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IN THE SUPREME COURT OF THE STATE OF NEVADA

2 IN RE: MANHATTAN WEST MECHANICS LIEN LITIGATION,

 $3 \|_{\underline{}}$

APCO CONSTRUCTION, A NEVADA CORPORATION; ACCURACY

GLASS & MIRROR COMPANY,

5 INC.; BRUIN PAINTING

CORPORATION; BUCHELE, INC.;

- 6 CACTUS ROSE CONSTRUCTION; FAST GLASS, INC.: HD SUPPLY
- 7 WATERWORKS, LP; HEINAMAN CONTRACT GLAZING; HELIX
- 8 ELECTRIC OF NEVADA, LLC; INTERSTATE PLUMBING & AIR
- 9 CONDITIONING; SWPPP COMPLIANCE SOLUTIONS, LLC; 10 AND WRG DESIGN, INC.,

Petitioners,

VS.

THE EIGHTH JUDICIAL DISTRICT
COURT OF THE STATE OF
NEVADA, IN AND FOR THE
COUNTY OF CLARK; AND THE
HONORABLE SUSAN SCANN,
DISTRICT JUDGE,

Respondents,

16 and

17 SCOTT FINANCIAL CORPORATION, A NORTH

- 18 DAKOTA CORPORATION; AHERN RENTALS, INC.; ARCH ALUMINUM
- 19 AND GLASS CO.; ATLAS CONSTRUCTION SUPPLY, INC.;
- 20 BRADLEY J. SCOTT; CABINETEC, INC.; CAMCO PACIFIC
- 21 CONSTRUCTION CO., INC.; CELLCRETE FIREPROOFING OF
- 22 NEVADA, INC.; CLUB VISTA FINANCIAL SERVICES, LLC;
- 23 CONCRETE VISIONS, INC.; CREATIVE HOME THEATRE. LLC:

Electronically Filed Oct 20 2015 10:42 a.m. Tracie K. Lindeman

Case No.: 61131Clerk of Supreme Court

PETITION FOR REHEARING

2632943_1

1	CUSTOM SELECT BILLING, INC.;	
2	DAVE PETERSON FRAMING, INC.; E&E FIRE PROTECTION, LLC; EZA,	
	P.C.; FERGUSON FIRE AND	
3	FABRICATION, INC.; GEMSTONE	
	DEVELOPMENT WEST, INC.;	
4	GRANITE CONSTRUCTION	
	COMPANY; HARSCO	
5	CORPORATION; HYDROPRESSURE	
	CLEANING; INQUIPCO; INSULPRO	
6	PROJECTS, INC.; JEFF HEIT	
_	PLUMBING CO., LLC; JOHN DEERE	
7	LANDSCAPE, INC.; LAS VEGAS	
	PIPELINE, LLC; NEVADA PREFAB	
8	ENGINEERS; NOORDA SHEET	
9	METAL COMPANY; NORTHSTAR CONCRETE, INC.; PAPE MATERIAL	
9	HANDLING; PATENT	
10	CONSTRUCTION SYSTEMS;	
	PRESSURE GROUT COMPANY;	
11	PROFESSIONAL DOOR AND MILL	
	WORKS, LLC; READY MIX, INC.;	
/	RENAISSANCE POOLS & SPAS,	
	INC.; REPUBLIC CRANE SERVICE,	
13	LLC; STEEL ENGINEERS, INC.;	
	SUNSTATE COMPANIES, INC.;	
	SUPPLY NETWORK, INC.;	
	THARALDSON MOTELS II, INC.;	
15	TRI CITY DRYWALL, INC.; UINTAH	
16	INVESTMENTS, LLC; AND ZITTING	
10	BROTHERS CONSTRUCTION, INC., Real Parties in Interest.	
17	Real Farties in Interest.	
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I. INTRODUCTION

