effect, applicable to the ownership, development or operation of the Property, including all building, zoning, planning, subdivision, fire, traffic, safety, health, labor, air quality, wetlands, shoreline and flood plain laws, statutes, regulations, ordinances and requirements, and specifically all applicable requirements of the Fair Housing Act of 1968, and the Americans With Disabilities Act of 1990, and all government and private covenants, conditions and restrictions applicable to the Property, all as now or hereafter amended (hereinafter "Building Laws").
- (b) Trustor has duly investigated the condition of all buildings and other improvements on the Property and been advised of all Building Laws applicable to the Property. Upon Beneficiary's request, Trustor will provide Beneficiary with a written summary of its investigations and copies of all inquiries and responses.
- (c) Trustor has no knowledge of any failure of the Property to comply with all currently applicable Building Laws. Trustor shall cause the Property to be continuously in compliance with all Building Laws and agrees to provide Lender, within thirty (30) days after a written demand by Lender, satisfactory evidence of such compliance. Trustor warrants the Property is the only real property or interest in real property



required to operate the Property in compliance with all Building Laws, except as otherwise disclosed to Lender in writing. All certificates of occupancy and other governmental permits and approvals necessary for the occupancy of the Property have been obtained. All buildings and other improvements currently located on the Property are located outside a 100-year flood plain, or are covered by adequate flood insurance.

- (d) Trustor warrants that all buildings, structures and other improvements to be built or constructed on the Property shall be constructed in accordance with and shall fully comply with all applicable Building Laws and shall be located outside of any 100-year flood plain or will be continuously covered by adequate flood insurance. With respect to all buildings or improvements to the Property, if any, to be constructed and paid for with Loan proceeds, Trustor represents and warrants no changes to the plans and specifications for such buildings or improvements, submitted to and approved by Beneficiary have been required by governmental authorities, and all permits necessary to construct such buildings and improvements have been issued on the basis of the plans and specifications submitted to and approved by Beneficiary.
- (e) Trustor will immediately notify Beneficiary if Trustor receives notice or otherwise becomes aware of (i) any lien, action or notice resulting from the violation of any Building Laws, or (ii) the Property being in violation of any applicable Building Law. At its own cost, Trustor will take all actions which are necessary or desirable to cause the Property to be in compliance with any applicable Building Law. Any notice sent to Beneficiary pursuant to this paragraph will describe with particularity any actual, potential or alleged violation of Building Laws and shall contain Trustor's plans or recommendations for correcting the violations.
- (f) Trustor shall indemnify, defend and hold Beneficiary harmless from and against any and all claims, demands, damages, losses, liens, liabilities, penalties, fines, lawsuits and other proceedings and costs and expenses (including attorneys' fees and disbursements, whether incurred at trial, on appeal or otherwise, and architectural, engineering and accounting costs and all repair costs) which accrue to or are made against or incurred by Beneficiary, or are in any way connected with (a) the inaccuracy of any of the certifications, representations or warranties of Trustor contained in this paragraph A.4, (b) any activities on the Property during Trustor's ownership, possession or control of the Property which directly or indirectly result in the Property being in violation of any applicable Building Laws, or (c) any breach by Trustor of any of its covenants or agreements set forth in this paragraph A.4.

5. **Casualty Loss/Restoration Construction.** Unless Beneficiary determines, pursuant to the provisions in paragraph B.1., to apply the insurance proceeds to the reduction of the indebtedness, Trustor shall promptly commence and diligently pursue to completion the repair, restoration and rebuilding of any portion of the Property that has been partially damaged or destroyed in full compliance with all legal requirements and to the same condition, character and at least equal value and general utility as nearly as possible to that existing prior to such damage or destruction. Trustor



further agrees: to complete same in accordance with plans and specifications satisfactory to Beneficiary, to allow Beneficiary to inspect the Property at all times during construction and to replace any work or materials unsatisfactory to Beneficiary within fifteen (15) days after notice from Beneficiary of such fact. If said work upon the construction or restoration of the building or buildings shall be discontinued for a period of fifteen (15) days, Beneficiary may, at its option, also enter into and upon the Property and complete the construction or restoration of said building or buildings. Trustor hereby gives to Beneficiary full authority and power to make such entry and to enter into such contracts or arrangements as may be necessary to complete or restore said building or buildings and all monies expended by Beneficiary in connection with such completion or restoration shall be added to the principal theretofore advanced under the Note and secured by these presents and shall be payable by Trustor on demand with interest as provided in the Note.

Trustee, upon presentation to it of an affidavit signed by Beneficiary setting forth facts showing a default by Trustor under this numbered paragraph or under any other provision of this Deed of Trust, is authorized to accept as true and conclusive all facts and statements therein, and to act thereon hereunder.

6. Insurance.

- (a) **Property and Other Insurance.** Trustor shall obtain and maintain in full force and effect during the term of this Deed of Trust such insurance as Beneficiary may reasonably require from time to time by notice to Trustor, including, without limitation, insurance providing (i) protection against fire, extended coverage and other all risk perils, including flood (where required) and other coverage as deemed appropriate by Beneficiary from time to time, with endorsements for waiver of subrogation, replacement cost coverage, inflation adjustment, and vandalism and malicious mischief coverage, all in amounts not less than the full replacement cost of all improvements including the cost of debris removal, (ii) comprehensive general public liability coverage with a broad form coverage endorsement with limits of \$2,000,000 for aggregate liability and a single limit of \$1,000,000, and (iii) business interruption and/or rent loss insurance (equal to twelve (12) months annualized income). If any portion of the fire and other risks insured as provided herein are reinsured, the policies shall contain a so-called "cut-through" endorsement.
- (b) **Insurance Companies and Policies.** All such insurance shall be written by a company or companies acceptable to Beneficiary with an A- or better rating by A.M. Best Company, Inc. The policies described in paragraphs 6a(i) and (iii) above shall contain (i) a standard Beneficiary clause naming Beneficiary as the first Beneficiary with loss proceeds under the policies payable to Beneficiary, and (ii) a waiver of subrogation endorsement as to Beneficiary. The policy described in paragraph 6a(ii) above shall name Beneficiary as an additional named insured, and the policy described in paragraph 6a(iii) above shall provide that all proceeds be payable to Beneficiary. Each policy described above shall provide for a thirty (30) day notice of cancellation or modification, shall be satisfactory to Beneficiary as to form and substance, and shall



contain endorsements that no act or negligence of Trustor or any occupant, and no occupancy or use of the Property for purposes more hazardous than permitted by the terms of the policy will affect the validity or enforceability of such insurance as against Beneficiary. If any portion of the fire and other risks insured as provided herein are reinsured, the policies shall contain a so-called "cut-through" endorsement. Each policy shall be in full force and effect as of the date of this Deed of Trust, shall contain such additional provisions as Beneficiary deems necessary or desirable to protect its interest, and shall be accompanied by proof of premiums paid for the current policy year. All such insurance shall be written in amounts sufficient to prevent Trustor from becoming a co-insurer under the applicable policies. Trustor shall provide a **Standard ACORD Form 27 Evidence of Insurance Certificate** to Beneficiary thirty (30) days prior to any policy expiration date or in the event any policy is modified or canceled.

- (c) **Blanket Policy.** If a blanket policy is issued, Trustor shall furnish Beneficiary with a certified copy of said policy, together with a certificate indicating that Beneficiary is the insured under said policy in the proper designated amount.
- (d) **Notice of Loss.** In the event of loss, Trustor shall immediately notify Beneficiary. Beneficiary may make proof of loss if it is not made promptly by Trustor.
- (e) **Insurance Obtained by Third Party.** If insurance is provided to Beneficiary by a tenant or any party other than Trustor, there is a lapse in coverage, coverage is not with a company acceptable to Beneficiary with an A Category or better rating, coverage is not in an amount equal to the full replacement value of the improvements, or coverage does not in any other way meet conditions required by Beneficiary, Trustor will provide coverage within thirty (30) days of being notified by Beneficiary of any inadequacy in coverage. If Beneficiary does not receive proof of such coverage within thirty (30) days, Beneficiary will force place insurance until proof of coverage which meets the conditions of the loan is received. Premiums for this force place coverage are at rates higher than Trustor could obtain, and payment will be the responsibility of Trustor, provided that at Beneficiary's sole option, Beneficiary may add the cost of such premiums to the principal balance of the Loan.

7. **Defense.** Trustor shall appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or of Trustee and shall pay all costs and expenses, including cost of evidence of title and attorneys' fees in a reasonable sum, in any such action or proceeding, or appeal therefrom, in which Beneficiary or Trustee may appear.

8. **Taxes and Assessments.** Trustor shall pay, at least ten (10) days before the due date (and, in the case of annual property taxes, before the first installment thereof becomes due), all taxes and assessments affecting the Property or upon this Deed of Trust or the debt secured thereby, or against Beneficiary by reason of the ownership of this Deed of Trust and the Note, or either of them, including assessments on appurtenant water stock. Trustor shall also pay, when due, all encumbrances, charges and liens, with interest, on the Property or any part thereof, which appear to be



prior or superior hereto and shall deliver to Beneficiary upon request the official receipt or receipts showing payment thereof, and shall pay all costs, fees and expenses of this Deed of Trust.

9. **Monthly Deposits.** Unless this covenant is prohibited by law or waived in writing by Beneficiary, Trustor shall pay each year to Beneficiary, together with and in addition to the monthly payments of principal and interest payable under the terms of the Note, until the Note is fully paid, in equal monthly installments, the estimated amount of the annual property taxes, assessments, insurance premiums and similar charges next payable, as estimated by Beneficiary. If at any time Beneficiary determines that such payments will not be sufficient to account for each such charge on its due date (and in the case of annual property taxes, on the due date of the first installment thereof), Trustor shall pay to Beneficiary, upon demand, additional sums as necessary to account for such deficiency. Beneficiary may retain the sums received under this paragraph A.9 and apply them to such charges when they (and in the case of annual property taxes, the first installment thereof) become due. Sums received shall not earn interest and may be commingled with other funds of Beneficiary. If Beneficiary is required by law to pay interest on these sums, Beneficiary may, to the extent permitted by law, impose a charge for holding and disbursing such funds. In the event of a default under the Note, this Deed of Trust or any other instrument securing the Note, Beneficiary may apply the sums required under this paragraph A.9 (without prepayment fee and without limiting the privilege, if any, to prepay any amounts secured hereby) first to accrued interest and then to the principal balance secured hereby. As an additional covenant hereof, and in any event if the foregoing provision for prepayment is at any time prohibited by law, or waived in writing by Beneficiary, or Trustor fails to make payments in the full amount required under this paragraph A.9, Trustor shall pay such charges when they (and in the case of annual property taxes, the first installment thereof) are due and, upon demand, provide Beneficiary with satisfactory evidence of payment and coverage.

10. **Leases.** Trustor shall fully perform all the terms and conditions on Trustor's part to be performed in any existing or future lease with respect to which Trustor is lessor covering all or a portion of the Property. Trustor shall not, without the prior consent of Beneficiary, terminate, cancel or accept the surrender of, or suffer or permit the termination, cancellation or surrender of such lease, except upon the expiration of the term thereof, or materially modify or alter, or suffer or permit the material modification or alteration of such lease. Trustor further covenants and agrees not to enter into any lease for a term in excess of three (3) years for fifteen percent (15%) or more of the net rentable area of the Property without the prior written consent of Beneficiary.

11. **Fees for Information.** Trustor shall pay Beneficiary, to the extent permitted by law, a reasonable fee, as determined by Beneficiary, for providing to Trustor or a third party a statement concerning the obligations secured by this Deed of Trust or any other information requested by Trustor or the third party.

12. **Security Agreement**

(a) **Grant of Security Interest.** With respect to any portion of the Property which constitutes personal property or fixtures governed by the Uniform Commercial Code of the State of Nevada ("Code"), this Deed of Trust shall constitute a security agreement



between Trustor as Debtor and Beneficiary as Secured Party, and Trustor hereby grants to Beneficiary a security interest in such portion of the Property. Cumulative of all other rights of Beneficiary hereunder, Beneficiary shall have all of the rights conferred upon secured parties by the Code. Trustor shall execute and deliver to Beneficiary all financing statements that may from time to time be required by Beneficiary to establish and maintain the validity and priority of the security interest of Beneficiary, or any modification thereof, and shall bear all costs and expenses of any searches reasonably required by Beneficiary.

