

# Appendix A

## SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Security Agreement"), dated January 20, 2011, is made by Universal Appliances, Kitchens, and Baths, Inc., a California corporation ("Universal" or the "Grantor") in favor of the Federal Trade Commission (the "Secured Party" or "the Commission").

### WITNESSETH:

WHEREAS, the parties hereto are parties to a certain action under 42 U.S.C. § 6294 *et seq.*, and 16 C.F.R. Part 305, to be issued by the Federal Trade Commission; and

WHEREAS, the parties hereto have agreed to the entry of a Consent Order as settlement of that action; and

WHEREAS, Universal has agreed to pay a \$100,000 civil penalty in certain installments pursuant to Section I.A of the Consent Order (the "Civil Penalty Payments"); and

WHEREAS, Universal has agreed to provide the Commission security interests to secure the Civil Penalty Payments, and it is the purpose of this Security Agreement to provide such security interests to the Commission.

NOW, THEREFORE, as security for the Civil Penalty Payments to be made by Universal pursuant to the Consent Order, and in order to induce the Commission to permit Universal to make installment payments of the civil penalty, the Grantor hereby agrees with the Secured Party as follows:

### 1. Defined Terms.

As used in this Security Agreement, the following terms have the meanings specified below (such meanings being equally applicable to both the singular and plural forms of the terms defined):

- a. "*Collateral*" has the meaning assigned to such term in Section 2 of this Agreement.
- b. "*Default*" means any event which with the passing of time or the giving of notice or both would become an Event of Default.
- c. "*Event of Default*" means that one or more of the following events has occurred and is continuing: (i) the Grantor shall fail to pay any principal of, or interest on, the Civil Penalty Payments, any fee, any other amount due hereunder when the same becomes due and payable; or (ii) any representation or warranty made or deemed made by the Grantor in this Security Agreement or any other document or instrument evidencing, securing or relating to the Civil Penalty Payments shall prove to have been incorrect in any material respect when made or

deemed made; or (iii) the Grantor shall fail to perform or observe any term, covenant or agreement contained in any non-monetary covenant contained in this Security Agreement, the Consent Order, or any other document or instrument evidencing, securing or relating to the Civil Penalty Payments and if such failure under this clause shall remain unremedied for five days after the earlier of the date on which (A) an officer of the Grantor becomes aware of such failure or (B) the Secured Party gives written notice thereof to the Grantor; or (iv) there shall occur any default, or event which would be a default under any of the documents or instruments evidencing, securing or relating to the Civil Penalty Payments.

d. *"Inventory"* means any "inventory," as such term is defined in Section 9-102(48) of the U.C.C., now owned or hereafter acquired by the Grantor, and wherever located, and, in any event, includes, without limitation, all inventory, merchandise, goods and other personal property now owned or hereafter acquired by the Grantor which are leased by a person as lessor; are held by a person for sale or lease or to be furnished under a contract of service; are furnished by a person under a contract of service; consist of raw materials, work in process, or materials used or consumed in business; or the processing, packaging, delivery or shipping of the same, all finished goods, and including any inventory as is temporarily out of the Grantor's custody or possession, including inventory on the premises of others and items in transit, and including any returns or repossessions upon any accounts, documents, instruments or chattel paper relating to or arising from the sale of inventory including the Grantor's rights as a seller of goods under *Article 2 of the U.C.C.* and all inventory subject to consignment.

e. *"Person"* means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture or other entity, or a governmental authority.

f. *"Proceeds"* means "proceeds," as such term is defined in Section 9-102(64) of the U.C.C., and, in any event, shall include, without limitation, (i) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to the Grantor from time to time with respect to any of the Collateral, (ii) any and all payments (in any form whatsoever) made or due and payable to the Grantor from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental authority (or any person acting under color of governmental authority), and (iii) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

g. *"Secured Obligations"* means the Civil Penalty Payments, all advances, debts, liabilities, obligations and covenants and duties owed by the Grantor to the Secured Party of every type and description, present or future, whether or not evidenced by a note, guaranty or other instrument, arising under this Agreement or any other document or instrument evidencing, securing or relating to the Civil Penalty Payments, whether absolute, contingent, due or to become due. The term "Secured Obligations" includes, without limitation, all interest, charges, expenses, fees, attorneys' fees and disbursements and any other sum chargeable to the Grantor under this Security Agreement or any other document or instrument evidencing, securing or relating to the Civil Penalty Payments.

h. "U.C.C." means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of California; *provided, however*, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of the Secured Party's security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of California, the term "U.C.C." shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

## **2. Grant of Security Interest.**

As collateral security for the full and prompt payments to be made by Universal pursuant to the Consent Order, and the performance of all the Secured Obligations, the Grantor hereby assigns, conveys, mortgages, pledges, hypothecates and transfers to the Secured Party and hereby grants to the Secured Party a security interest in, all of the Grantor's right, title and interest in, all Inventory as listed in Appendix 1 (hereinafter called the "Collateral"). The Grantor affirms that the aggregate value of its Inventory is approximately \$1,450,000.

