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AFTER RECORDING
RETURN TO:

Jerry F. Miceli
Western Springs National Bank and Trust
4456 Wolf Road
Western Springs, IL 60558
(708) 246-2200



Doc#: 0923922089 Fee: \$56.00
Eugene "Gene" Moore BHSF Fee: \$10.00
Cook County Recorder of Deeds
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This documents contains a total of 11 pages, including Legal Description.

INTERCREDITOR AGREEMENT

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INTERCREDITOR AGREEMENT

THIS INTERCREDITOR AGREEMENT ("**Agreement**"), dated as of July 7, 2006, is between Mutual Bank, an Illinois banking corporation, having offices at 16540 S. Halsted Street, Harvey, Illinois 60426 ("**Lender**") and Western Springs National Bank & Trust Co., a National banking association, having offices at 4456 Wolf Rd., Western Springs, Illinois 60558 ("**WSNB**"), with respect to certain financing arrangements with KANAN FASHIONS, INCORPORATED, an Illinois corporation, having offices at 17W220, 22nd Street, Suite 220, Oak Brook Terrace, Illinois 60181 ("**Borrower**").

W I T N E S S E T H:

WHEREAS, pursuant to a Loan and Security Agreement, as supplemented and amended (which, together with the mortgages and other agreements heretofore, now or hereafter executed in connection with the credit arrangement between Lender and Borrower and as amended from time to time, is hereinafter collectively referred to as the "**Loan Agreement**"), Lender has agreed to make loans and advances to Borrower (including without limitation revolving loans) and guaranty letters of credit issued for the account of Borrower; and

WHEREAS, pursuant to the Promissory Note ("Note") in the amount of \$23,500,000 dated as of July 7, 2006 executed by Borrower in favor of Lender; and

WHEREAS, WSNB has agreed to purchase a portion of the indebtedness of the Borrower created by the Loan Agreement and have executed a "Participation Agreement" in the amount of \$2,500,000; and

WHEREAS, the note, being secured by various mortgages and security agreements; and

WHEREAS, Lender and WSNB desire to agree to the priority of their respective security interests in and liens on the "Collateral" (as hereinafter defined) and certain other rights, priorities and interests as created by the loan participation.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, it is hereby agreed as follows:

1. Definitions.

(a) "**Accounts and Inventory**" shall mean (a) all of Borrower's present and future accounts, receivables, contract rights, instruments, chattel paper, bank accounts, cash accounts, deposit accounts, certificates of deposit, securities, letters of credit, documents, tax refunds, refunds of expenses, choses in action, causes of action, proceeds from insurance and condemnation relating to the items specified in this Section 1.1, rights to refunds or indemnification, rights as unpaid vendor (including without limitation stoppage in transit, reclamation and replevin), customer lists, business records, corporate

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or other business records, sales literature, name plates, trade names, catalogs, dealer contracts, supplier contracts, distributor agreements, consulting agreements, engineering contracts and all other general intangibles (except for the general intangibles that constitute Intellectual Property); (b) all of Borrower's present and future inventory wheresoever located, including but not limited to all merchandise, raw materials, parts, supplies, work in process, finished products intended for sale, rent or lease, all packaging materials of every kind and description, and any returns upon any accounts or other proceeds; and (c) all proceeds of the foregoing, including without limitation insurance proceeds.

(b) "**Collateral**" shall mean the first mortgage and assignment of rents against the property commonly known as 100 E. Huron St., Unit 4802, Chicago, Illinois.

(c) "**Lender Claim**" shall mean all "Liabilities" of Borrower to Lender as defined in the Loan Agreement, including but not limited to all sums loaned and advanced to or for the benefit of Borrower at any time, any interest thereon, any future advances, obligations with respect to letters of credit issued or guaranteed by Lender for the account of Borrower, and any costs of collection or enforcement, including reasonable attorneys' and paralegals' costs, fees and any prepayment premiums.