- (b) Rights of Beneficiary. Beneficiary may exercise any or all of the remedies of a secured party available to it under the Code with respect to such property, and it is expressly agreed that if, upon default, Beneficiary shall proceed to dispose of such property in accordance with the provisions of the Code, ten (10) days' written notice by Beneficiary to Trustor shall be deemed to be reasonable notice under any provision of the Code requiring such notice; provided, however, that Beneficiary may, at its option, dispose of such property in accordance with Beneficiary's rights and remedies with respect to the real property pursuant to the provisions of this Deed of Trust, in lieu of proceeding under the Code.
- (c) Change in Trustor's Name. Trustor shall give advance notice in writing to Beneficiary of any proposed change in Trustor's name, identity, or corporate structure and shall execute and deliver to Beneficiary, prior to or concurrently with the occurrence of any such change, all additional financing statements that Beneficiary may require to establish and maintain the validity and priority of Beneficiary's security interest with respect to any Property described or referred to herein.
- (d) Fixture Filing. With respect to those items of the Property that are or will become fixtures upon the Property, this Deed of Trust shall be effective as a financing statement filed as a fixture filing from the date of its filing for record in the real estate records of the county in which the Property is situated. Information concerning the security interest created by this instrument may be obtained from Beneficiary, as Secured Party, at the address of Beneficiary stated below. The mailing address of Trustor, as Debtor, is as stated below.

13. **Restrictive Uses.** Trustor shall not, without Beneficiary's prior written consent, change the general nature of the occupancy of the Property, initiate, acquire or permit any change in any public or private restrictions (including without limitation a zoning reclassification) limiting the uses which may be made of the Property, or take or permit any action which would impair the Property or Beneficiary's lien or security interest in the Property.

14. **Changes In Use.** If Trustor, Borrower or a related entity or person occupies or leases the Property, Trustor shall make no change in the use or occupancy of the Property or otherwise limit the uses which may be made of the Property without Beneficiary's prior written consent.



B. It is mutually agreed that:

1. **Application of Insurance or Condemnation Proceeds.** All sums paid under any insurance policy or condemnation award shall be paid to the Beneficiary. Beneficiary agrees to allow the use of sums paid for repair and reconstruction of the Property provided:

- (a) there exists no default or other event which with the passing of time or the giving of notice or both would constitute a default under the Note or this Deed of Trust;
- (b) all proceeds and additional funds deposited by the Trustor with Beneficiary prior to the commencement of any repair or reconstruction are adequate, as determined by Beneficiary, to complete repair and reconstruction of the Property pursuant to plans and specifications approved by Beneficiary;
- (c) if, in Beneficiary's determination, the loan to value ratio, upon completion of repair or restoration, will exceed seventy-five percent (75%), the balance due on the Note shall be reduced to an amount which, reduces the loan to value ratio, as calculated by Beneficiary, to no more than seventy-five percent (75%). In such a case, the remaining monthly payments of principal and interest may be adjusted to amortize the reduced principal balance over the remaining term of the Loan, at Beneficiary's discretion. Any amount prepaid under this provision may be paid without a prepayment fee, provided however, any additional amount Trustor desires to prepay, if any, shall be subject to applicable prepayment fees.
- (d) disbursement procedures acceptable to Beneficiary are in place;
- (e) Beneficiary shall have received acceptable estoppels, consents and assurances from municipal authorities, tenants in the Property, and others, as Beneficiary may request; and
- (f) Beneficiary has received evidence satisfactory to it, that reconstruction and/or repair can be completed at least three (3) months prior to the date the Note secured by this Deed of Trust is due and payable.

If the above conditions are not satisfied as to the application of the proceeds or any awards, Beneficiary shall apply the same (after first deducting therefrom Beneficiary's reasonable expenses incurred in collecting the same, including but not limited to reasonable attorneys' fees) to the reduction of the outstanding principal balance of the Loan ("Principal Balance") without a prepayment fee or to payment of the restoration, repair, replacement or rebuilding of the property that is damaged, destroyed or taken in such manner as Beneficiary may determine.

If any proceeds are applied to the reduction of the Principal Balance, the remaining monthly payments of principal and interest will be reduced to amortize the reduced Principal Balance over the remaining amortization period of the Loan.



2. **Non-Waiver.** No waiver of any default on the part of Trustor or breach of any of the provisions of this Deed of Trust or of any other instrument executed in connection with the indebtedness secured hereby shall be considered a waiver of any other or subsequent default or breach, and no delay or omission in exercising or enforcing the rights and powers herein granted shall be construed as a waiver of such rights and powers, and likewise no exercise or enforcement of any rights or powers hereunder shall be held to exhaust such rights and powers, and every such right and power may be exercised from time to time.

3. **Reconveyance.** Upon written request of Beneficiary stating that all sums secured hereby have been paid, and upon surrender of this Deed of Trust and the Note to Trustee for cancellation and retention and upon payment of its fees, Trustee shall reconvey, without warranty, the property then held hereunder. The recitals in such reconveyance of any matter or facts shall be conclusive proof of the truthfulness thereof. The grantee in such reconveyance may be described as "the person or persons legally entitled thereto."

4. **Assignment of Leases and Rents.** Trustor hereby absolutely and unconditionally assigns its interest as the lessor in any leases, subleases and the rents, income, issues and profits of the Property and hereby gives to and confers upon Beneficiary the right, power and authority, during the continuance of this Deed of Trust, to collect the rents, income, issues and profits of the Property, reserving unto Trustor the right, prior to any default by Trustor in payment of any indebtedness secured hereby or in performance of any agreement hereunder, to collect and retain such rents, income, issues and profits as they become due and payable. Upon any such default, Beneficiary may, at any time, without notice, either in person, by agent, or by a receiver to be appointed by a court, and without regard to the adequacy of any security for the indebtedness hereby secured, the solvency of Trustor, or the presence of waste or danger of loss or destruction of the Property, enter upon and take possession of the Property, or any part thereof, and any personal property in which Beneficiary has a security interest as additional security for the indebtedness secured by this Deed of Trust, and may, in its own name, sue for or otherwise collect such rents, income, issues and profits, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection, including reasonable attorneys' fees, upon any indebtedness secured hereby, and in such order as Beneficiary may determine. In the exercise of any of the foregoing rights and powers, Beneficiary shall not be liable to Trustor for any loss or damage thereby sustained unless due solely to the willful misconduct of Beneficiary. The entering upon and taking possession of the Property, the collection of such rents, income, issues and profits and the application thereof as aforesaid, shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice. To the extent the provisions of this paragraph are inconsistent with the terms of a separate Assignment of Lessor's Interest in Leases, if any, the terms of the Assignment of Lessor's Interest in Leases shall control.

5. **Beneficiary's Right to Cure and Defend.** Should Trustor fail to make any payment or to do any act as provided in this Deed of Trust, in the Note or in any other instrument securing the Note, Beneficiary or Trustee, but without obligation so to do and without notice to or demand upon Trustor and without releasing Trustor from any obligation hereof, may make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof, and Trustor



authorizes Beneficiary or Trustee to enter upon the Property for such purpose. Beneficiary and/or Trustee may, at any time prior to full payment of all sums secured by this Deed of Trust: appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; pay, purchase, contest or compromise any encumbrance, charge or lien which, in the judgment of either, appears to be prior or superior hereto; and, in exercising any power conferred by this Deed of Trust, pay necessary expenses, employ counsel and pay reasonable fees therefor (including fees on appeal). Trustor agrees to repay immediately and without demand all sums so expended by Beneficiary or Trustee with interest from date of expenditure at the Default Rate as herein provided.

6. Default; Acceleration; Default Rate. Time is material and of the essence hereof. Each of the following shall be an "Event of Default" under this Deed of Trust: (a) failure of Trustor to make any payment of principal and/or interest or any other payment required by the provisions of the Note or of any instrument securing the Note on the date such payment or payments are due; (b) failure to perform any other provision of the Note, this Deed of Trust, or of any instrument securing the Note within fifteen (15) days of the date on which Beneficiary mails written notice of the default to Trustor; (c) a proceeding under any bankruptcy, receivership or insolvency law is instituted by or against Trustor; (d) the making of an assignment for the benefit of creditors by Trustor; (e) the imposition upon Beneficiary, under any laws, of what Beneficiary may deem to be a substantial tax upon Beneficiary by reason of its interest in this Deed of Trust (unless Trustor may lawfully pay such tax and does so); (f) any taking by condemnation or a conveyance as a result thereof unless the entire award is paid to the Beneficiary pursuant to paragraph B.1. hereof; or (g) if any warranty contained in this Deed of Trust is false in any material respect or any representation, warranty or information furnished by the Trustor or its agents to Beneficiary in connection with the indebtedness secured hereby is false in any material respect. Any default under this Deed of Trust shall constitute a default under the Note and under all other security instruments securing the Note. Any default under such other security instruments shall constitute a default under this Deed of Trust. Upon default, Beneficiary may declare all sums secured hereby immediately due and payable. Any sum not paid as provided herein or in the Note or any other security instrument securing the Note shall bear interest from such due date at a rate of interest four (4) percentage points per annum greater than the Note Rate or the maximum rate permitted by law, whichever is lesser ("Default Rate"). If a default occurs during a period of time in which prepayment is permitted only on payment of prepayment fee, such fee shall be computed as if the sum declared due on default were a prepayment and shall be added to the sums due and payable under the Note.

7. Foreclosure; Power of Sale. Beneficiary may foreclose this Deed of Trust like a mortgage and obtain a decree foreclosing Trustor's interest in all or any part of the Property. Beneficiary may also direct Trustee, and Trustee shall be empowered, to foreclose the Property by advertisement and exercise of sale under applicable law. Trustee shall cause to be recorded, filed for record, mailed, published and/or posted as may be required by law, a notice of default. After the lapse of the period required by law following the recordation of said notice of default, and notice of sale having been given as required by law, Trustee, without demand on Trustor, shall sell the Property at the time and place fixed by it in said notice of sale, either as a whole or in separate parcels, and in such order as it may determine, or otherwise in the manner prescribed by law, at public auction to the



highest bidder for cash in lawful money of the United States, payable at time of sale. Trustee may postpone sale of all or any portion of the Property by public announcement at such time and place of sale, and from time to time thereafter may postpone such sale by public announcement at the time fixed by the preceding postponement. Trustee shall deliver to such purchaser its deed conveying the property so sold, but without any covenant or warranty, express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including Trustor, Trustee, or Beneficiary, may purchase at such sale. All unexpired hazard insurance on the property so sold shall pass to and inure to the benefit of the purchaser of such property at such sale and Beneficiary is hereby irrevocably authorized to assign in Trustor's name to such purchaser of all such policies, which may be amended or rewritten to show the interest of such purchaser.

8. **Attorneys' Fees; Proceeds of Sale.** If foreclosure be made by Trustee, reasonable attorneys' fees for services in the supervision of foreclosure proceedings or in defending an action to enjoin the foreclosure shall be allowed by Trustee as part of the costs of foreclosure. After deducting all costs, fees and expenses of Trustee and of this Deed of Trust, including cost of evidence of title in connection with sale, Trustee shall apply the proceeds of sale to payment of all sums expended under the terms hereof, not then repaid, with accrued interest at the Default Rate as herein provided; all other sums then secured hereby; and the remainder, if any, to the person or persons legally entitled thereto.

9. **Expenses and Attorneys' Fees.** If Beneficiary refers the Note to an attorney for collection or seeks legal advice following a default alleged in good faith under the Note; if Beneficiary is the prevailing party in any litigation instituted in connection with the Note; or if Beneficiary or any other person initiates any judicial or nonjudicial action, suit or proceeding in connection with the Note, the indebtedness evidenced thereby or the security therefor (including, but not limited to, an action to recover possession of the Property after foreclosure), and attorneys are employed by Beneficiary to (a) appear in any such action, suit or proceeding, or (b) reclaim, seek relief from a judicial or statutory stay, enjoin a foreclosure, sequester, protect, preserve or enforce Beneficiary's interest in the Note, the Deed of Trust or any other security for the Note (including but not limited to proceedings under federal bankruptcy law, in eminent domain, under probate proceedings, appellate reviews, or in connection with any state or federal tax lien), then, in any such event, to the extent allowed by law, Trustor shall pay attorneys' fees and costs and expenses incurred by Beneficiary and/or its attorney in connection with the above-mentioned events and any appeals related to such events, including but not limited to costs incurred in searching records, the cost of title reports, the cost of appraisals, the cost of surveyors' reports and the cost of environmental surveys. Trustor acknowledges and agrees that such fees and expenses shall be deemed to be advances to protect Beneficiary's interest in the Property, and may be charged and collected from Trustor in connection with a reinstatement following a default hereunder. If not paid within ten (10) days after such fees, costs and expenses become due and written demand for payment is made upon Trustor, such amount may, at Beneficiary's option, be added to the principal of the Note and shall bear interest at the Default Rate.