## **3. Rights of the Secured Party; Limitations on the Secured Party's Obligations.**

Upon reasonable prior notice to the Grantor (unless a Default or Event of Default has occurred and is continuing, in which case no notice is necessary), the Secured Party shall have the right to physically verify the Inventory in any manner and through any medium that it considers advisable, and the Grantor agrees to furnish all such assistance and information as the Secured Party may require in connection therewith.

## **4. Representations and Warranties.**

The Grantor hereby represents and warrants to the Secured Party as follows:

a. The Grantor is a corporation duly incorporated, validly existing and in good standing under the laws of the State of California.

b. The execution, delivery and performance by the Grantor of this Security Agreement are within the Grantor's corporate powers, have been duly authorized by all necessary corporate action, do not contravene the Grantor's charter or by-laws, any law or any contractual restriction binding on or affecting the Grantor, and do not result in or require the creation of any lien (other than pursuant to the Security Agreement) upon or with respect to any of its properties.

c. No consent, authorization, approval or other action by, and no notice to or filing with, any governmental authority is required for the due execution, delivery and performance by the Grantor of this Security Agreement.

d. This Security Agreement has been duly executed and delivered by the Grantor and is the legal, valid and binding obligation of the Grantor, enforceable against the Grantor in accordance with its terms.

e. There is no pending or threatened action or proceeding affecting the Grantor or any of its subsidiaries before any court, governmental agency or arbitrator, which would materially adversely affect the ability of the Grantor to perform its obligations under this Security Agreement or which may materially adversely affect the financial condition or operations of the Grantor.

f. The Grantor is the sole owner of each item of the Collateral in which it purports to grant a security interest hereunder, having good and marketable title thereto, free and clear of any and all liens, except for the security interest granted pursuant to this Security Agreement.

g. No effective security agreement, financing statement, equivalent security or lien instrument or continuation statement covering all or any part of the Collateral is on file or of record in any public office, except such as may have been filed by the Grantor in favor of the Secured Party pursuant to this Security Agreement.

h. Appropriate financing statements having been filed in the jurisdictions listed on Schedule I hereto, this Security Agreement is effective to create a valid and continuing first priority lien on the Collateral which is prior to all other liens. All action necessary or desirable to protect and perfect such security interest in each item of the Collateral has been duly taken.

i. The Grantor's principal place of business and the place where its records concerning the Collateral are kept and the location of its Inventory are set forth on Schedule II hereto.

## 5. Covenants.

The Grantor covenants and agrees with the Secured Party that from and after the date of this Security Agreement and until the Secured Obligations are fully satisfied:

a. *Further Documentation.* At any time and from time to time, upon the written request of the Secured Party, and at the sole expense of the Grantor, the Grantor will promptly and duly execute and deliver any and all such further instruments and documents and take such further action as the Secured Party may reasonably deem desirable to obtain the full benefits of this Security Agreement and of the rights and powers herein granted, including, without limitation, the filing of any financing or continuation statements under the U.C.C. with respect to the liens and security interests granted hereby, transferring Collateral to the Secured Party's possession (if a security interest in such Collateral can be perfected by possession). The Grantor also hereby authorizes the Secured Party to file any such financing or continuation statement without the signature of the Grantor to the extent permitted by applicable law.

b. *Maintenance of Records.* The Grantor will keep and maintain at its own cost and expense satisfactory and complete records of the Collateral, including, without limitation, a

record of all payments received and all credits granted with respect to the Collateral and all other dealings with the Collateral. The Grantor will mark its books and records pertaining to the Collateral to evidence this Agreement and the lien and security interests granted hereby. For the Secured Party's further security, the Grantor agrees that the Secured Party shall have a special property interest in all of the Grantor's books and records pertaining to the Collateral and, upon the occurrence and during the continuance of any Event of Default, the Grantor shall deliver and turn over any such books and records to the Secured Party or to its representatives at any time on demand of the Secured Party. Prior to the occurrence of an Event of Default and upon reasonable notice from the Secured Party, the Grantor shall permit any representative of the Secured Party to inspect such books and records and will provide photocopies thereof to the Secured Party.