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This petition seeks rehearing pursuant to NRAP 40 of the Court's panel opinion issued on September 24, 2015. The Court's opinion adopts a policy for Nevada favoring "partial subordination" and rejecting "complete subordination," absent an express statement for complete subordination, in the context of competing priority of mechanic's liens and deeds of trust. adopting this policy, the Court's opinion principally relied upon Caterpillar Financial Services Corp. v. Peoples National Bank, N.A., 710 F.3d 691 (7th Cir. 2013), which was first raised in supplemental authorities, under the parameters of NRAP 31(e). However, Caterpillar and many of the related authorities rely upon the Uniform Commercial Code, Article 9—Secured Transactions, which is the equivalent of NRS Chapter 104.9109 et seq. This Court's departure from well-established Nevada law enforcing mechanic's liens to adopt contrary UCC principles undercuts the policymaking function of the Court in the context of construing ambiguous statutes. See, e.g., Lehrer 16 McGovern Bovis, Inc. v. Bullock Insulation, Inc., 124 Nev. 1102, 1115, 197 P.3d 1032, 1041 (2008) ("The object of the lien statutes is to secure payment to those who perform labor or furnish material to improve the property of the owner.") (citation and internal quotation marks omitted); see also Westpark Owners' Ass'n v. Dist. Ct., 123 Nev. 349, 357, 167 P.3d 421, 427 (2007) ("Given an ambiguous statute, this court must interpret the statute in light of the policy and the spirit of the law ") (citation and internal quotation marks omitted). On this initial basis of overlooking well-established principles of

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Nevada law for enforcing mechanic's liens and construing the policy of statutes, the Court should grant rehearing.

Even if the Court abides by its interpretation of NRS 108.225 to allow the insertion of UCC principles, the Court should still grant rehearing on three alternative grounds. First, the Court's opinion adopted the "partial subordination" policy based upon the assumption that the "subordination agreement neither stated it intended to create complete subordination nor 8 mentioned the mechanic's lien." Opinion, at *12–13. However, the Court overlooked that the subordination agreement conclusively establishes lien priority with the condition "as though the Mezzanine Deeds of Trust has been recorded subsequent to the recordation of the \$110,000,000 Senior Debt Deed of Trust." 3 Petitioners' Appendix ("PA") 642, ¶ 1 (emphasis added).

Second, if the Court concludes that this overlooked language is not sufficiently clear to apply "complete subordination" in favor of the Lien Claimants, the Court should order an evidentiary hearing, as required by 16 Nevada law, instead of reading a new provision into the subordination agreement for the benefit of Scott Financial Corporation ("SFC"). See Fox v. First W. Sav. & Loan Ass'n, 86 Nev. 469, 473, 470 P.2d 424, 426 (1970) ("When a contract is in any of its terms or provisions ambiguous or uncertain it is primarily the duty of the trial court to construe it *after* a full opportunity is afforded all the parties in the case to produce evidence of the facts, circumstances and conditions surrounding its execution and the conduct of the 23 parties thereto.") (emphasis added and citation omitted); see also Traffic

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Control Servs., Inc. v. United Rentals Northwest, Inc., 120 Nev. 168, 175–176, 87 P.3d 1054, 1059 (2004) (holding that courts cannot revise a contract under the guise of construing it). Because of the limited record, the Court should not presume the absence of prejudice to the Lien Claimants, particularly since they have not been able to challenge numerous assertions from SFC through discovery, including the affidavit of SFC's president, Bradley Scott ("Scott"), which was first presented in a supplement to SFC's motion for partial summary judgment. 5 PA 984-995, 996-1004.