10. **Binding Effect; Waiver of Defenses; Interpretation.** This Deed of Trust applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The right to plead any Statute of Limitations in any suit brought upon the Note or the indebtedness thereby evidenced or to foreclose or enforce this Deed of Trust or



arising therefrom or by reason of any default of Trustor, is hereby waived to the full extent permissible by law. The term Beneficiary shall mean the owner and holder, including pledgees, of the Note secured hereby, whether or not named as Beneficiary herein. In this Deed of Trust, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural.

11. Due on Sale or Encumbrance.

- (a) Generally. The Loan is personal to Trustor and not assignable. In making it, Beneficiary has relied on Trustor's credit, Trustor's interest in the Property, and the financial market conditions at the time the Loan is made. Except as described in paragraphs B.11(c) and (d) below, in the event of a sale, conveyance, transfer or encumbrance, by contract of sale or otherwise directly or indirectly, either voluntarily, involuntarily or by operation of law, of the title to or possession of all or part of the Property (a "Transfer"), Beneficiary may declare the entire balance of this Loan immediately due and payable. In such event, and to the extent permitted by law, a prepayment fee calculated in accordance with the prepayment provisions of the Note shall be added to the sum due and payable. Alternatively, the provisions in the Note, the Deed of Trust and any other instrument securing the Note may be modified, at Beneficiary's sole option, to conform to provisions being offered by Beneficiary in similar Loans at the time Beneficiary's waiver is sought, or in the event Beneficiary is not offering similar Loans at such time, on such reasonable terms as Beneficiary may determine.
- (b) Transfer Examples. For the purpose of, and without limiting the generality of the foregoing, the occurrence at any time of any of the following events, shall constitute a Transfer:
- (i) Any sale, conveyance, assignment or other transfer of, including by contract of sale or otherwise, or the grant of a security interest in, all or any part of the legal and/or equitable title to the Property;
 - (ii) Any sale, conveyance, assignment or other transfer of, or the grant of a security interest in, any share of stock of Trustor if Trustor is a corporation;
 - (iii) Any sale, conveyance, assignment or other transfer of, or the grant of a security interest in, any general partnership interest in Trustor if Trustor is a partnership; or
 - (iv) Any sale, conveyance, assignment or other transfer of, or the grant of a security interest in, any member's interest in Trustor if Trustor is a limited liability company.



Notwithstanding the foregoing, transfers between or among existing shareholders, partners, or members of Trustor shall not constitute Transfers so long as the Loan is not in default at the time of such transfers and Beneficiary receives prompt written notice of such transfers.

- (c) Permitted Borrower Release and Third-Party Transfer. If Trustor makes a written request to Beneficiary ("Transfer Request") for a third-party transfer, Beneficiary will waive its acceleration and prepayment call rights under Paragraph B.11(a), and release Borrower from liability for the Loan, if the loan is not then in default and the following conditions are met:
- (i) The following items, all of which must be satisfactory to Beneficiary, in its sole and absolute discretion, shall be submitted to Beneficiary with the Transfer Request:
 - (A) The identity and organizational documents for the purchaser of the Property;
 - (B) The financial statements, financial strength, tax returns and credit history of the purchaser;
 - (C) The current rent roll for the Property;
 - (D) The operating statements for the Property:
 - (i) A current year-to-date; and
 - (ii) The two most recent years/historical;
 - (E) The current leases for the Property;
 - (F) A current environmental inspection report for the Property;
 - (G) The sale agreement and related documents; and
 - (H) A detailed description of the source of the purchaser's equity in the Property.
 - (ii) The purchaser evidences a history of property management satisfactory to Beneficiary or contracts for management of the Property with a property management firm satisfactory to Beneficiary.
 - (iii) If the amount then due on the Note exceeds seventy percent (70%) of the sale price of the Property, the balance due on the Note shall be reduced to an amount which does not exceed seventy percent (70%) of the sales price and the



remaining monthly payments of principal and interest may be adjusted to amortize the reduced principal balance over the remaining term of the Loan, at Beneficiary's discretion. Any amount prepaid under this provision may be paid without a prepayment fee, provided however, any additional amount Trustor or the purchaser desires to prepay, if any, shall be subject to applicable prepayment fees.

- (iv) The purchaser and Borrower promptly sign and deliver to Beneficiary, Beneficiary's assumption and release documents.
 - (v) Trustor furnishes to Beneficiary, at Trustor's expense, an endorsement to Beneficiary's title insurance policy insuring the continued validity, enforceability, and priority of the Deed of Trust following the assumption and release. The form and content of the endorsement shall be satisfactory to Beneficiary. If required by the Beneficiary or the title insurer, the Trustor shall furnish estoppels and subordination agreements from tenants of the Property and other necessary parties in form and substance acceptable to the Beneficiary and the title insurer.
 - (vi) In the event the Loan was made with a requirement imposed upon the Trustor to complete any specified repairs of the Property, the Trustor shall not be entitled to a consent by Beneficiary pursuant to the terms of this provision until such repairs have been completed to Beneficiary's satisfaction.
 - (vii) The Beneficiary may, at its option, require tax reserves as referred to in paragraph A.9 of this Deed of Trust, whether or not previously waived conditionally or otherwise as a condition to its consent.
 - (viii) Beneficiary is paid a lump sum fee of one percent (1%) of the Principal Balance.
 - (ix) The payment of a transfer fee to Beneficiary's designated servicing agent in an amount equal to one percent (1%) of the Principal Balance.
 - (x) Without limiting the generality or effect of the foregoing, waiver by Beneficiary of its right to accelerate the Loan upon any transfer or contract to transfer, or to require satisfaction of the conditions set forth in this subparagraph, shall not be deemed a waiver by Beneficiary of its right to accelerate the Loan upon any other transfer or contract to transfer or of its right upon such transfer or contract to transfer to require satisfaction of the conditions set forth above in this subparagraph.
- (d) Permitted Related-Party Transfer. If Trustor (including existing shareholders, members or partners) makes a Transfer Request for a related-party transfer,



Beneficiary will waive its acceleration and prepayment call rights under Paragraph B.11(a), if the Loan is not then in default and the following conditions are met:

- (i) Beneficiary is paid a lump sum fee of \$1,000.00;
- (ii) Trustor and the transferee promptly sign and deliver to Beneficiary, Beneficiary's assumption documents whereby the transferee assumes liability for payment and performance of the Note, the Deed of Trust, and any other security instruments securing the Note, all to the same extent and tenor of Trustor's liability, which shall remain primary and will not be released; and
- (iii) The transferee is:
 - (A) The spouse and/or issue of Trustor;
 - (B) The trustee(s) of a testamentary trust for the benefit of the spouse and/or issue of Trustor, that succeeded to Trustor's interest upon Trustor's death, divorce or legal separation;
 - (C) The trustee(s) of an inter-vivos trust established by Trustor for estate planning purposes, provided that Trustor is a trustee of such trust at the time of transfer; or
 - (D) A new entity established for estate planning purposes, composed of Trustor, Trustor's principals, and/or Trustor's spouse and/or issue.

12. **Deficiency.** Except as limited by Partial or Limited Recourse provisions, if any, in the Note, Trustor consents to a personal deficiency judgment for any part of the debt hereby secured which shall not be paid by the sale of the Property, unless such judgment is prohibited by law. Any Trustor who is a married person hereby expressly agrees that recourse may be had against his or her other property, however owned, but without hereby creating any lien or charge thereon, for any deficiency due after sale of the Property; except that this provision shall not apply in the case of a Trustor who executes this Deed of Trust but not the Note secured hereby.

13. **Waiver of Rights Regarding Property.** To the extent permitted by law, Trustor hereby releases and waives (a) all rights to any homestead exemption in the Property; (b) all rights of dower and curtesy in the Property; and (c) all rights to possession of the Property during any period allowed by law for redemption.

14. **Waiver of Right to Marshal.** Trustor, for Trustor and for all persons hereafter claiming through or under Trustor or who may at any time hereafter become holders of liens junior to the lien of this Deed of Trust, hereby expressly waives and releases all rights to direct the order in which any of the Property shall be sold in the event of any sale or sales pursuant hereto and to have any of the Property and/or any other property now or hereafter constituting security for any of the indebtedness



secured hereby marshaled upon any foreclosure of this Deed of Trust or of any other security for any of said indebtedness.

15. Severability. In the event any provision contained in this Deed of Trust shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Deed of Trust, but this Deed of Trust shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

16. Signature on Deed of Trust Only. Notwithstanding any other provision of this Deed of Trust, any person who executes this Deed of Trust, but not the Note secured hereby, shall have no personal liability on the Note or for any deficiency judgment which may be obtained upon foreclosure of this Deed of Trust. Such persons jointly and severally waive presentment, demand, protest and all notices and agree that Beneficiary, without notice to them or their consent, and upon such terms as Beneficiary may deem advisable, and without affecting in any way Beneficiary's rights hereunder as against the Property, may:

- (a) Extend, release, surrender, exchange, compromise, discharge or modify any right or obligation secured by or provided by this Deed of Trust or any other instrument securing this loan, or
- (b) Take any other action which Beneficiary may deem reasonably appropriate to protect its security interest in the Property.

17. Governing Law. The law of the State of Nevada shall govern the validity, interpretation, construction and performance of this Deed of Trust.

18. Financial Statements. Within sixty (60) days of the close of each calendar year, Trustor shall furnish Beneficiary, at Trustor's expense, all in a form satisfactory to Beneficiary and certified by Borrower or guarantors, as the case may be, with (a) annual statement of operations of the Property, stating that such annual statement presents fairly the financial condition of the Property being reported upon and has been prepared in accordance with sound accounting principles consistently applied, (b) the financial statement for any tenants in whom Trustor and/or Borrower has a controlling interest, and (c) Borrower's financial statement, if Borrower is not an individual. The annual operating statement shall include an annual rent schedule, and a schedule of gross receipts of each tenant who is obligated to pay additional rent based on a percentage of gross receipts.

19. Successor Trustee; Notice. Beneficiary at any time and from time to time, by instrument in writing, may substitute and appoint a successor or successors (either corporate or individual) to any trustee named herein or previously substituted hereunder, which instrument when executed, acknowledged, and recorded in the office of the Recorder of the county or counties where the Property is situated shall be conclusive proof of the proper substitution and appointment of each such successor trustee or trustees, who shall then have all the title, powers, duties and rights of the predecessor trustee, without the necessity of any conveyance from such predecessor. Trustee accepts this trust when this Deed of Trust, duly executed and acknowledged, is made a public record as provided by law. The



undersigned Trustor requests that a copy of any notice of default and of any notice of sale hereunder be mailed to Trustor. Trustee is not obligated to notify any party hereto of pending sale under any other deed of trust or of any action or proceeding in which Trustor, Beneficiary or Trustee shall be a party unless brought by Trustee. Except as otherwise provided in this Deed of Trust, all other notices and consents required or permitted under this Deed of Trust shall be in writing and may be telecopied, telexed, cabled, delivered by hand, or mailed by first class registered or certified mail, return receipt requested, postage prepaid, and addressed as follows:

If to Trustor/Debtor:

Method Art Corporation
c/o James D. Anderson, CPA
250 Newport Center Drive, Suite 301
Newport Beach, CA 92660

If to Beneficiary/Secured Party:

Standard Insurance Company
Attn: Mortgage Loan Servicing PSB11D
P. O. Box 711
Portland, Oregon 97207

If to Trustee:

First American Title Company of Nevada
5310 Kietzke Lane, #100
Reno, NV 89511-2093

Changes in the respective addresses to which such notices may be directed may be made from time to time by any party by notice to the other parties. Notices and consents given by mail in accordance with this paragraph shall be deemed to have been given on the date of dispatch; notices and consents given by any other means shall be deemed to have been given when received.