(d) "**Lender Senior Collateral**" shall mean all Accounts and Inventory, Equipment and Intellectual Property, 2nd Preferred Ship Mortgage against the "Kanan" Cruise Ship, and all real estate mortgages and assignment of rents given to secure the Loan Agreement on real estate other than the WSNB Senior Collateral.

(e) "**Enforcement**" shall mean, collectively or individually for one or both of Lender and/or Mutual, to make demand for payment or accelerate the indebtedness of Borrower, repossess any material amount of Collateral or commence the judicial enforcement of any of the rights and remedies under the Participation Agreement, the Loan Agreement, or applicable law.

(f) "**Enforcement Notice**" shall mean a written notice delivered by either Lender to the WSNB stating that an "Event of Default" (as defined in the Participation Agreement or the Loan Agreement, respectively) has occurred and is continuing and that an Enforcement Period has commenced.

(g) "**Enforcement Period**" shall mean the period of time following the receipt by WSNB of an Enforcement Notice from the other lender until either (a) the final payment or satisfaction in full of either the Lender Claim; or (b) Lender and WSNB agree in writing to terminate the Enforcement Period.

(h) "**Equipment**" shall mean all of Borrower's machinery and equipment, including without limitation all engineering, processing and manufacturing equipment, office machinery, furniture, material handling equipment, conveyors, tools, automotive equipment, trailers, trucks, forklifts, molds, dies, stamps, motor vehicles and other equipment, and fixtures not forming part of the Real Estate, all whether now owned or

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hereafter acquired, and wherever situated, together with all additions and accessions thereto, replacements therefor, all substitutes for any of the foregoing and all manuals, drawings, instructions, warranties and rights with respect thereto, and all proceeds of the foregoing, including without limitation insurance proceeds.

(i) "**Intellectual Property**" shall mean all of Borrower's present and future designs, patents, patent rights and applications therefor, trademarks and applications therefor, service marks and applications therefor, franchises, inventions, copyrights and applications and registrations therefor, drawings, specifications, descriptions and all memoranda and records with respect to any research and development.

(j) "**WSNB Claim**" shall mean all obligations of Borrower to Bank as set forth in the Loan Agreement and as assigned to WSNB and set forth in the Participation Agreement between Bank and WSNB including but not limited to all sums loaned and advanced to or for the benefit of Borrower at any time, any interest thereon, any future advances, obligations with respect to letters of credit issued or guaranteed by Mutual for the account of Borrower, any costs of collection or enforcement, including reasonable attorneys' and paralegals' costs, fees and any prepayment premiums.

(k) "**WSNB Senior Collateral**" shall mean the real estate located at 100 E. Huron St., Unit 4802, Chicago, Illinois, and incorporated as part of the "Borrowing Base" by Borrower for sums loaned and advanced to or for the benefit of Borrower by Lender.

(l) "**Real Estate**" shall mean all real property mortgaged as part of the Loan Agreement excepting the WSNB Senior Collateral and commonly known as 100 Huron St., Unit 4802, Chicago, Illinois.

2. Intercreditor Agreement.

(a) Lien Priorities. Notwithstanding the date, manner or order of perfection of the security interests and liens granted to Lender and subsequently WSNB, and notwithstanding any provisions of the Uniform Commercial Code, or any applicable law or decision or the Loan Agreement or the Participation Agreement, or whether either Lender or WSNB holds possession of all or any part of the Collateral, the following, as between Lender and WSNB, shall be the relative priority of the security interests and liens of Lender and WSNB in the Collateral:

(A) Lender shall have a first and prior assignment of and security interest in all Lender Senior Collateral and all proceeds thereof, including insurance proceeds relating thereto, and products thereof; WSNB hereby waives any assignment of or security interest in the foregoing property and interests in such property; and

(B) WSNB shall have a first assignment of, or security interest or mortgage lien in, the WSNB Senior Collateral and all proceeds thereof, including insurance proceeds relating thereto, and products thereof; Lender

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shall have a second and subordinate assignment of, or security interest or mortgage lien in, the foregoing property and interests in such property.