Finally, the Court's opinion overlooks the Lien Claimants' arguments with regard to the refinance of the loans. Opinion, at *6 n. 2. The recognition that the loans were refinanced would bring this case into an "equitable subrogation" situation, which does not legally operate to impair the mechanic's liens. See In re Fontainebleau Las Vegas Holdings, 289 P.3d 1199, 1207 (Nev. 2012) ("Because principles of equity cannot trump an express statutory provision, we conclude that equitable subrogation does not apply against mechanic's lien claimants."). While the result of equitable subrogation and partial subordination is the same (i.e., junior lienholders are permitted to leapfrog intervening lienholders to take a senior position), the Court's opinion avoids the application of *Fontainebleau* by characterizing partial subordination as contractual. Opinion, at *13-14 n. 7. However, since the Mezzanine note refinanced the prior deeds of trust, this case presents a straightforward equitable subrogation situation prohibited by Fontainebleau. See Houston v. Bank of 23 | America, 119 Nev. 485, 488, 78 P.3d 71, 73 (2003). Thus, the treatment of the

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loans as a refinance would operate to completely change the legal analysis of this case, and the Court should grant rehearing on this basis.

In summary, the Court should grant rehearing on any of these overlooked legal and factual grounds. If the Court orders the real parties in interest to file an answer to this petition for rehearing, the Court should also grant leave for the Lien Claimants to file a reply and set a schedule for the rehearing briefing.

II. **LEGAL ARGUMENT**

STANDARD FOR PETITIONS FOR REHEARING. Α.

NRAP 40(c)(2) provides that the Court may consider rehearing in the following circumstances: (A) When the has overlooked Court misapprehended a material fact in the record or a material question of law in the case, or (B) When the Court has overlooked, misapplied or failed to consider a statute, procedural rule, regulation or decision directly controlling a dispositive issue in the case. See, e.g., Am. Cas. Co. of Reading, Pa. v. Hotel and Rest. Employees and Bartenders Intern. Union Welfare Fund, 113 Nev. 764, 766, 16 \ 942 P.2d 172, 174 (1997). In the instant case, rehearing is necessary to allow the Court to consider factual and legal points that the Court has overlooked.

В. UNDERLYING PURPOSE OF MECHANIC'S LIENS.

Nevada law has a rich history of enforcing mechanic's liens. See, e.g., Lehrer McGovern Bovis, Inc., 124 Nev. at 1115, 197 P.3d at 1041 ("The object of the lien statutes is to secure payment to those who perform labor or furnish 23 material to improve the property of the owner.") (citation and internal quotation Vegas, Nevada 89145 -0711 FAX: (702) 382-5816

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Unlike other statutory schemes that call for a strict marks omitted). construction, this Court has repeatedly recognized that "the mechanic's lien statutes are remedial in character and should be liberally construed." (citation omitted). Despite the presumption of a liberal construction, this Court 5 applied a strict construction to NRS 108.225. Opinion, at *13–14. The Court should have liberally construed the statute in favor of complete subordination because it is not expressly prohibited. See id. ("The Legislature has spoken and 8 has created a specific statutory scheme whereby a mechanic's lien is afforded priority over a subsequent lien, mortgage, or encumbrance in order to safeguard payment for work and materials provided for construction or improvements on land.") (citation omitted). Thus, in construing NRS 108.225, the Court was bound by the underlying policies of the entire statutory scheme, designed to enforce mechanic's liens. See Westpark Owners' Ass'n, 123 Nev. at 357, 167 P.3d at 427 ("Given an ambiguous statute, this court must interpret the statute in light of the policy and the spirit of the law ") (citation and internal 16 quotation marks omitted).

Contrary to the underlying purpose of NRS 108.225, this Court's opinion relied heavily upon the reasoning of Caterpillar which does not construe Nevada law or mechanic's liens. Instead, *Caterpillar* dealt with the priority of UCC financing, which is codified in Nevada as NRS Chapter 104. But, the UCC generally only applies to the sale of goods. See NRS 104.2102 ("Unless the context otherwise requires, this article applies to transactions in goods . . |.."). Additionally, NRS Chapter 104 does not construe the interplay between