c. *Compliance with Laws, Etc.* The Grantor will comply, in all material respects, with all acts, rules, regulations, orders, decrees and directions of any governmental authority, applicable to the Collateral or any part thereof or to the operation of the Grantor's business; *provided, however*, that the Grantor may contest any act, regulation, order, decree or direction in any reasonable manner which shall not, in the sole opinion of the Secured Party, adversely affect the Secured Party's rights hereunder or adversely affect the first priority of its lien on and security interest in the Collateral.

d. *Payment of Obligations.* The Grantor will pay promptly when due all taxes, assessments and governmental charges or levies imposed upon the Collateral or in respect of its income or profits therefrom and all claims of any kind (including, without limitation, claims for labor, materials and supplies), except that no such charge need be paid if (i) such non-payment does not involve any danger of the sale, forfeiture or loss of any of the Collateral or any interest therein, and (ii) such charge is adequately reserved against in accordance with and to the extent required by Generally Accepted Accounting Principles.

e. *Limitation on Liens on Collateral.* The Grantor will not create, permit or suffer to exist, and will defend the Collateral against and take such other action as is necessary to remove, any lien on the Collateral and will defend the right, title and interest of the Secured Party in and to any of the Grantor's rights to the Inventory against the claims and demands of all Persons whomsoever.

f. *Maintenance of Insurance.* The Grantor will maintain, with financially sound and reputable companies, insurance policies (i) insuring its Inventory against loss by fire, explosion, theft and such other casualties as are usually insured against by companies engaged in the same or similar businesses and (ii) insuring the Grantor and the Secured Party against liability for personal injury and property damage relating to the Inventory, such policies to be in such amounts and against at least such risks as are usually insured against in the same general area by companies engaged in the same or a similar business, naming the Secured Party as an additional insured with a lender loss payable clause in favor of the Secured Party. The Grantor shall, if so requested by the Secured Party, deliver to the Secured Party as often as the Secured Party may reasonably request, a report of a reputable insurance broker satisfactory to the Secured Party with respect to the insurance on its Inventory. All insurance with respect to the Inventory shall

(i) contain a clause which provides that the Secured Party's interest under the policy will not be invalidated by any act or omission of, or any breach of warranty by, the insured, or by any change in the title, ownership or possession of the insured property, or by the use of the property for purposes more hazardous than is permitted in the policy, and (ii) provide that no cancellation, reduction in amount or change in coverage thereof shall be effective until at least ten days after receipt by the Secured Party of written notice thereof.

g. *Maintenance of Aggregate Value of Collateral.* The Grantor shall maintain the approximate value of its Inventory as listed in Appendix 1 and shall not let the aggregate value fall below 200% of the balance of the Civil Penalty Payments still owed pursuant to the Consent Order.

h. *Further Identification of Collateral.* The Grantor will, if so requested by the Secured Party, furnish to the Secured Party, as often as the Secured Party reasonably requests, statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Secured Party may reasonably request, all in reasonable detail.

i. *Notices.* The Grantor will advise the Secured Party promptly, in reasonable detail, (i) of any material lien or claim made or asserted against any of the Collateral, (ii) of any material change in the composition of the Collateral, and (iii) of the occurrence of any other event which would have a material adverse effect on the aggregate value of the Collateral or in the security interests created hereunder.

j. *Right of Inspection.* Upon reasonable notice to the Grantor (unless a Default or an Event of Default has occurred and is continuing, in which case no notice is necessary), the Secured Party shall at all times have full and free access during normal business hours to all the books and records and correspondence of the Grantor, and the Secured Party or its representatives may examine the same, take extracts therefrom and make photocopies thereof, and the Grantor agrees to render to the Secured Party, at the Grantor's cost and expense, such clerical and other assistance as may be reasonably requested with regard thereto. Upon reasonable notice to the Grantor (unless a Default or an Event of Default has occurred and is continuing, in which case no notice is necessary), the Secured Party and its representatives shall also have the right to enter into and upon any premises where any of the Inventory is located for the purpose of inspecting the same, observing its use or otherwise protecting its interests therein.

k. *Continuous Perfection.* The Grantor will not change its name, identity or corporate structure in any manner which might make any financing or continuation statement filed in connection herewith seriously misleading within the meaning of Section 9-503 of the U.C.C. (or any other then applicable provision of the U.C.C.) unless the Grantor shall have given the Secured Party at least thirty days' prior written notice thereof and shall have taken all action (or made arrangements to take such action substantially simultaneously with such change if it is impossible to take such action in advance) necessary or reasonably requested by the Secured Party to amend such financing statement or continuation statement so that it is not seriously misleading. The Grantor will not change its principal place of business or remove its records or

change the location of its Inventory, each as set forth on Schedule II hereto, unless it has taken such action as is necessary to cause the security interest of the Secured Party in the Collateral to continue to be perfected.