20. Dissemination of Information. If Beneficiary determines at any time to sell, transfer or assign the Note or this Deed of Trust and the other security documents, and any or all servicing rights with respect thereto, or to grant participations therein, Beneficiary may provide to any prospective purchaser, transferee, assignee, participant or rating agency and their agents and successors, all documents and information Beneficiary now has or may hereafter acquire relating to this Loan, Trustor, Borrower, any guarantors and/or indemnitors, if applicable, and the Property.

21. ERISA. Borrower shall not engage in any transaction which could cause this loan or any action taken hereunder to be a non-exempt prohibited transaction under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Borrower is not an employee benefit plan or a governmental plan under ERISA. Borrower's assets do not constitute plan assets under ERISA. Borrower shall indemnify and hold Beneficiary harmless for any and all ERISA or state-related liability or losses.

22. Non-Foreign Person. Trustor is not a "foreign" person as defined by the IRS.



23. Entire Agreement. This Deed of Trust, the Note and any other security agreements securing the Note constitute the entire and complete agreement of the parties with respect to the subject matter hereof, and supersede all prior or contemporaneous understandings, arrangements and commitments, all of which, whether oral or written, are merged herein. This Deed of Trust shall bind and inure to the benefit of the parties to this Deed of Trust and any successor or assignee acquiring an interest hereunder consistent with paragraph B.11 above.

24. Statutory Covenants. The following covenants, numbers 1, 3, 4 (rate of interest Default Rate) 5, 6, 7, (Reasonable Attorney's Fees), 8 and 9 of NRS 107.030 are hereby adopted and made a part of this Deed of Trust, provided, however, that the express terms, conditions and covenants of this Deed of Trust shall control to the extent that the same are inconsistent with Covenants 1, 3, 4, 5 and 9, and provided further that Covenants 6, 7 and 8 shall control over the express terms, conditions and covenants of this Deed of Trust to the extent the same are inconsistent with Covenants 6, 7 and 8.

The power of sale under this Deed of Trust shall not be exhausted by any one or more sales (or attempts to sell) as to all or any portions of the Property remaining unsold, but shall continue unimpaired until all of the Property has been sold by exercise of the power of sale herein contained and all indebtedness of Trustor to Beneficiary under this Deed of Trust, the Note and all other loan documents has been paid in full.

25. Notice and Opportunity to Cure. Notwithstanding any other provision of this Deed of Trust, Beneficiary shall not accelerate the sums secured hereby because of a nonmonetary default (defined below) unless Trustor fails to cure the default within fifteen (15) days of the earlier of the date on which Beneficiary mails or delivers written notice of the default to Trustor. For purposes of this Deed of Trust, the term "nonmonetary default" means a failure by Trustor or any other person or entity to perform any obligation contained in the Note or any other Loan Documents, other than the obligation to make payments provided for in the Note or any other Loan Document. A "nonmonetary default" shall not include transfers made by Trustor without the prior written consent of Beneficiary, as provided in Paragraph B.11 above. If a nonmonetary default is capable of being cured and the cure cannot reasonably be completed within the fifteen (15) day cure period, the cure period shall be extended up to sixty (60) days so long as Trustor has commenced action to cure within the fifteen (15) day cure period, and in Beneficiary's opinion, Trustor is proceeding to cure the default with due diligence. No notice of default and no opportunity to cure shall be required if during any 12-month period Beneficiary has already sent a notice to Trustor concerning default in the performance of the same obligation. None of the foregoing shall be construed to obligate Beneficiary to forebear in any other manner from exercising its remedies and Beneficiary may pursue any other rights or remedies which Beneficiary may have because of a default.

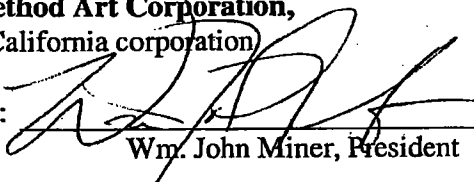
26. Certain Legal Proceedings. Should Beneficiary or Trustee, or both, become parties to any action to enjoin foreclosure or other legal proceedings instituted by Trustor or any third party, or should Trustor institute or be subject to any bankruptcy, reorganization, receivership or other proceeding in relation to creditors, then all attorney's fees and costs incurred by Beneficiary or Trustee, or both, in any of those proceedings shall be secured by this Deed of Trust and shall immediately be paid by Trustor upon demand and if not paid shall be recovered from the Property.



27. Notwithstanding the foregoing, Beneficiary reserves the right to consent to secondary financing. Said secondary financing shall be fully subordinated to Beneficiary's first lien position and in no event shall the combined indebtedness exceed 75% of value for the subject property; shall be no more than 25% of the then outstanding balance of the sum of the loans; or create an overall debt service of less than 1.20 times, as determined solely by Beneficiary.

Method Art Corporation,
a California corporation

By:

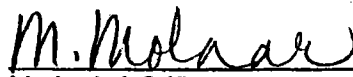

Wm. John Miner, President

**AFFIX NOTARIAL ACKNOWLEDGMENTS FOR EACH TRUSTOR
IN SIZE AND FORM AS REQUIRED BY STATE LAW**

State of Nevada
County of Washoe

This instrument was acknowledged before me on September 10, 2003

, by Wm. John Miner, as President of Method Art
Corporation


Notarial Officer

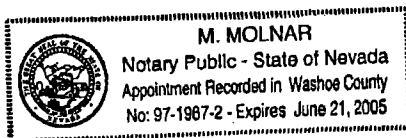


Exhibit 3
Assignment of Lessor's Interest in Leases

JC # 2923128
09/17/2003 03:30P Fee:45.00
BK1
Requested By
FIRST AMERICAN TITLE
Washoe County Recorder
Kathryn L. Burke - Recorder
Pg 1 of 7 RPTT 0.00

Assessor's Parcel No.: 042-222-18



WHEN RECORDED MAIL TO:
StanCorp Mortgage Investors, LLC
920 SW SIXTH AVENUE
PORTLAND, OREGON 97204-1203

Attn: Susan M. Deters, PSB11E

SIC Loan No. A3070704

ASSIGNMENT OF LESSOR'S INTEREST IN LEASES

THIS ASSIGNMENT made this **September 3, 2003**, is between **Method Art Corporation**, a **California corporation** ("Assignor") and **Standard Insurance Company**, an **Oregon corporation** ("Assignee").

Assignor, for good and valuable consideration, receipt of which is acknowledged, grants, transfers and assigns to Assignee all of Assignor's right, title and interest in and to **any existing and all future recorded and/or unrecorded leases entered into on all or any part of the subject property referenced below during the term of the loan referenced below**, together with (a) all rents, income, contract rights, issues, security deposits and profits arising from the leases and renewals thereof; (b) all rents, income, contract rights, issues, security deposits and profits for the use and occupation of the premises described in the leases or in the deed of trust (which term shall be construed to include a mortgage, as the case may be) described below and from all leases upon the real property described below, or any part thereof, which are now executed or which may hereafter during the term of this Assignment be executed; and (c) the guaranties of tenants' performance under the leases, if any. The leases described above, any extensions or renewals thereof and any lease subsequently executed during the terms of this Assignment covering the real property described below are hereinafter collectively referred to as the "Lease".

This Assignment is made for the purpose of securing, in such order of priority as Assignee may elect:

- (a) Payment of the indebtedness evidenced by a certain Promissory Note (the "Note"), including any extensions or renewals thereof, in the original principal sum of **One Million Two Hundred Thousand and No/100ths Dollars (\$1,200,000.00)** made by the Assignor first referenced above to Assignee, dated the **September 3, 2003**, and secured by a **Deed of Trust** (the "Deed of Trust") on real property situated in the City of **Reno**, County of **Washoe**, State of **Nevada**, described as follows (the "Real Property"):

Parcel 1 of Parcel Map No. 1867 for SOUTHWEST INVESTORS, according to the map thereof, filed in the office of the Washoe County Recorder, State of Nevada on July 24, 1985 as Document no. 1011330.

The Note may also be secured by a security agreement or agreements covering personal property located on or related to the Real Property and by other security instruments. The Deed of Trust, Security Agreement(s) and other security instruments are hereinafter collectively referred to as the "Security Instruments";

- (b) Payment of all other sums with interest thereon becoming due and payable to Assignee under the provisions of this Assignment or of the Note or the Security Instruments; and
- (c) Performance and discharge of each and every condition, obligation, covenant, promise and agreement of Assignor contained herein or in the Note or the Security Instruments.

Assignor agrees as follows:

1. Assignor's Warranties. Assignor warrants that: (a) Assignor has good title to the Lease hereby assigned and good right to assign the same, and no other person, firm or corporation has any right, title or interest therein; (b) Assignor has duly and punctually performed all the terms, covenants, conditions and warranties of the Lease on Assignor's part to be kept, observed and performed; (c) Assignor has not previously sold, assigned, transferred, mortgaged or pledged the rents from the Real Property, whether now due or hereafter to become due; (d) the Lease is valid and enforceable and has not been altered, modified or amended in any manner whatsoever save as herein set forth; (e) the Lessee named therein is not in default under any of the terms, covenants, or conditions thereof; and (f) no rent reserved in the Lease has been assigned or anticipated and no rent for any period subsequent to the date of this Assignment has been collected in advance of the time when the same became due under the terms of the Lease.

2. Assignor's Covenants of Performance. Assignor covenants with Assignee: (a) to observe and perform all the obligations imposed upon the Lessor under the Lease and not to do or permit to be done anything to impair the security thereof; (b) not to collect any of the rent, income and profit arising or accruing under the Lease or from the Real Property in advance of the time when the same shall become due; (c) not to execute any other assignment of lessor's interest in the Lease or assignment of rents arising or accruing from the Lease or from the Real Property; (d) not to alter, modify or change the terms of the Lease or cancel or terminate the same or accept a surrender thereof without the prior written consent of Assignee; (e) at Assignee's request, to assign and transfer to Assignee any and all subsequent leases upon all or any part of the Real Property and to execute and deliver at the request of Assignee all such further assurances and assignments in the premises as Assignee shall from time to time require; (f) to enforce or secure in the name of Assignee (upon



notice to Assignee) the performance of each and every obligation, term, covenant, promise, condition and agreement in the Lease by any tenant to be performed, and to notify Assignee of the occurrence of any default under the Lease; (g) to appear in and defend any action or proceeding arising under, occurring out of, or in any manner connected with the Lease or the obligations, duties or liabilities of Assignor, and, upon request by Assignee, to do so in the name and on behalf of Assignee, but in all cases at the expense of Assignor; (h) to pay all costs and expenses of Assignee, including attorney's fees in a reasonable sum, in any action or proceeding in which Assignee may appear in connection herewith or in any appeal therefrom; (i) not to enter into any lease for a term in excess of three (3) years for fifteen percent (15%) or more of the net rentable area of the Real Property without the prior written consent of Assignee; and (j) neither to create nor permit any lien, charge or encumbrance upon its interest as lessor of the Lease except the lien of the Security Instruments or as permitted in the Security Instruments.

3. License to Collect Rents. So long as there shall exist no default by Assignor in the payment of the principal sum, interest and indebtedness secured hereby and by the Security Instruments or in the performance of any obligation, covenant or agreement herein or contained in the Note and Security Instruments or in the Lease on the part of Assignor to be performed, Assignor shall have the right under a license granted hereby (but limited as provided in the following paragraph) to collect, but not prior to accrual, all of the rents arising from or out of the Lease, or any renewals, extensions and replacements thereof, or from or out of the Real Property or any part thereof; and Assignor shall receive such rents and shall hold them, as well as the right and license to receive them, as a trust fund to be applied, **firstly** to the payment of taxes and assessments upon the Real Property before penalty or interest is due thereon; **secondly** to the cost of insurance, maintenance and repairs required by the terms of the Deed of Trust; **thirdly** to the satisfaction of all obligations specifically set forth in the Lease; and **fourthly** to the payment of interest and principal becoming due on the Note and Deed of Trust, before using any part of the same for any other purposes.