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this distinct statutory scheme and mechanic's liens. Further, NRS 104.9334(1) expressly states, "A security interest does not exist under this article in ordinary building materials incorporated into an improvement on land." So, the underlying policies of NRS Chapter 104 do not favor contractors or mechanic's liens. Cf. Skyrme v. Occidental Mill and Mining Co., 8 Nev. 219, 232 (1873) ("[A] mechanic's lien is different from a mortgage executed by the consent of the parties") (cited with approval in *Fontainebleau*, 289 P.3d at 1209). Since the statutory purposes of NRS Chapter 108 are fundamentally distinct from the underlying purposes of NRS Chapter 104, this Court should grant rehearing on this threshold issue to enforce the policies underlying the enforcement of mechanic's liens in Nevada.

C. COURT'S OPINION OVERLOOKED SUBORDINATED THE MEZZANINE DEEDS OF TRUST.

The Court's reliance upon the holding of *Caterpillar* to reach a partial subordination is contingent upon the subordination agreement being silent on priority. See Opinion, at *12 (following Caterpillar and favoring partial subordination when the subordination agreement is silent on the issue). As such, it follows that if the Court overlooked the express lien priority provisions in the subordination agreement, then partial subordination would not apply. Indeed, in the section of the subordination agreement entitled "Lien Priority," the priority is defined "as though the Mezzanine Deeds of Trust has been recorded subsequent to the recordation of the \$110,000,000 Senior Debt Deed 23 of Trust." 3 PA 642, ¶ 1 (emphasis added). This express and objective intent

should be enforced as written, without any consideration of a subjective element. In fact, this Court's opinion clearly articulates this point. Opinion, at *14 n. 7 (citing *Bratcher v. Buckner*, 109 Cal. Rptr. 2d 534, 539–540 (Ct. App. 2001) (court relied on subordination agreement, not equitable principles, "to enforce the objective intent of the parties")); see also Phillips v. Mercer, 94 Nev. 279, 282, 579 P.2d 174, 176 (1978) (stating that a court should not interpret a contract so as to make a provision meaningless). opinion cites to George A. Nation, III, Circuity of Liens Arising From Subordination Agreements: Comforting Unanimity No More, 83 B.U. L. Rev. 591 (2003) to illustrate the Court's adoption of the partial subordination doctrine. However, this law review article acknowledges that "if one wishes to avoid the complete subordination interpretation, it is prudent to avoid the use of the word 'subordination.'" Id. at 614. Yet, the subordination agreement in the instant case carries the title "Mezzanine Deeds of Trust Subordination Agreement." 3 PA 641. Moreover, the subordination agreement in the instant case does not contain the language suggested in this article to take the agreement out of complete subordination. 83 B.U. L. Rev. at 614.

In essence, the Court has applied partial subordination to a hypothetical set of circumstances that do not exist in the instant case. Since the express terms of the subordination agreement place the Mezzanine Deeds of Trust in a junior position, the Court should grant rehearing on this basis.

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THE COURT'S OPINION ALSO OVERLOOKED THAT D. NEVADA LAW FOR CONSTRUING CONTRACTS.

Aside from the fact that the subordination agreement actually does address priority (3 PA 642, ¶ 1), the Court's opinion favors the *Caterpillar* principles for construing subordination agreements in direct conflict to wellestablished Nevada law. Instead of allowing the factual issues surrounding the lien priority provision in the subordination agreement to be developed in subsequent District Court proceedings, the opinion guesses at what the intent of the provision might be. Opinion, at *12 ("We cannot determine any reason SFC would have intended to completely subordinate the Mezzanine Deeds of Trust "); *Id.* at *13 ("Absent this clear intent . . . "). The Court's opinion overlooks the fact that according to Nevada law, when contract provisions are unclear, the proper remedy is to allow discovery into those issues and an evidentiary hearing. See Fox, 86 Nev. at 473, 470 P.2d at 426 ("When a contract is in any of its terms or provisions ambiguous or uncertain it is 16 primarily the duty of the trial court to construe it *after* a full opportunity is afforded all the parties in the case to produce evidence of the facts, circumstances and conditions surrounding its execution and the conduct of the parties thereto.") (emphasis added and citation omitted). Additionally, Nevada law does not permit the Court to simply read a partial subordination condition into the subordination agreement where none exists, especially when the Lien Claimants' competing interest is based upon statutory mechanic's liens. See

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Traffic Control Servs., Inc., 120 Nev. at 175–176, 87 P.3d at 1059 (holding that courts cannot revise a contract under the guise of construing it).