(b) Distribution of Proceeds of Collateral. All proceeds of Collateral shall be distributed in accordance with the following procedure, to the extent permitted by law:

(A) All proceeds of WSNB Senior Collateral shall be paid to WSNB for application to the WSNB Claim with any residual proceeds after satisfaction in full of the WSNB Claim and termination of the Participation Agreement being paid to Lender; After the Lender Claim and the WSNB Claim have been paid or satisfied in full, the balance of proceeds of WSNB Senior Collateral, if any, shall be paid to Borrower or as otherwise required by applicable law; and

(B) All proceeds of Lender Senior Collateral shall be paid to Lender for application to the Lender Claim with any residual proceeds after satisfaction in full of the Lender Claim and termination of the Loan Agreement being paid to WSNB; and after the WSNB claim has been paid or satisfied in full, than any balance of proceeds, if any, shall be paid to Borrower or as otherwise required by applicable law.

(c) Enforcement Actions. Lender agrees not to commence any Enforcement with respect to WSNB Senior Collateral until an Enforcement Notice has been given by lender to WSNB. Lender agrees to give any Enforcement Notice to WSNB (i) thirty (30) days after the giving of written notice to Borrower that an Event of Default under the Loan Agreement has occurred as a result of the failure of Borrower to make a payment of principal or interest when due and owing to Lender (a "**Payment Default**"); or (ii) thirty (30) days after the giving of written notice by Lender to Borrower that an Event of Default other than a Payment Default has occurred under the Loan Agreement, unless (a) Lender shall have accelerated its loans to Borrower and made demand for payment thereof; (b) any bankruptcy or insolvency proceeding shall have been commenced by Borrower; or (c) any bankruptcy or insolvency proceeding shall have been commenced against Borrower and thirty (30) days shall have passed since the commencement of such proceeding without such proceeding being dismissed. Subject to the foregoing, Lender and WSNB agree that during an Enforcement Period:

(A) Lender may, at its option, take any action to accelerate payment of the Lender Claim and to foreclose or realize upon or enforce any of its rights with respect to Lender Senior Collateral, without the prior written consent of WSNB.

(B) WSNB may not take any action to accelerate payment of the Claim and to foreclose or realize upon or enforce any of its rights with respect to the WSNB Senior Collateral without the prior written consent of Lender; and further provided, that WSNB shall not take any action to foreclose or realize upon or to enforce any of its rights with respect to any of the Lender Senior Collateral without Lender's prior written consent.

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(d) Additional Credit Extensions. Lender shall have the right, with the consent of WSNB to extend credit to Borrower in excess of the maximum amounts set forth in the Loan Agreement and Participation Agreement, and such extensions of credit, whether under said Agreement or under any other agreements with Borrower, shall be secured by the Lender Senior Collateral or the WSNB Senior Collateral, as the case may be, and otherwise shall have the same priorities as herein contained. Notwithstanding the foregoing, if any such advance(s) are secured by collateral other than the Collateral described hereunder, the advancing lender shall have no obligation to marshal the assets of Borrower in which it has a lien or security interest before enforcing its rights in the Collateral hereunder, and the nonadvancing lender shall have no rights hereunder to share or participate in any proceeds of such other collateral. Lender shall give WSNB notice of its intent to so extend such credit, but the failure to do so shall not affect the validity of the extension of credit, create a cause of action against Lender for failing to give such notice or create any claim or right on behalf of any third party.

(e) Payments and Accountings. Under the terms of the Loan Agreements, Borrower is obligated to pay Lender interest monthly with all outstanding principal due at maturity. In addition, the outstanding principal balance drawn against the Note is subject to a "Borrowing Base" and any deficiency will result in a principal call. Payments of principal under such principal calls will not be disbursed to WSNB. However, Lender shall, upon monthly collection of interest, pay and disburse to WSNB its proportion of interest due. Principal repayment to WSNB, notwithstanding anything to the contrary to the Participation Agreement between Lender and WSNB, shall be at maturity of the Loan Agreements. Lender agrees to render accountings to WSNB upon request, giving effect to the application of proceeds of Collateral as hereinbefore provided.