4. Performance and Termination of License. Upon the conveyance by Assignor and its successors and assigns of the fee title of the Real Property, all right, title, interest and powers granted under the license aforesaid shall automatically pass to and may be exercised by each such subsequent owner; and upon or at any time after default in the payment of any indebtedness secured hereby or in the observance or performance of any obligation, term, covenant, condition or warranty herein, in the Note and Deed of Trust or in the Lease, Assignee, at its option and without notice, shall have the complete right, power and authority hereunder to exercise and enforce any or all of the following rights and remedies at any time:

- (a) to terminate the license granted to Assignor to collect the rents without taking possession, and to demand, collect, receive, sue for, attach and levy against the rents in Assignee's own name; to give proper receipts, releases and acquittances therefor; and after deducting all necessary and proper costs and expenses of operation and collection as determined by Assignee, including attorney's fees, to apply the net



proceeds thereof, together with any funds of Assignor deposited with Assignee, upon any indebtedness secured hereby and in such order as Assignee may determine;

- (b) to declare all sums secured hereby immediately due and payable and, at its option, exercise all or any of the rights and remedies contained in the Note and Deed of Trust;
- (c) without regard to the adequacy of the security or the solvency of Assignor, with or without any action or proceeding through any person or by agent, or by the trustee under any Deed of Trust secured hereby, or by a receiver to be appointed by a court, and without regard to Assignor's possession, to enter upon, take possession of, manage and operate the Real Property or any part thereof, make, modify, enforce, cancel, or accept surrender of any lease now or hereafter in effect on the Real Property or any part thereof; remove and evict any lessee or tenant; increase or decrease rents; decorate, clean and repair; and otherwise do any act or incur any reasonable costs or expenses as Assignee shall deem proper to protect the security hereof, as fully and to the same extent as Assignor could do if in possession; and in such event, to apply the rents so collected in such order as Assignee shall deem proper to the operation and management of the Real Property, including the payment of reasonable management, brokerage and attorneys fees, payment of the indebtedness under the Note and Deed of Trust, and payment to a reserve fund for replacements, which fund shall not bear interest; and
- (d) require Assignor to transfer all security deposits to Assignee, together with all records evidencing such deposits.

5. Default Not Cured By Collection. The collection of rents and application as aforesaid and/or the entry upon and taking possession of the Real Property shall not cure or waive any default; or waive, modify or affect any notice of default required under the Note and Deed of Trust; or invalidate any act done pursuant to such notice. The enforcement of any right or remedy by Assignee, once exercised, shall continue until Assignee shall have collected and applied such rents as may have cured (for the time) the original default. Although the original default be cured and the exercise of any such right or remedy be discontinued, the same or any other right or remedy hereunder shall not be exhausted and may be reasserted at any time and from time to time following any subsequent default. The rights and powers conferred on Assignee hereunder are cumulative and not in lieu of any other rights and powers otherwise granted Assignee.

6. Effect of Assignment. The acceptance by Assignee of this Assignment, with all of the rights, powers, privileges and authority so created, shall not, prior to entry upon and taking possession of the Real Property by Assignee, be deemed or construed to constitute Assignee a "Mortgagee in Possession".



Assignee shall not be liable for any loss sustained by Assignor resulting from Assignee's failure to let the Real Property after default or from any act or omission of Assignee in managing the Real Property after default unless such loss is caused by the willful misconduct and bad faith of Assignee. Assignee shall not be obligated to perform or discharge, nor does Assignee undertake to perform or discharge, any obligation, duty, or liability under the Lease or under or by reason of this Assignment, or to assume any obligation or responsibility for any security deposits or other deposits delivered to Assignor by any lessee and not assigned and delivered to Assignee. This Assignment shall not operate to place responsibility for the control, care, management or repair of the Real Property upon Assignee, nor for the carrying out of any of the terms and conditions of the Lease; nor shall it operate to make Assignee responsible or liable for any waste committed on the Real Property by the tenants or any parties or for any dangerous or defective condition of the Real Property, or for any negligence in the management, upkeep, repair or control of the Real Property, resulting in loss or injury or death to any tenant, licensee, employee or stranger.

7. Indemnification. Assignor hereby agrees to indemnify and hold Assignee harmless from any and all liability, loss, damage or expense which Assignee may incur under or by reason or in defense of any and all claims and demands whatsoever that may be asserted against Assignee by third parties arising out of the Lease, including, but not limited to, any claims by any tenants of credit for rental for any period under any lease more than one (1) month in advance of the due date thereof paid to and received by Assignor, but not delivered to Assignee. Should Assignee incur any such liability, loss, damage or expense, the amount thereof (including attorneys fees, whether incurred at trial, on appeal or otherwise) with interest thereon at the Default Rate (as defined in the Note) shall be payable to Assignee immediately without demand, and shall be secured as a lien hereby and by the Deed of Trust.

8. Termination of Assignment, Payment of Rent. Upon payment in full of the principal sum, interest and indebtedness secured hereby and by the Security Instruments, this Assignment shall become and be void and of no effect, but the affidavit, certificate, letter or statement of any officer, agent or attorney of Assignee showing any part of said principal, interest or indebtedness to remain unpaid shall be and constitute conclusive evidence of the validity, effectiveness and continuing force of this Assignment and any person may, and is hereby authorized to, rely thereon. Assignor hereby authorizes and directs the lessee named in the Lease or any other or future lessee or occupant of the premises described therein or in the Deed of Trust, upon receipt from Assignee of written notice to the effect that Assignee is then the holder of the Note and Security Instruments and that a default exists thereunder or under the Assignment, to pay over to Assignee all rents, income, contract rights, issues, security deposits and profits arising or accruing under the Lease or from the premises described therein or in the Deed of Trust and to continue to do so until otherwise notified by Assignee.

9. Assignee's Right to Deal With Security. Assignee may take or release other security for the payment of the principal sum, interest and indebtedness, may release any party primarily or secondarily liable therefor and may apply any other security held by it to the satisfaction



of such principal sum, interest or indebtedness without prejudice to any of its rights under this Assignment.

10. Cross Default. Breach of any term, covenant, and condition herein contained by Assignor shall likewise constitute a default under the Note and each of the Security Instruments, and a default under any of said documents shall constitute a default hereunder.

11. No Waiver. Nothing contained in this Assignment and no act done or omitted by Assignee pursuant to the powers and rights granted it hereunder shall be deemed to be a waiver by Assignee of its rights and remedies under the Note and Security Instruments; this Assignment is made and accepted without prejudice to any of the rights and remedies possessed by Assignee under the terms of the Note and Security Instruments. The right of Assignee to collect the principal sum, interest, and indebtedness and to enforce any other security therefor held by it may be exercised by Assignee either prior to, simultaneously with, or subsequent to any action taken by it hereunder.

12. Conflict With Deed of Trust. In the case of any conflict between the terms of this instrument and the terms of the Deed of Trust, the terms of this Assignment shall prevail.

13. Severability. If any provision of this Assignment or the application thereof to any entity, person or circumstance shall be held to be invalid, illegal or unenforceable in any respect, the remainder of this Assignment and the application of such provisions to other entities, persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

14. Construction. Whenever used herein whenever the context so requires, the singular number shall include the plural, the plural the singular, and the use of any gender shall include all genders. All obligations of each Assignor hereunder shall be joint and several.

15. Governing Law. The law of the state in which the Real Property is located shall govern the validity, interpretation, construction and performance of this Assignment.

16. Entire Agreement. This Assignment constitutes the entire and complete agreement concerning the assignment of rents and leases between the parties hereto. No variations, modifications or changes herein or hereof shall be binding upon any party hereto unless set forth in a document duly executed by or on behalf of such party.

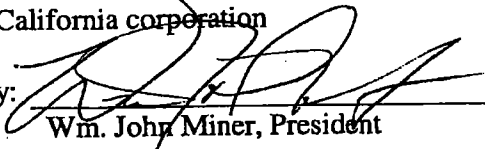
17. Assignment Binds Successors. This Assignment, together with the covenants and warranties herein contained, shall inure to the benefit of Assignee and any subsequent holder of the Note and Deed of Trust and shall be binding upon Assignor, Assignor's heirs, personal representatives, successors and assigns, all tenants and their subtenants and assigns, and any subsequent owner of premises described in the Deed of Trust.

///



Method Art Corporation,
a California corporation

By:



Wm. John Miner, President


**AFFIX NOTARIAL ACKNOWLEDGMENT FOR
EACH ASSIGNOR AS REQUIRED BY LAW**

State of Nevada
County of Washoe

This instrument was acknowledged before me on September 10, 2003

, by Wm. John Miner, as President of Method Art
Corporation


Notarial Officer



M. MOLNAR
Notary Public - State of Nevada
Appointment Recorded in Washoe County
No: 97-1967-2 - Expires June 21, 2005



Exhibit 4

Certificate and Indemnity Agreement Regarding Hazardous Substances

SIC Loan No. A3070704

**CERTIFICATE AND INDEMNITY AGREEMENT REGARDING
HAZARDOUS SUBSTANCES**

This Agreement is made as of September 3, 2003, by Method Art Corporation, a California corporation and by Wm. John Miner, Trustee of The Von Oppenheim Family Trust u/t/a dated June 28, 1993, as amended, and Wm. John Miner, each individually (collectively, "Indemnitor"), for the benefit of Standard Insurance Company, an Oregon corporation ("Lender"), to induce Lender to make a loan (the "Loan") to Indemnitor in the amount of One Million Two Hundred Thousand and No/100ths Dollars (\$1,200,000.00).

In consideration of Lender agreeing to make the Loan, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Indemnitor certifies, represents, warrants, covenants and agrees as follows for the benefit of Lender:

1. **Due Investigation.** Indemnitor has duly investigated the present and past uses of the "Property" (defined below) and has made due inquiry of the appropriate governmental agencies and offices having jurisdiction over the Property as to whether the Property or any "Other Property" (defined below) is or has been the site of storage or contamination by any "Hazardous Substances", (defined below) and Indemnitor has examined or been advised of all "Environmental Laws" (defined below) applicable to the Property. Upon Lender's request, Indemnitor will provide Lender with a written summary of its investigations and copies of all inquiries and responses.

2. **Knowledge of Hazardous Substances.** Indemnitor has no knowledge after due investigation of (a) the presence of any Hazardous Substances on the Property or (b) any spills, releases, discharges or disposal of Hazardous Substances that have occurred or are presently occurring on or onto the Property or any Other Property, other than the presence, use, storage and disposal of Hazardous Substances in minor quantities as necessary for the operation and maintenance of the Property, or in the form of consumer products held for retail sale in sealed containers, all of which Indemnitor covenants have and will be used, stored and disposed of in accordance with commercially reasonable practices and all applicable Environmental Laws.

3. **Compliance with Laws.** Indemnitor has no knowledge of any failure by any person or entity to comply with all currently applicable Environmental Laws with respect to the generation, recycling, reuse, sale, storage, handling, transport and disposal of Hazardous Substances on or from the Property. Indemnitor shall cause the Property to be continuously in compliance with all Environmental Laws and agrees to provide Lender, within thirty (30) days after a written demand by Lender, satisfactory evidence of such compliance.

4. No Release or Waiver. Indemnitor has not and will not release or waive the liability of any previous owner, lessee or operator of the Property, or any other person or entity potentially responsible under applicable Environmental Laws for the presence or removal of Hazardous Substances on or from the Property, and Indemnitor has made no promises of indemnification regarding Hazardous Substances to any person or entity other than Lender.

5. Notice to Lender. Indemnitor will immediately notify Lender if Indemnitor receives notice or otherwise becomes aware of (a) any Hazardous Substances or other environmental problem or liability with respect to the Property or Other Property, (b) any lien, action or notice resulting from the violation of any Environmental Laws, or (c) the Property being in violation of any applicable Environmental Law. At its own cost, Indemnitor will take all actions which are necessary or desirable to clean up any Hazardous Substances affecting the Property, including removal, containment or other remedial action required by applicable law, or cause the Property to be in compliance with any applicable Environmental Law. Any notice sent to Lender pursuant to this paragraph will describe with particularity any actual, potential or alleged violation of Environmental Laws, and shall contain Indemnitor's plan or recommendations for correcting the violations.