**6. The Secured Party's Appointment as Attorney-in-Fact.**

a. The Grantor hereby irrevocably constitutes and appoints the Secured Party and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Grantor and in the name of the Grantor or in its own name, from time to time in the Secured Party's discretion, for the purpose of carrying out the terms of this Security Agreement, to take any and all appropriate action and to execute and deliver any and all documents and instruments which the Secured Party may deem necessary or desirable to accomplish the purposes of this Agreement and, without limiting the generality of the foregoing, hereby gives the Secured Party the power and right, on behalf of the Grantor, without notice to or assent by the Grantor to do the following:

i. to ask, demand, collect, receive and give acquittances and receipts for any and all moneys due and to become due under any Collateral and, in the name of the Grantor or in its own name or otherwise, to take possession of and indorse and collect any checks, drafts, notes, or acceptances for the payment of moneys due under any Collateral and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Secured Party for the purpose of collecting any and all such moneys due under any Collateral whenever payable and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Secured Party for the purpose of collecting any and all such moneys due under any Collateral whenever payable;

ii. to pay or discharge taxes, liens, security interests or other encumbrances levied or placed on or threatened against the Collateral, to effect any repairs or any insurance called for by the terms of this Security Agreement and to pay all or any part of the premiums therefor and the costs thereof; and

iii. (A) to direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due, and to become due thereunder, directly to the Secured Party or as the Secured Party shall direct; (B) to receive payment of and receipt for any and all moneys, claims and other amounts due, and to become due at any time, in respect of or arising out of any Collateral; (C) to sign and indorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with accounts and other documents constituting or relating to the Collateral; (D) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any part thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against the Grantor with respect to any Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described above and, in connection therewith, to give such discharges or releases as the Secured Party may deem appropriate; (G) to license or, to the extent permitted by

an applicable license, sublicense, whether general, special or otherwise, and whether on an exclusive or non-exclusive basis, any patent or trademark, throughout the world for such term or terms, on such conditions, and in such manner, as the Secured Party shall in its sole discretion determine; and (H) generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Secured Party were the absolute owner thereof for all purposes, and to do, at the Secured Party's option and the Grantor's expense, at any time, or from time to time, all acts and things which the Secured Party reasonably deems necessary to protect, preserve or realize upon the Collateral and the Secured Party's lien therein, in order to effect the intent of this Security Agreement, all as fully and effectively as the Grantor might do.

b. The Secured Party agrees that, except upon the occurrence and during the continuance of any Default or Event of Default, it will forbear from exercising the power of attorney or any rights granted to the Secured Party pursuant to this Section 6. The Grantor hereby ratifies, to the extent permitted by law, all that any said attorney shall lawfully do or cause to be done by virtue hereof. The power of attorney granted pursuant to this Section 6, being coupled with an interest, shall be irrevocable until the Secured Obligations are indefeasibly paid in full.

c. The powers conferred on the Secured Party hereunder are solely to protect the Secured Party's interests in the Collateral and shall not impose any duty upon it to exercise any such powers. The Secured Party shall be accountable only for amounts that it actually receives as a result of the exercise of such powers and neither it nor any of its officers, directors, employees or agents shall be responsible to the Grantor for any act or failure to act, except for its own gross negligence or willful misconduct.

d. The Grantor also authorizes the Secured Party, at any time and from time to time upon the occurrence and during the continuance of a Default or Event of Default, (i) to communicate in its own name with any party to any Contract with regard to the assignment of the right, title and interest of the Grantor in and under the Contracts hereunder and other matters relating thereto and (ii) to execute, in connection with the sale provided for in Section 8 hereof, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

#### **7. Performance by the Secured Party of the Grantor's Obligations.**

If the Grantor fails to perform or comply with any of its agreements contained herein and the Secured Party, as provided for by the terms of this Security Agreement, shall itself perform or comply, or otherwise cause performance or compliance, with such agreement, the reasonable expenses of the Secured Party incurred in connection with such performance or compliance, together with interest thereon at the highest rate then in effect in respect to the Civil Penalty Payments, shall be payable by the Grantor to the Secured Party on demand and shall constitute Secured Obligations secured hereby.