(f) Notices of Defaults. Lender agrees to give WSNB copies of any notice of the occurrence of an Event of Default, simultaneously with the sending of such notice to Borrower, but the failure to do so shall not affect the validity of such notice or create a cause of action against the Lender for failing to give such notice or create any claim or right on behalf of any third party. The sending or receipt of such notice shall not obligate the recipient to cure such Event of Default.

(g) Insurance. Notwithstanding anything to the contrary herein, Borrower shall obtain satisfactory Mortgagee and Lender's Loss Payable Endorsements naming Lender and its assigns, with respect to policies which insure Lender's and WSNB's Senior Collateral hereunder. Lender shall have the sole and exclusive right to adjust settlement of such insurance policy in the event of any loss. All proceeds with respect to such loss shall be paid to Lender as Mortgagee and Loss Payee. Lender shall apply any insurance proceeds for the Collateral against the WSNB Claim. Lender shall have at all times the right to distribute to Borrower for use in Borrower's business the proceeds of any business interruption insurance policy covering Borrower's business. If Lender elects not to distribute such proceeds to Borrower, then Lender shall retain such proceeds and apply it against the amount due WSNB under the Participation Agreement.

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3. Miscellaneous.

(a) Notices. Any notice required or desired to be served, given or delivered hereunder shall be in writing (including facsimile transmission), and shall be deemed to have been validly served, given or delivered upon the earlier of (a) personal delivery to the address set forth below; (b) in the case of mailed notice, five (5) days after deposit in the United States mails, with proper postage for certified mail, return receipt requested, prepaid, or in the case of notice by Federal Express or other reputable overnight courier service, one (1) Business Day after delivery to such courier service; and (c) in the case of facsimile transmission, upon transmission with confirmation of receipt, in any such case addressed to the party to be notified as follows:

(1) If to the Lender at:

Mutual Bank
16540 South Halsted Street
Harvey, Illinois 60426
Attention: John R. Benik, Sr. VP.
Facsimile Number: (708)339-2931

With a copy to:

Attention: _____
Facsimile Number: _____

(2) If to WSNB:

Western Springs National Bank & Trust Co.

Attention: _____
Facsimile Number: _____

With a copy to:

Attention: _____
Facsimile Number: _____

or to such other address as each party designates to the other in the manner herein prescribed.

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(b) Contesting Liens or Security Interests. As between Lender and WSNB, the terms of this Intercreditor Agreement shall govern even if all or part of the Lender Claim or the WSNB Claim, as the case may be, or the liens or security interests securing payment thereof, are avoided, disallowed, set aside or otherwise invalidated.

(c) No Benefit to Third Parties. The terms and provisions of this Agreement shall be for the sole benefit of Lender and WSNB and their respective successors and assigns and no other person, firm, entity or corporation shall have any right, benefit, priority or interest under or because of this Agreement.

(d) Independent Credit Investigations. Neither of the lenders nor any of their respective directors, officers, agents or employees shall be responsible to the other or to any other person, firm or corporation, for Borrower's solvency, financial condition or ability to repay the Lender Claim or the WSNB Claim, or for statements of Borrower, oral or written, or for the validity, sufficiency or enforceability of the Lender Claim or the WSNB Claim, the Loan Agreement, the Participation Agreement, or any liens or security interests granted by Borrower to the lenders in connection therewith. Each lender has entered into its respective financing agreements with Borrower based upon its own independent investigation, and makes no warranty or representation to the other lender nor does it rely upon any representation of the other lender with respect to matters identified or referred to in this paragraph.