In contrast to Caterpillar, which concluded in a bench trial (710 F.3d at 692), the instant case was decided at summary judgment while discovery was still open. Cf. 4 PA 970, 971–974; 5 PA 1143–1155. As such, numerous factual issues remain, particularly from Scott's affidavit filed as a supplement to SFC's motion for partial summary judgment. 5 PA 996–1004. Since Scott's affidavit was filed as a supplement to summary judgment, the Lien Claimants did not have an opportunity to contest those self-serving statements through discovery. See 5 PA 984–995. As a matter of law, self-serving statements cannot support summary judgment. See Dennison v. Allen Group Leasing Corp., 110 Nev. 181, 185, 871 P.2d 288, 290-291 (1994); see also Clauson v. *Lloyd*, 103 Nev. 432, 434–435, 743 P.2d 631, 632–633 (1987). Moreover, the Lien Claimants have not yet deposed Scott. 4 PA 971–974; 5 PA 1137. After the District Court announced its decision, all parties agreed and the District Court concluded that the ongoing discovery would be stayed pending the outcome of this original proceeding. 5 PA 1137:12–16. Because the Court has identified ambiguities in the subordination agreement, the proper remedy is not to read in additional conditions that favor SFC, but rather to send the case back to the District Court for further proceedings. Therefore, the Court should grant rehearing.

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Ε. THIS COURT **ALSO OVERLOOKED** THE LIEN CLAIMANTS' REFINANCE ARGUMENT, WHICH WOULD BRING THIS CASE UNDER FONTAINEBLEAU.

While the result of equitable subrogation and partial subordination is the same (i.e., junior lienholders are permitted to leap-frog intervening lienholders to take a senior position), the Court's opinion avoids the prohibition in Fontainebleau against equitable subrogation by characterizing partial subordination as contractual. Opinion, at *13–14 n. 7. However, since the Mezzanine note refinanced the prior deeds of trust, this case presents a straightforward equitable subrogation situation prohibited by Fontainebleau. See Houston, 119 Nev. at 488, 78 P.3d at 73 (The doctrine of equitable subrogation "permits a person who pays off an encumbrance to assume the same priority position as the holder of the previous encumbrance.") (internal quotation marks and citation omitted). Yet, the Court's opinion overlooks that with the application of the holding of Fontainebleau, the mechanic's liens would be in first priority. Fontainebleau, 289 P.3d at 1207 ("Because 16 principles of equity cannot trump an express statutory provision, we conclude that equitable subrogation does not apply against mechanic's lien claimants.").

As outlined in their petition¹ and supplement,² Lien Claimants set forth facts that the loan amendments served to refinance the original Mezzanine

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See joint petition at 6, ¶ 2, stating, "In addition to the Construction Loan Agreement, SFC and Gemstone entered into a new Mezzanine Note, dated January 22, 2008, for the principal sum of \$46,000,000. 3 App. 543–545. The Mezzanine Note refinanced the prior land acquisition loans and provided a new interest rate, a new date for the commencement of interest payments and a new maturity date." (emphasis added). See joint petition at 7, ¶ 1, stating, "Both the Senior Mezzanine DOT and the Junior mezzanine DOT contained the Page 10 of 18

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deeds of trust, which focused on the Fontainebleau case. In addition, Lien Claimants also referred to the original summary judgment order in favor of APCO, which included the refinance of the original Mezzanine deeds of trust in its findings of fact:

24. In addition to the Construction Loan Agreement, SFC and Gemstone Development West, Inc. entered into a new Mezzanine Note, dated January 22, 2008, for the principal sum of \$46,000,000.