6. Indemnification. Indemnitor shall indemnify, defend and hold Lender harmless from and against any and all claims, demands, damages, losses, liens, liabilities, penalties, fines, lawsuits and other proceedings and costs and expenses (including attorneys' fees and disbursements, whether incurred at trial, on appeal or otherwise, and architectural, engineering and accounting costs and all repair and clean-up costs) which accrue to or are made against or incurred by Lender, or are in any way connected with (a) the inaccuracy of any of the certifications, representations or warranties of Indemnitor contained in this Agreement, (b) any activities on the Property during Indemnitor's or Borrower's ownership, possession or control of the Property which directly or indirectly result in the Property or any Other Property being contaminated with Hazardous Substances, or the Property being in violation of any applicable Environmental Laws, or (c) the discovery and/or cleanup of Hazardous Substances deposited or existing on the Property or any Other Property, and (d) any breach by Indemnitor of any of its covenants or agreements set forth in this Agreement. If Lender becomes the owner of or acquires an interest in or rights to the Property by foreclosure or by a conveyance in lieu of foreclosure of the deed of trust (the "Deed of Trust") or any other instruments securing the Loan, or by any other means, the foregoing indemnification obligation of Indemnitor shall survive such foreclosure or conveyance in lieu of foreclosure or other acquisition of the Property. Notwithstanding the preceding sentence, Indemnitor shall have no obligation to defend, indemnify or hold Lender harmless from any claim, demand, damage, loss, lien, liability, etc. arising from or out of the activities of Lender or its agents on the Property on or after transfer of the Property to Lender pursuant to foreclosure proceedings or in lieu thereof.

7. Unconditional and Unsecured Obligations. Indemnitor's obligations under this Agreement are unconditional and shall not be limited by any limitations on liability provided for in any document or instrument evidencing or securing the Loan (collectively the "Loan Documents"). The certifications, representations, warranties, covenants and agreements of Indemnitor set forth in this Agreement (including without limitation the indemnity provided for in Paragraph 7 above), (a) are separate and distinct obligations from Indemnitor's or Borrower's obligations with respect to the

Loan and under the Loan Documents, (b) are not secured by the Deed of Trust or any other Loan Document, (c) shall not be discharged or satisfied by foreclosure of the lien of the Deed of Trust or any lien or security interest created by any other Loan Document, and (d) shall continue in effect after any transfer of the Property, including without limitation transfers pursuant to foreclosure proceedings (whether judicial or nonjudicial), or by any conveyance in lieu of foreclosure.

8. Definitions. For purposes of this Agreement:

- (a) "Environmental Laws" means all federal, state and local statutes, regulations, ordinances, and requirements, now or hereafter in effect, pertaining to environmental protection, contamination or cleanup, including without limitation:

Federal Resource Conservation and Recovery Act of 1976, 42 U.S.C. Section 6901 et seq., as amended by the Solid and Hazardous Waste Amendment of 1984.

Federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. Section 9601 et seq.

Federal Clean Air Act, 42 U.S.C. Sections 7401-7626.

Federal Water Pollution Control Act, Federal Clean Water Act of 1977, 33 U.S.C. Section 1251 et seq.

Federal Insecticide, Fungicide, and Rodenticide Act, Federal Pesticide Act of 1978, 7 U.S.C. Section 136 et seq.

Federal Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq.

Federal Safe Drinking Water Act, 42 U.S.C. Section 300(f) et seq.

Federal Rivers and Harbors Act of 1988, 33 U.S.C. Section 3401 et seq.

Federal Endangered Species Act of 1973, as amended 16 U.S.C. Section 1531 et seq.

Federal Atomic Energy Act, 42 U.S.C. Section 3011 et seq.

Federal Occupational Safety and Health Act, 29 U.S.C. Section 651 et seq.

Federal Environmental Policy Act, 42 U.S.C. Section 4321 et seq.

Federal Hazardous Materials Transportation Act, 49 U.S.C. Section 1471 et seq.

Federal Hazardous Materials Transportation Table, 49 C.F.R. Section 172.101 et seq.

Federal Refuse Act, 33 U.S.C. Section 407 et seq.

Federal Emergency Planning and Community Right-to-Know Act, 42 U.S.C. Section 1101 et seq.

- (b) "Hazardous Substances" means any chemical, substance or material classified or designated as hazardous, toxic or radioactive, or other similar term, and now or hereafter regulated under any Environmental Law, including without limitation, asbestos, petroleum and hydrocarbon products and include hazardous substances as defined in NRS 40.504.

- (c) "Lender" means **Standard Insurance Company** and its successors and assigns, and any person or entity designated or appointed by Lender to acquire the Property through foreclosure or by transfer in lieu of foreclosure, and any and all other financial institutions participating in the Loan.
- (d) "Other Property" means any property which becomes contaminated with Hazardous Substances as a result of the construction, development, operation or other activities on, or the contamination of, the Property.
- (e) "Property" means the real property situated in **Washoe County, Nevada**, commonly known as **6151 Lakeside Drive, Reno, Nevada, 89511**, legally described as follows:

Parcel 1 of Parcel Map No. 1867 for SOUTHWEST INVESTORS, according to the map thereof, filed in the office of the Washoe County Recorder, State of Nevada on July 24, 1985 as Document no. 1011330.

and all buildings, structures and other improvements now or hereafter located thereon.

9. General. If Indemnitor is composed of more than one person or entity, the term "Indemnitor" shall refer to each and every such person or entity and all of such persons and entities shall be jointly and severally liable under this Agreement. Any individual signing this Agreement does so on his or her own behalf and on behalf of his or her marital community, unless otherwise stated in this Agreement. This Agreement shall be binding upon and inure to the benefit of Lender, Indemnitor and their respective heirs, representatives, successors and assigns. The law of the state in which the property securing the Note is located shall govern the validity, interpretation, construction, and performance of this Agreement. In any lawsuit, action or appeal therefrom, including proceedings in bankruptcy court, to enforce or interpret this Agreement, the prevailing party shall be entitled to recover its costs and expenses incurred therein, including attorneys' fees and disbursements, whether incurred at trial, on appeal or otherwise.

10. Forum. Indemnitor hereby irrevocably submits to the jurisdiction of any state or federal court sitting in **Washoe County, Nevada**, in any action or proceeding brought to enforce or otherwise arising out of or relating to this Agreement, and hereby waives any claim that such forum is an inconvenient forum. Indemnitor acknowledges that it has freely negotiated this forum selection clause and that Lender requested its inclusion as part of the consideration for the Lender's extension of credit to Indemnitor.

11. Notice. All notices or other communications required or permitted under this Agreement shall be in writing and may be telexed, telecopied, cabled, delivered by hand, or mailed by first class registered or certified mail, return receipt requested, postage prepaid, and addressed as follows:

If to Indemnitor:

If to Lender:

Method Art Corporation
c/o James D. Anderson, CPA
250 Newport Center Drive, Suite 301
Newport Beach, CA 92660

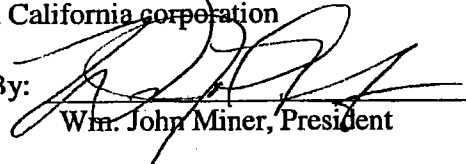
Standard Insurance Company
Attn: Mortgage Loan Servicing, PSB11D
920 SW Sixth Avenue
Portland, Oregon 97204


Changes in the respective addresses to which such notices may be directed may be made from time to time by either party by notice to the other party given at least ten (10) days before such change of address is to become effective. Notices and consents given by mail in accordance with this paragraph shall be deemed to have been given on the date of dispatch; notices and consents given by any other means shall be deemed to have been given when received.

DATED as of the day and year first written above.

INDEMNITOR:

Method Art Corporation,
a California corporation

By: 
Wm. John Miner, President

By: 
Wm. John Miner, Trustee of the
Von Oppenheim Family Trust
u/d/t dated June 28, 1993, as
amended March 23, 1998

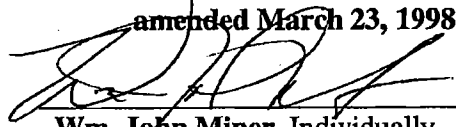

Wm. John Miner, Individually

Exhibit 5
Tenant Estoppel Certificate

TENANT ESTOPPEL CERTIFICATE

STANCORP MORTGAGE INVESTORS, LLC
920 SW SIXTH AVENUE
PORTLAND, OREGON 97204
Shelby Nemecek, PSB11E

Date: August 13, 2003

SIC Loan No. A3070704

RE: Lease dated: July 15, 1996

Landlord: Method Art Corporation, by assignment

Tenant: International Business Machines Corporation
("IBM"), a New York Corporation

Property Address: 6151 Lakeside Drive, Reno, Nevada 89511

Square Footage Leased: Approximately 4,044 square feet

Rent: \$7,315.84 per month (through 8-31-03)
\$7,498.74 per month (9-1-03 through 8-31-04)

Lease Term: Five (5) years with a three (3) year extension in lieu
of three (1) year renewal options contained in the
lease

Start Date: September 1, 1996

End Date: August 31, 2004

Gentlemen and Ladies:

The undersigned, Tenant under the above-described lease (the "Lease"), hereby confirms and certifies to StanCorp Mortgage Investors, LLC ("Lender"), as of the date hereof, the following:

1. It has accepted possession and is in full and complete occupancy of the demised premises, such possession having been delivered by the Landlord pursuant to the terms of the Lease.
2. The improvements and space required to be furnished by the terms of the Lease have been completed in all respects to the satisfaction of the undersigned and are open for the use of the undersigned, its customers, employees and invitees. If applicable, certificates of occupancy have been issued, TO THE BEST OF TENANT'S KNOWLEDGE. *R. N. P.*

3. All duties of an inducement nature required of the Landlord in the Lease have been fulfilled.

Initial Here

R-S-P

4. The Lease is in full force and effect, there is no existing default on the part of the Landlord or Tenant in the terms thereof, and the Lease has not been amended, modified, supplemented, assigned, sublet, cancelled or superseded, except as follows:

~~Rider of even date and~~ ^L letter dated June 8, 2001.

Initial Here

R-S-P

5. No rents have been prepaid except as provided by the Lease in the amount of \$ NONE. The undersigned does not have or hold any claim against Landlord that might be set off or credited against future accruing rents.

Initial Here

R-S-P

6. Rents provided in the Lease commenced to accrue and have been paid to the first day of the current month. All additional rent has been paid and collected in a current manner. The amount of the security deposit is \$None. There are no free rent or reduced rent concessions in the Lease, except as follows:

NONE

7. ~~If Tenant is a corporation, the undersigned is a duly appointed officer of the corporation signing this certificate and is the incumbent in the office indicated under his or her name. The undersigned individual is duly authorized to execute this certificate.~~

8. There are no other agreements written or oral between the undersigned and the Landlord with respect to the Lease and/or the leased premises and building.

This confirmation and certification is given to Lender with the understanding that Lender will be relying upon the accuracy of this confirmation in connection with the loan to be made by Lender to Landlord. This confirmation and certification shall inure to the benefit of the successors and assigns of Lender in ownership of the loan.

DATED this 9th day of SEPTEMBER, 2003

International Business Machines Corporation ("IBM")

By: R-S-P


Its: PROGRAM MANAGER

By: _____

Its: _____

The Alison Company

Memo

To: Shelby Nemecek
From: Nancy R. Craven 
Email: nancy@alisonmortgage.com

Date: 11 September 2003

Re: Method Art Corporation – Loan # A3070704
6151 Lakeside Drive
Reno, NV 89511

RECEIVED
SEP 12 2003
LOW FLOORING
STANCORP MORTGAGE INVESTORS

Enclosed for your review is the original fully executed Tenant Estoppel Certificate from First Horizon pertaining to the subject property.

TENANT ESTOPPEL CERTIFICATE

STANCORP MORTGAGE INVESTORS, LLC
920 SW SIXTH AVENUE
PORTLAND, OREGON 97204
Shelby Nemecek, PSB11E

Date: August 13, 2003

SIC Loan No. A3070704

RE: Lease dated: April 1, 2003
Landlord: *Magnolia Lakeside*
Method Art Corporation, by assignment
Tenant: First Horizon Home Loan Corporation and its
"affiliates"
Property Address: 6151 Lakeside Drive, Reno, Nevada 89511
Square Footage Leased: Approximately 10,722 square feet
Rent: \$9,649.80
Lease Term: Five (5) years
Start Date: April 1, 2003
End Date: March 31, 2008

Gentlemen and Ladies:

The undersigned, Tenant under the above-described lease (the "Lease"), hereby confirms and certifies to StanCorp Mortgage Investors, LLC ("Lender"), as of the date hereof, the following:

1. It has accepted possession and is in full and complete occupancy of the demised premises, such possession having been delivered by the Landlord pursuant to the terms of the Lease.
2. The improvements and space required to be furnished by the terms of the Lease have been completed in all respects to the satisfaction of the undersigned and are open for the use of the undersigned, its customers, employees and invitees. If applicable, certificates of occupancy have been issued.
3. All duties of an inducement nature required of the Landlord in the Lease have been fulfilled.