## 8. Remedies, Rights Upon an Event of Default.

a. If any Default or Event of Default shall occur and be continuing, the Secured Party may exercise in addition to all other rights and remedies granted to it in this Security Agreement and in any other instrument or agreement securing, evidencing or relating to the Secured Obligations, all rights and remedies of a secured party under the U.C.C. Without limiting the generality of the foregoing, the Grantor expressly agrees that in any such event the Secured Party, without demand of performance or other demand, advertisement or notice of any kind (except the notice specified below of time and place of public or private sale) to or upon the Grantor or any other Person (all and each of which demands, advertisements and/or notices are hereby expressly waived to the maximum extent permitted by the U.C.C. and other applicable law), may forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give an option or options to purchase, or sell or otherwise dispose of and deliver said Collateral (or contract to do so), or any part thereof, in one or more parcels at public or private sale or sales, at any exchange or broker's board or any of the Secured Party's offices or elsewhere at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Secured Party shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of said Collateral so sold, free of any right or equity of redemption, which equity of redemption the Grantor hereby releases. The Grantor further agrees, at the Secured Party's request to assemble the Collateral and make it available to the Secured Party at places which the Secured Party shall reasonably select, whether at the Grantor's premises or elsewhere. The Secured Party shall apply the net proceeds of any such collection, recovery receipt, appropriation, realization or sale, as provided in Section 8(d) hereof, the Grantor remaining liable for any deficiency remaining unpaid after such application, and only after so paying over such net proceeds and after the payment by the Secured Party of any other amount required by any provision of law, including Sections 9-603 and 9-615 of the U.C.C., need the Secured Party account for the surplus, if any, to the Grantor. To the maximum extent permitted by applicable law, the Grantor waives all claims, damages, and demands against the Secured Party arising out of the repossession, retention or sale of the Collateral. The Grantor agrees that the Secured Party need not give more than ten days' notice of the time and place of any public sale or of the time after which a private sale may take place and that such notice is reasonable notification of such matters. The Grantor shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all amounts to which the Secured Party are entitled, the Grantor also being liable for the fees and expenses of any attorneys employed by the Secured Party to collect such deficiency.

b. The Grantor also agrees to pay all costs of the Secured Party, including, without limitation, attorneys' fees, incurred in connection with the enforcement of any of its rights and remedies hereunder.

c. The Grantor hereby waives presentment, demand, protest or any notice (to the maximum extent permitted by applicable law) of any kind in connection with this Agreement or any Collateral.

d. The Proceeds of any sale, disposition or other realization upon all or any part of the Collateral shall be distributed by the Secured Party in the following order of priorities: First, to the payment of the costs and expenses of such sale, including, without limitation, all expenses of the Secured Party and its agents including the fees and expenses of its counsel, and all expenses, liabilities and advances made or incurred by the Secured Party in connection therewith or pursuant to Section 7 hereof; Next, to the Secured Party, for the payment in full of the Secured Obligations; and Finally, after payment in full of all the Secured Obligations, to the payment of the Grantor, or its successors or assigns, or to whomsoever may be lawfully entitled to receive the same as a court of competent jurisdiction may direct.

**9. Limitation on the Secured Party's Duty in Respect of Collateral.**

The Secured Party shall have no duty as to any Collateral in its possession or control or in the possession or control of any agent or nominee of it or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto, except that the Secured Party shall use reasonable care with respect to the Collateral in its possession or under its control. Upon request of the Grantor, the Secured Party shall account for any moneys received by it in respect of any foreclosure on or disposition of the Collateral.

**10. Notices.**

All notices and other communications provided for hereunder shall be in writing (including telegraphic, telex, telecopy, or cable communication) and mailed via overnight mail, telegraphed, telexed, telecopied, cabled or delivered by hand, if to the Grantor, addressed to it at 12050 Ventura Boulevard, Suite B-105, Studio City, CA 91604 and if to the Secured Party, addressed to it at 600 Pennsylvania Avenue, NW, M-8102B, Washington, D.C. 20580 and also via email at [Debrief@ftc.gov](mailto:Debrief@ftc.gov) or, as to each party, at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this Section. All such notices and other communications shall, when mailed, telegraphed, telexed, telecopied, cabled or delivered, be effective when deposited in the mail, delivered to the telegraph company, confirmed by telex answerback, telecopied with confirmation or receipt, delivered to the cable company, or delivered by hand to the addressee or its agent, respectively.