(e) Amendments to Financing Arrangements or to this Agreement. Lender shall notify WSNB of any amendment or modification in the Loan Agreement or the Participation Agreement, respectively. All modifications or amendments of this Agreement must be in writing and duly executed by an authorized officer of each lender to be binding and enforceable.

(f) Successors and Assigns; Replacement Financing. This Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of each of the parties hereto, but does not otherwise create, and shall not be construed as creating, any rights enforceable by Borrower or any other person not a party to this Agreement.

(g) Governing Law and Forum Selection. This Agreement shall be governed as to validity, interpretations, enforcement and effect by the laws of the State of Illinois without giving effect to conflicts of law principles thereunder.

(h) Agreement Absolute. This Agreement shall be and remain absolute and unconditional under any and all circumstances, and no act or omission on the part of any party to this Agreement shall affect or impair the agreement of the other party hereunder. Counterparts. This Agreement may be executed in any number of counterparts each of which shall be deemed to be an original hereof submissible into evidence and all of which together shall be deemed to be a single instrument.

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

Mutual Bank

By [Signature]
 Title SA VP

Western Springs National Bank & Trust Co.

By [Signature]
 Title PRESIDENT

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ACKNOWLEDGMENT

STATE OF Illinois)
)
COUNTY OF Cook) SS

I, Sandra Dean, a Notary Public in and for and residing in said County and State, DO HEREBY CERTIFY THAT John R. Benik and _____, the SVP and CLO of Mutual Bank, personally known to me to be the same persons whose names are subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that they signed and delivered said instrument as their own free and voluntary act and as the free and voluntary act of said corporation for the uses and purposes therein set forth.

GIVEN under my hand and notarial seal this 6 day of July, 2006.

Sandra M Dean
Notary Public



My Commission Expires:

5/26/07

ACKNOWLEDGMENT

STATE OF Illinois)
)
COUNTY OF Cook) SS

I, LaDonna Ray, a Notary Public in and for and residing in said County and State, DO HEREBY CERTIFY THAT Jarvis M. Medli and _____, the President and _____ of Western Springs National Bank & Trust Co., personally known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that he signed and delivered said instrument as his own free and voluntary act and as the free and voluntary act of said corporation for the uses and purposes therein set forth.

GIVEN under my hand and notarial seal this 7th day of July, 2006.

LaDonna Ray
Notary Public



My Commission Expires:

July 16 2012

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LEGAL DESCRIPTION

PARCEL 1:

UNIT NO. 4802 IN 100 EAST HURON STREET CONDOMINIUM AS DELINEATED ON A SURVEY OF THE FOLLOWING DESCRIBED REAL ESTATE:

LOT 2 IN CHICAGO PLACE, BEING A RESUBDIVISION OF THE LAND, PROPERTY AND SPACE WITHIN BLOCK 46 (EXCEPT THE EAST 75 FEET THEREOF) IN KINZIE'S ADDITION TO CHICAGO IN THE NORTH ½ OF SECTION 10, TOWNSHIP 39 NORTH, RANGE 14 EAST OF THE THIRD PRINCIPAL MERIDIAN,

WHICH SURVEY IS ATTACHED AS EXHIBIT 'A' TO THE DECLARATION OF CONDOMINIUM RECORDED AS DOCUMENT NO. 90620268 TOGETHER WITH ITS UNDIVIDED PERCENTAGE INTEREST IN THE COMMON ELEMENTS, IN COOK COUNTY, ILLINOIS.

PARCEL 2:

EASEMENT FOR MAINTENANCE, INGRESS AND EGRESS FOR THE BENEFIT OF PARCEL 1 AS SET FORTH BY EASEMENT AND OPERATION AGREEMENT, RECORDED OCTOBER 6, 1990 AS DOCUMENT 90487310.

PIN: 17-10-105-014-1200

ADDRESS OF PROPERTY: UNIT 4802 AT 100 EAST HURON, CHICAGO, ILLINOIS