Initial Here
[Signature]

4. The Lease is in full force and effect, there is no existing default on the part of the Landlord or Tenant in the terms thereof, and the Lease has not been amended, modified, supplemented, assigned, sublet, cancelled or superseded, except as follows:

Addendum.

[Signature]

5. No rents have been prepaid except as provided by the Lease in the amount of \$ 9649.80. The undersigned does not have or hold any claim against Landlord that might be set off or credited against future accruing rents.

[Signature]

6. Rents provided in the Lease commenced to accrue and have been paid to the first day of the current month. All additional rent has been paid and collected in a current manner. The amount of the security deposit is \$None. There are no free rent or reduced rent concessions in the Lease, except as follows:

n/a

Initial Here
[Signature]

7. If Tenant is a corporation, the undersigned is a duly appointed officer of the corporation signing this certificate and is the incumbent in the office indicated under his or her name. The undersigned individual is duly authorized to execute this certificate.

8. There are no other agreements written or oral between the undersigned and the Landlord with respect to the Lease and/or the leased premises and building.

This confirmation and certification is given to Lender with the understanding that Lender will be relying upon the accuracy of this confirmation in connection with the loan to be made by Lender to Landlord. This confirmation and certification shall inure to the benefit of the successors and assigns of Lender in ownership of the loan.

DATED this 29 day of August, 2003

First Horizon Home Loan Corporation

By: *[Signature]* Ronald L. Bastek

Its: *SVP* Senior Vice President - CREAS

By: _____

Its: _____

The Alison Company

3636 Birch Street, Suite 240, Newport Beach, CA 92660
Phone: 949-852-0117
Fax: 949-853-0276
Email: nancy@alisonmortgage.com

Fax

To: Shelby From: [Signature]
Fax: _____ Pages: 3
Phone: _____ Date: 9/9/03
Re: Method Art Corp CC: _____

- Urgent, Please give this matter your IMMEDIATE Attention
- Per your request
- For Review/Approval
- FYI
- Please call if you have any questions or comments
- Please Review and then contact me
- Duplicate sent via: Airborne Overnight Express Messenger Mail None

*David -
Please
Review -
Shelby*

• Message:
Here is a faxed copy of IBM Estoppel
I should have both estoppel (original) by
Thursday
[Signature]

If all copies are not received, please contact the sender.
The information contained in this fax message is intended only for the personal & confidential use of the designated recipients named above. If the reader of this message is not the intended recipient or an agent responsible for delivering it to the intended recipient, you are hereby notified that you have received this document in error, and that any review, dissemination, distribution or copying of this message is strictly prohibited.

Sep 9 '03 2:24 P.02

STATE WEST 14+430+5000 TO S' 53322810

DMG
9.10.03

TENANT ESTOPPEL CERTIFICATE

STANCORP MORTGAGE INVESTORS, LLC
920 SW SIXTH AVENUE
PORTLAND, OREGON 97204
Shelby Nemecek, PSB11E

Date: August 13, 2003

SIC Loan No. A3070704

RE: Lease dated: July 15, 1996

Landlord: Method Art Corporation, by assignment

Tenant: International Business Machines Corporation
("IBM"), a New York Corporation

Property Address: 6151 Lakeside Drive, Reno, Nevada 89511

Square Footage Leased: Approximately 4,044 square feet

Rent: \$7,315.84 per month (through 8-31-03)
\$7,498.74 per month (9-1-03 through 8-31-04)

Lease Term: Five (5) years with a three (3) year extension in lieu
of three (1) year renewal options contained in the
lease

Start Date: September 1, 1996

End Date: August 31, 2004

Gentlemen and Ladies:

The undersigned, Tenant under the above-described lease (the "Lease"), hereby confirms and certifies to StanCorp Mortgage Investors, LLC ("Lender"), as of the date hereof, the following:

1. It has accepted possession and is in full and complete occupancy of the demised premises, such possession having been delivered by the Landlord pursuant to the terms of the Lease.
2. The improvements and space required to be furnished by the terms of the Lease have been completed in all respects to the satisfaction of the undersigned and are open for the use of the undersigned, its customers, employees and invitees. If applicable, certificates of occupancy have been issued **TO THE BEST OF TENANT'S KNOWLEDGE.** *[Signature]*

Sep 9 '03 2:24 P.03

08-08-2003 02:55PM FROM: [illegible]

STATS WEST 447438+5028 TO 81 0022810 P.03/03

All duties of an inducement nature required of the Landlord in the Lease have been fulfilled.

[Signature]

The Lease is in full force and effect, there is no existing default on the part of the Landlord or Tenant in the terms thereof, and the Lease has not been amended, modified, supplemented, assigned, sublet, cancelled or superseded, except as follows:

Notice of even date and letter dated June 8, 2001.

[Signature]

No rents have been prepaid except as provided by the Lease in the amount of \$ None. The undersigned does not have or hold any claim against Landlord that might be set off or credited against future accruing rents.

[Signature]

Rents provided in the Lease commenced to accrue and have been paid to the first day of the current month. All additional rent has been paid and collected in a current manner. The amount of the security deposit is \$None. There are no free rent or reduced rent concessions in the Lease, except as follows:

IF Tenant is a corporation, the undersigned is a duly appointed officer of the corporation signing this certificate and is the incumbent in the office indicated and is authorized to execute this certificate.

There are no other agreements written or oral between the undersigned and the Landlord with respect to the Lease and/or the leased premises and building.

This confirmation and certification is given to Lender with the understanding that Lender will be relying upon the accuracy of this confirmation in connection with the loan to be made by Lender to Landlord. This confirmation and certification shall inure to the benefit of the successors and assigns of Lender in ownership of the loan.

DATED this 9th day of SEPTEMBER, 2003

International Business Machines Corporation ("IBM")

By: [Signature]

Its: [illegible]

By: _____

Its: _____

Sep 9 '03 0:06 P.01
1-000 P.006/008 P.000

Post-It™ brand fax transmittal memo 761 of pages > 2

To: <i>Shelby Nemecek</i>	From: <i>NANCY C</i>
Co.	Co.
Dept.	Phone #
Fax # <i>503 478 5862</i>	Fax #

DMF
9.10.03

CERTIFICATE

STANCorp MORTGAGE INVESTORS, LLC
 920 SW SIXTH AVENUE
 PORTLAND, OREGON 97204
 Shelby Nemecek, PSB11E

Date: August 13, 2003

SIC Loan No. A3070704

RE: Lease dated: April 1, 2003
 Landlord: *Magnolia Lakeside*
 Method Art Corporation, by assignment
 Tenant: First Horizon Home Loan Corporation and its
 "affiliates"
 Property Address: 6151 Lakeside Drive, Reno, Nevada 89511
 Square Footage Leased: Approximately 10,722 square feet
 Rent: \$9,649.80
 Lease Term: Five (5) years
 Start Date: April 1, 2003
 End Date: March 31, 2008

Gentlemen and Ladies,

The undersigned, Tenant under the above-described lease (the "Lease"), hereby certifies and certifies to StanCorp Mortgage Investors, LLC ("Lender"), as of the date hereof, the following:

1. It has accepted possession and is in full and complete occupancy of the demised premises, such possession having been delivered by the Landlord pursuant to the terms of the Lease.
2. The improvements and space required to be furnished by the terms of the Lease have been completed in all respects to the satisfaction of the undersigned and are open for the use of the undersigned, its customers, employees and invitees. If applicable, certificates of occupancy have been issued.
3. All duties of an inducement nature required of the Landlord in the Lease have been fulfilled.

4. The Lease is in full force and effect, there is no existing default on the part of the Landlord or Tenant in the terms thereof, and the Lease has not been amended, modified, supplemented, assigned, sublet, cancelled or superseded, except as follows:

Initial Here

Addendum.

5. No rents have been prepaid except as provided by the Lease in the amount of \$ 9649.80. The undersigned does not have or hold any claim against Landlord that might be set off or credited against future accruing rents.

6. Rents provided in the Lease commenced to accrue and have been paid to the first day of the current month. All additional rent has been paid and collected in a current manner. The amount of the security deposit is \$None. There are no free rent or reduced rent concessions in the Lease, except as follows:

None

7. If Tenant is a corporation, the undersigned is a duly appointed officer of the corporation signing this certificate and is the incumbent in the office indicated under his or her name. The undersigned individual is duly authorized to execute this certificate.

8. There are no other agreements written or oral between the undersigned and the Landlord with respect to the Lease and/or the leased premises and building.

This confirmation and certification is given to Lender with the understanding that Lender will be relying upon the accuracy of this confirmation in connection with the loan to be made by Lender to Landlord. This confirmation and certification shall inure to the benefit of the successors and assigns of Lender in ownership of the loan.

DATED this 29 day of August, 2003

First Horizon Home Loan Corporation

By: [Signature] Ronald L. Bastek
Its: SVP Senior Vice President - CREAS

By: _____

Its: _____

Exhibit 6
Borrower Warranty Letter

September 3, 2003

Standard Insurance Company
920 SW Sixth Avenue, PSB11E
Portland, OR 97204

RE: SIC Loan No. A3070704
6151 Lakeside Drive
Reno, Nevada 89511

Gentlemen and Ladies:

The undersigned is the President of Method Art Corporation, a California corporation (the "Corporation"), and Wm. John Miner, Trustee of The Von Oppenheim Family Trust u/t/a dated June 28, 1993, as amended, and Wm. John Miner, each individually. If more than one person signs this letter, each shall be jointly and severally liable hereunder. The term "Borrower" wherever used herein shall mean the persons or entities named in this paragraph or any one or more of them. The Borrower has executed this Warranty Letter as of the date set forth above.

As an inducement to you to make the loan referenced above (the "Loan"), Borrower hereby represents, covenants and warrants as follows: which representations, covenants and warranties are true and correct as of the date of this Letter, shall survive the funding of the Loan, and shall remain continuing representations, covenants and warranties of Borrower so long as the obligations of Borrower under the documents representing and securing the Loan remain outstanding.

1. The property securing the Loan, 6151 Lakeside Drive, Reno, Nevada 89511 (the "Property") is, to the knowledge of Borrower, in compliance with all zoning, subdivision, environmental, health and safety regulations and ordinances applicable thereto; to the knowledge of Borrower, all deed restrictions, subdivision and building ordinances and other applicable governmental laws have been fully complied with; and Borrower has obtained or will obtain all licenses and permits required by governmental authorities with respect to the Property, its operation, improvement and use.
2. There are no actions, lawsuits, or other proceedings pending or, to the knowledge of Borrower, threatened against or affecting the Property or Borrower, which might adversely affect the ability of Borrower to perform its obligations under the Deed of Trust, the Note, and other instruments given as security for the Note, or which might adversely affect the priority of your lien on the property.

3. Consummation of the Loan and performance under the Deed of Trust, the Note, and the other instruments given to evidence and secure the Note (the "Loan Documents") will not conflict with or result in a breach of any understanding or agreement of Borrower, or, to the knowledge of Borrower, any law, regulation or court order applicable to Borrower or the Property.
4. Method Art Corporation is a corporation, duly organized, validly existing, and qualified to do business under the laws of the State of Nevada. The execution, delivery and performance by the Corporation of the Loan Documents and the borrowings evidenced by the Note are within the power of the Corporation, and have been duly authorized by all requisite Corporate action. The undersigned officer(s) are duly authorized to execute the Loan Documents on behalf of the Corporation.

Wm. John Miner as trustee under the Trust represents and warrants that he is the current sole trustee of the Trust, and has neither resigned nor been substituted nor replaced by successor trustees. The execution, delivery and performance by the trustees of the loan documents and the borrowings evidenced by the Note are within the power of the Trust. The Trust was duly executed and acknowledged by the parties named therein. The Agreement is in full force and effect and has not been otherwise altered or amended, (except for the amendment dated March 23, 1998). The Trust authorizes Wm. John Miner as trustee on behalf of the Trust, to enter into the loan transaction contemplated by the commitment.