25. The Mezzanine Note refinanced the Prior Deeds of Trust as the Senior Mezzanine DOT and the Junior Mezzanine DOT.

4 PA 844, ¶¶ 24–25. The District Court's initial determination that the loans were refinanced was based upon the actual language of the loan documents that characterized the transaction as a refinance. 2 PA 312–313; 3 PA 627–632, In the second summary judgment hearing, the District Court 634–639. acknowledged this evidence, yet still made the finding that there was no 5 PA 1115:5–9, 1150–1151. A key distinction between refinance. "subrogation" is that some of the loans are paid off, while "subordination" 16 simply deals with the reordering of the existing loans that are not paid. Opinion, at *11. In addition, "subordination" works backwards (i.e., a lowering 18 of the priority of the subordinating party). See Black's Law Dictionary, 1653 19 (10th ed. 2014) (defining "subordination" as "[t]he act or an instance of moving

same language noting "The Trustor has requested, and the Beneficiary has agreed, to refinance the obligations secured by the [Senior/Junior Deed of Trust.] 3 App. 628, 634 (emphasis added)."

 $^{22 \}parallel^2$ See Lien Claimants' supplemental brief at 2, ¶ 1: "The prior \$46,000,000.00 loans were restructured into a single note for \$46,000,000.00, called the Mezzanine Note."

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something (such as a right or claim) to a lower rank, class, or position <subordination of a first lien to a second lien>"). Only through the exercise of "partial subordination" can the entity with the junior interest leap-frog ahead of the Lien Claimants. Thus, the doctrine of "partial subordination" requires the 5 application of equitable principles to defeat mechanic's liens, which was previously rejected in Fontainebleau. 289 P.3d at 1207. A refinance of the loans would necessarily invoke the equitable subrogation doctrine, such that 8 any loans that had previously held a priority position with respect to the mechanic's liens would lose that position by virtue of the holding of Fontainebleau, 289 P.3d at 1207.

Since Caterpillar construed the UCC, the Seventh Circuit reached a different result because a "purchase-money security interest does not lose its status as such, even if . . . the purchase-money obligation has been . . . refinanced." 710 F.3d at 695 (citing UCC § 9-103(f)(3)); see also NRS 104.9103(6)(c) (reciting similar language applicable to a purchase-money 16 security agreement). As such, the overlooked factual issues demonstrating a 17 refinance of the loans are material because they change the entire outcome of 18 this case. Therefore, on this alternative basis, the Court should grant rehearing 19 of the panel opinion.

III. **CONCLUSION**

In summary, the Court should grant rehearing for a variety of reasons. The Court should not have applied policy considerations underlying the Uniform Commercial Code to mechanic's liens. Likewise, since the

subordination agreement expressly subordinated the Mezzanine Deeds of Trust
there was no reason for the Court to adopt the Caterpillar rule, stating that a
silent subordination agreement implies partial subordination. In any event, the
Caterpillar rule violates Nevada law for construing ambiguous provisions in
contracts, particularly at the summary judgment stage when discovery has not
been completed. Finally, the Court overlooked the factual basis of the Lien
Claimants' argument that SFC refinanced the loans, thus bringing this case into
the holding of Fontainebleau in which the mechanic's liens cannot be impaired
based upon equitable subrogation.

If the Court orders the real parties in interest to file an answer to this petition for rehearing, the Court should also grant leave for the Lien Claimants to file a reply and set a schedule for the rehearing briefing.

Dated this 19th day of October, 2015.

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CERTIFICATE OF SERVICE

I hereby certify that the foregoing **PETITION FOR REHEARING** was filed electronically with the Nevada Supreme Court on the <u>19th</u> day of October, 2015. Electronic Service of the foregoing document shall be made in accordance with the Master Service List as follows:

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