**11. Amendments, Etc.**

No amendment or waiver of any provision of this Security Agreement nor consent to any departure by the Grantor therefrom shall in any event be effective unless the same shall be in writing, approved and signed by the Secured Party, and then any such waiver or consent shall only be effective in the specific instance and for the specific purpose for which given.

**12. No Waiver; Remedies.**

a. No failure on the part of the Secured Party to exercise, and no delay in exercising any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other

right. The remedies herein provided are cumulative, may be exercised singly or concurrently, and are not exclusive of any remedies provided by law or any of the other documents evidencing, securing or relating to the Civil Penalty Payments.

b. Failure by the Secured Party at any time or times hereafter to require strict performance by the Grantor or any other Person of any of the provisions, warranties, terms or conditions contained in this Security Agreement now or at any time or times hereafter executed by the Grantor or any such other Person and delivered to any of the Secured Party shall not waive, affect or diminish any right of any of the Secured Party at any time or times hereafter to demand strict performance thereof, and such right shall not be deemed to have been modified or waived by any course of conduct or knowledge of any of the Secured Party, or any agent, officer or employee of any Secured Party.

**13. Successors and Assigns.**

This Security Agreement and all obligations of the Grantor hereunder shall be binding upon the successors and assigns of the Grantor, and shall, together with the rights and remedies of the Secured Party, inure to the benefit of the Secured Party hereunder and its successors and assigns.

**14. Governing Law.**

This Security Agreement shall be governed by, and be construed and interpreted in accordance with, the internal laws (as opposed to conflict of law provisions) of the state of California. Wherever possible, each provision of this Security Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Security Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity and without invalidating the remaining provisions of this Security Agreement.

**15. Waiver of Jury Trial.**

The Grantor waives any right it may have to trial by jury in any action or proceeding to enforce or defend any rights or remedies hereunder, under any of the other Civil Penalty Payments documents or any other document relating to any of the foregoing.

**16. Further Indemnification.**

The Grantor agrees to pay, and to save the Secured Party harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all excise, sales or other similar taxes which may be payable or determined to be payable with respect to any of the Collateral or in connection with any of the transactions contemplated by this Security Agreement.

**17. Section Titles.**

The Section titles contained in this Security Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not a part of this Security Agreement.

**18. Termination of Security Agreement Upon Completion of Payments.**

The duties and obligations of Universal under this Security Agreement shall terminate when the payments to be made under Section I.A of the Consent Order are completed. This grant of a security interest by Universal is made solely to secure the prompt and timely performance by Universal of all its obligations to the Commission and upon the full performance of all the obligations of Universal, all right, title and interest of the Secured Party under or pursuant to this Security Agreement shall automatically terminate and be of no further force or effect, and the Commission thereafter shall have no further right, title or interest in the Collateral described herein. Unless and until Universal has defaulted in the performance of its obligations to the Commission, Universal shall be entitled to retain possession of the Collateral and to use such Collateral in the ordinary course of business, subject to the limitations set forth herein.

**IN WITNESS WHEREOF**, each of the parties hereto has caused this Security Agreement to be executed and delivered by its duly authorized officer on the date first set forth above.

Universal Appliances, Kitchens, and Baths, Inc.  
By:   
Title: President

Federal Trade Commission:  
By:   
Title: Attorney

*SCHEDULE I TO SECURITY AGREEMENT*

*FILINGS*

JURISDICTION FILING OFFICE

*SCHEDULE II TO SECURITY AGREEMENT*

*LOCATION OF RECORDS AND CERTAIN COLLATERAL*

Principal Place of Business and Location of Records

Location of Inventory

# Appendix 1

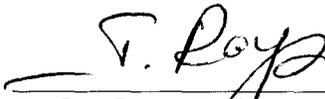
## **Appendix 1: Appliance Inventory Report**

**[Redacted From Public Version of Decision and Order, But Incorporated By Reference]**

Statement of Inventory of Universal Appliance, Kitchens, and Bath, Inc.

I swear and affirm that the attached list accurately reflects the inventory held by Universal Appliance, Kitchens and Baths, Inc. as of this date and that, in my opinion based on the information available to me at this time, the approximate value of this inventory is \$ 1,450,000

Dated: January 5, 2011

  
By: Igor Royz, President  
Universal Appliance, Kitchens, and  
Baths, Inc.