5. No rents from Leases of Property have been paid more than one (1) month in advance of the rental required by the terms of the leases. None of the tenants or Leases (as defined in the Deed of Trust) are in default. No tenant claims are outstanding against Borrower. The only Leases in effect in connection with the Property are as set forth on the rent roll (Index of Leases) given concurrently with the Commitment letter dated July 31, 2003, as modified if applicable (the "Commitment").
6. No portion of the Property has been damaged by fire or other casualty, nor is any condemnation proceeding pending, or to the knowledge of Borrower, threatened with respect to the Property.
7. There has been no material change in the financial condition of Borrower which might adversely affect the ability of Borrower to perform its obligations under the Deed of Trust, the Note, and other instruments given as security for the Note, or which might adversely affect the priority of your lien on the property, and there has been no material adverse change in any aspect of the transaction as represented in the application and Commitment terms and conditions.
8. All services and utilities such as water, electricity, and sewer are available and are or will be connected to the Property and its improvements.

Method Art Corporation,
a California corporation

By: _____

Wm. John Miner, President

By: _____

Wm. John Miner, Trustee of the
Von Oppenheim Family Trust
u/d/t dated June 28, 1993, as
amended March 23, 1998

Wm. John Miner, Individually

Exhibit 7

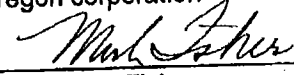
**Endorsement Form and Assignment of Beneficial Interest in Deed of Trust
and Related Loan Documents**

SMI LOAN #: A3070704

ENDORSEMENT FORM

Endorsed, without recourse, to **STANDARD LIBERTY 1, LLC**, an Oregon limited liability company, as to an undivided One Hundred percent (100%) interest.

STANDARD INSURANCE COMPANY
an Oregon corporation

By: 
Mark B. Fisher
Its: Assistant Vice President

Date: 10-10-05

ATTEST:


Assistant Secretary

DC # 3304403
08/2005 09:37A Fee:40.00
BK1
Requested By
FIRST AMERICAN TITLE INSURANCE
Washoe County Recorder
Kathryn L. Burke - Recorder
Pg 1 of 2 RPTT 0.00



Recording Requested and When Recorded, return to:

Kham Sythavongsa, T3A (SL1)
StanCorp Mortgage Investors, LLC
19225 NW Tanasbourne Drive
Hillsboro, OR 97124



ASSIGNMENT OF BENEFICIAL INTEREST IN DEED OF TRUST AND RELATED LOAN DOCUMENTS

FOR VALUE RECEIVED, the undersigned hereby grants, assigns and transfers to, **Standard Liberty 1, LLC**, an Oregon limited liability company, an undivided **One Hundred percent (100%)** of the beneficial interest under the following Deed of Trust:

Trustor	Loan Number	Date of Recording	Recording No.
Method Art Corporation	A3070704	September 17, 2003	2923127

All as described in the Official Records in the Office of the County Recorder of Washoe County, Nevada, together with the note or notes described or referred to therein, the money due and to become due therein with interest, all rights accrued to or to accrue under the Deed of Trust, and all rights under the separate Assignment of Lessor's Interest in Leases of even date with each Deed of Trust.

Dated this 10th day of October, 2005.

"ASSIGNOR"

STANDARD INSURANCE COMPANY
an Oregon corporation

By:

Mark B. Fisher
Mark B. Fisher
Assistant Vice President

Attest By:

Assistant Secretary
Assistant Secretary

Standard Liberty 1, LLC
19225 NW Tanasbourne Drive
Hillsboro, Oregon 97124

Standard Insurance Company
19225 NW Tanasbourne Drive
Hillsboro, Oregon 97124

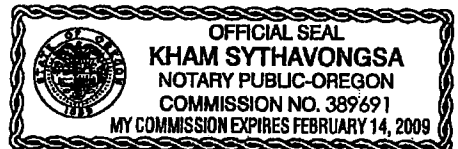


3304483
11/08/2005
2 of 2

STATE OF OREGON)
) ss:
COUNTY OF WASHINGTON)

On this 10th day of October, 2005, before me appeared MARK FISHER and AMY FRAZEY, both to me personally known, who being duly sworn did say that he, the said MARK FISHER is the Assistant Vice President, and she, the said AMY FRAZEY is the Assistant Secretary of STANDARD INSURANCE COMPANY, the within named corporation, and that the seal affixed to said document is the corporate seal of said corporation, and that the said document was signed and sealed in behalf of said corporation by authority of its Board of Directors, and MARK FISHER and AMY FRAZEY acknowledged said document to be the free act and deed of said corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and seal the day and year last above written.



Kham Sythavongsa
Kham Sythavongsa
Notary Public for Oregon
My Commission Expires: February 14, 2009

TAX ACCOUNT# 042-222-18

COMMONLY KNOWN AS: 6151 LAKESIDE DRIVE
RENO, NV 89511

Exhibit 8

**Allonge Endorsement Form and Assignment of Beneficial Interest in Deed of Trust
and Related Loan Documents**

ALLONGE

SMI LOAN #: A3070704

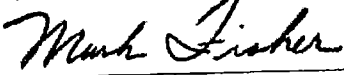
ENDORSEMENT FORM

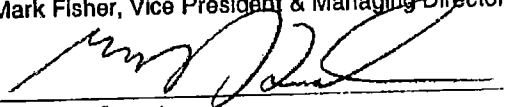
Endorsed, without recourse, to the following entities, the following undivided interests: **Liberty Life Assurance Company of Boston**, a Massachusetts stock insurance company 10.00%; **Liberty Mutual Fire Insurance Company**, a Massachusetts stock insurance company 5.00%; **Liberty Mutual Insurance Company**, a Massachusetts stock insurance company 32.00%; **Peerless Insurance Company**, a New Hampshire corporation 2.00%; **Standard Insurance Company**, an Oregon corporation 51.00%

Signed this 31st day of December, 2006 by:

SELLER: STANDARD LIBERTY 1, LLC

By: StanCorp Mortgage Investors, LLC, its Manager

By: 
Mark Fisher, Vice President & Managing Director

Attest: 
Assistant Secretary

First American Equity Loan Services, Inc
1100 Superior Avenue Suite 200
Cleveland, Ohio 44114
Voice: 216/241-1278



COPY

RECORDINGS SCAN SHEET

7140.0 StanCorp Mortgage

ORDER: 11391919 SEQ: 001 DOCUMENT: ASSN SIDES: 3

METHOD ART CORPORATION
6151 LAKESIDE DRIVE
RENO NV 89511

11391919\$001\$ASSN\$3\$0



RECEIVED

JUL 09 2007

QUALITY ASSURANCE
STANCorp MORTGAGE INVESTORS

3

OC # 3497915

02/14/2007 09:16:43 AM
Requested By
FIRST AMERICAN LENDERS ADVANTAGE
Washoe County Recorder
Kathryn L. Burke - Recorder
Fee: \$16.00 RPTT: \$0.00
Page 1 of 3

Recording Requested and When
Recorded, return to:



Cheryl Ramirez, T3A
StanCorp Mortgage Investors, LLC
19225 NW Tanasbourne Drive
Hillsboro, OR 97124

**ASSIGNMENT OF BENEFICIAL INTEREST IN DEED OF TRUST
AND RELATED LOAN DOCUMENTS**

11391919

FOR VALUE RECEIVED, the undersigned hereby grants, assigns and transfers to, Liberty Life Assurance Company of Boston, a Massachusetts stock insurance company 10%, Liberty Mutual Fire Insurance Company, a Massachusetts stock insurance company 5%, Liberty Mutual Insurance Company, a Massachusetts stock insurance company 32%, Peerless Insurance Company, a New Hampshire corporation 2%, Standard Insurance Company, an Oregon corporation 51%, of the beneficial interest under the following Deed of Trust:

Truster	Loan Number	Date of Recording	Recording No.
Method Art Corporation	A3070704	September 17, 2003	2923127
			2923128

All as described in the Official Records in the Office of the County Recorder of Washoe County, Nevada, together with the note or notes described or referred to therein, the money due and to become due therein with interest, all rights accrued to or to accrue under the Deed of Trust, and all rights under the separate Assignment of Lessor's Interest in Leases of even date with each Deed of Trust.

See Page 2, Assignor and Assignee Addresses

Dated: December 31, 2006.

ASSIGNOR: STANDARD LIBERTY 1, LLC

By: StanCorp Mortgage Investors, LLC, its Manager

By: Mark Fisher
Mark Fisher, Vice President & Managing Director

AO

Attest: [Signature]
Assistant Secretary

ASSIGNOR AND ASSIGNEE ADDRESSES

Liberty Life Assurance Company
175 Berkeley Street
Boston, MA 02116

Liberty Mutual Fire Insurance Company
175 Berkeley Street
Boston, MA 02116

Liberty Mutual Insurance Company
175 Berkeley Street
Boston, MA 02116

Peerless Insurance Company
175 Berkeley Street
Boston, MA 02116

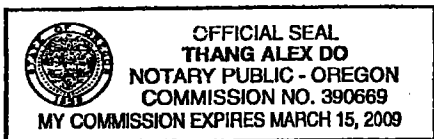
Standard Insurance Company
19225 NW Tanasbourne Drive
Hillsboro, OR 97124

Standard Liberty 1, LLC
19225 NW Tanasbourne Drive
Hillsboro, OR 97124

STATE OF OREGON)
) ss:
COUNTY OF WASHINGTON)

On this 26th day of January, 2007, before me appeared MARK FISHER and GREGG HARROD, both to me personally known, who being duly sworn did say that he, the said MARK FISHER is the Vice President and Managing Director, and he, the said GREGG HARROD is the Assistant Secretary of STANCORP MORTGAGE INVESTORS, LLC, an Oregon limited liability company, the within named limited liability company, as Manager of STANDARD LIBERTY 1, LLC, an Oregon limited liability company, and that the said document was signed in behalf of said limited liability company, and MARK FISHER and GREGG HARROD acknowledge said document to be the free act and deed of said limited liability company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and seal the day and year last written.



Thang Alex Do

Alex Thang Do
Notary Public for Oregon
My Commission Expires: March 15, 2009

When recorded mail to:
First American Title Insurance Co.
Lenders Advantage
1100 Superior Avenue, Suite 200
Cleveland, Ohio 44114
Attn: NR1120

Exhibit 9
Order Approving Stipulation for Use of Cash Collateral
and for Adequate Protection

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Stefanie Sharp
NV State Bar No. 8661
Robison, Belaustegui, Sharp and Low
71 Washington Street
Reno, Nevada 89503
Phone: (775) 329-3151
Facsimile: (775) 329-7169
Email: ssharp@rbsllaw.com
Attorneys for StanCorp Mortgage Investors, LLC

UNITED STATES BANKRUPTCY COURT
DISTRICT OF NEVADA

In re:

METHOD ART CORPORATION,

Debtors.

Case No. BK-N-12-50745-btb

**ORDER APPROVING STIPULATION
FOR USE OF CASH COLLATERAL AND
FOR ADEQUATE PROTECTION**

Hearing Date: N/A
Hearing Time: N/A

The Court, having reviewed the *Stipulation for Use of Cash Collateral and for Adequate Protection* (the "Stipulation") for the property commonly known as 6151 Lakeside Drive, Reno, Nevada 89511, APN 042-222-18, entered into by and between secured creditor StanCorp Mortgage Investors, LLC, an Oregon limited liability company, on its own behalf and as the authorized representative of Standard Insurance Company, an Oregon corporation, Liberty Life

1 Assurance Company of Boston, a Massachusetts stock insurance corporation, Liberty Mutual
2 First Insurance Company, a Massachusetts stock insurance corporation, Liberty Mutual
3 Insurance Company, a Massachusetts stock insurance corporation, Peerless Insurance Company,
4 a New Hampshire corporation, and Debtor Method Art Corporation, a California corporation,
5 and good cause appearing;

6 **IT IS HEREBY ORDERED** that the Stipulation is approved.

7
8 **IT IS SO ORDERED**

9 #####

10
11 Respectfully Submitted By:

12
13 ROBISON, BELAUSTEGUI, SHARP & LOW,
14 a Professional Corporation

15 By: _____
16 STEFANIE T. SHARP, ESQ.
17 71 Washington Street
18 Reno, Nevada 89503
19 Phone: (775) 329-3151
20 *Attorneys for StanCorp Mortgage Investors, LLC*
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