

UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK (MANHATTAN)		PROOF OF CLAIM			
In re: Jennifer Convertibles, Inc.		Case Number: 10-13779		YOUR CLAIM IS SCHEDULED AS: Schedule/Claim ID: s324 Amount/Classification: \$34,690.61 Unsecured	
<small>NOTE: See Reverse for List of Debtors/Case Numbers/ Important details. This form should not be used to make a claim for an administrative expense arising after the commencement of the case. A "request" for payment of an administrative expense may be filed pursuant to 11 U.S.C. § 503.</small>				<input type="checkbox"/> Check box if you are aware that anyone else has filed a proof of claim relating to your claim. Attach copy of statement giving particulars. <input type="checkbox"/> Check this box if you are the debtor or trustee in this case.	
Name of Creditor and Address: the person or other entity to whom the debtor owes money or property 25239790001607 AEK ASSOCIATES (VENTANA PROP) 695 OAK GROVE SUITE 200 MENLO PARK, CA 94025				The amounts reflected above constitute your claim as scheduled by the Debtor or pursuant to a filed claim. If you agree with the amounts set forth herein, and have no other claim against the Debtor, you do not need to file this proof of claim EXCEPT as stated below. If the amounts shown above are listed as Contingent, Unliquidated or Disputed, a proof of claim must be filed. If you have already filed a proof of claim with the Bankruptcy Court or BMC, you do not need to file again.	
Creditor Telephone Number () Name and address where payment should be sent (if different from above):				RECEIVED NOV 19 2010 BMC GROUP	
Payment Telephone Number ()				<input type="checkbox"/> Check this box to indicate that this claim amends a previously filed claim. Claim Number (if known): Filed on:	
1. AMOUNT OF CLAIM AS OF DATE CASE FILED \$221,015.40 <small>If all or part of your claim is secured, complete item 4 below; however, if all of your claim is unsecured, do not complete item 4. If all or part of your claim is entitled to priority, complete item 5. If all or part of your claim qualifies as an administrative expense under 11 U.S.C. § 503(b)(9), complete item 6.</small> <input type="checkbox"/> Check this box if claim includes interest or other charges in addition to the principal amount of claim. Attach itemized statement of interest or charges.					
2. BASIS FOR CLAIM: Lease Rejection Damages		<small>(See Instructions #2 and #3a on reverse side.)</small>		3. LAST FOUR DIGITS OF ANY NUMBER BY WHICH CREDITOR IDENTIFIES DEBTOR: 3a. Debtor may have scheduled account as:	
4. SECURED CLAIM <small>(See instruction #4 on reverse side.)</small> Check the appropriate box if your claim is secured by a lien on property or a right of set off and provide the requested information. Nature of property or right of setoff: Describe: <input type="checkbox"/> Real Estate <input type="checkbox"/> Motor Vehicle <input type="checkbox"/> Other Value of Property: \$ Annual Interest Rate: % If any: \$ Beals for Perfection:					
5. PRIORITY CLAIM <input type="checkbox"/> Amount of Claim Entitled to Priority under 11 U.S.C. § 507(a). If any portion of your claim falls in one of the following categories, check the box and state the amount. You MUST specify the priority of the claim: <input type="checkbox"/> Domestic support obligations under 11 U.S.C. § 507(a)(1)(A) or (a)(1)(B). <input type="checkbox"/> Wages, salaries, or commissions (up to \$11,725*), earned within 180 days before filing of the bankruptcy petition or cessation of the debtor's business, whichever is earlier - 11 U.S.C. § 507(a)(4). <input type="checkbox"/> Contributions to an employee benefit plan - 11 U.S.C. § 507(a)(5). <input type="checkbox"/> Up to \$2,600* of deposits toward purchase, lease, or rental of property or services for personal, family, or household use - 11 U.S.C. § 507(a)(7). <input type="checkbox"/> Taxes or penalties owed to governmental units - 11 U.S.C. § 507(a)(8). <input checked="" type="checkbox"/> Other - Specify applicable paragraph of 11 U.S.C. § 507(a) (<u>2</u>). <small>* Amounts are subject to adjustment on 4/1/13 and every 3 years thereafter with respect to cases commenced on or after the date of adjustment.</small>					
6. AMOUNT OF CLAIM THAT QUALIFIES AS AN ADMINISTRATIVE EXPENSE UNDER 11 U.S.C. § 503(b)(9): \$ <small>See instruction #6 on reverse side</small>					
7. CREDITS: The amount of all payments on this claim has been credited for the purpose of making this proof of claim.					
8. SUPPORTING DOCUMENTS: Attach redacted copies of supporting documents, such as promissory notes, purchase orders, invoices, itemized statements of running accounts, contracts, court judgments, mortgages, and security agreements. You may also attach a summary. Attach redacted copies of evidence of perfection of a security interest. (See instruction 8 and definition of "redacted" on reverse side.) If the documents are not available, please explain. DATE-STAMPED COPY: To receive an acknowledgment of the filing of your claim, enclose a stamped, self-addressed envelope and copy of this proof of claim. DO NOT SEND ORIGINAL DOCUMENTS. ATTACHED DOCUMENTS MAY BE DESTROYED AFTER SCANNING.					
The original of this completed proof of claim form must be sent by mail or hand delivered (FAXES NOT ACCEPTED) so that it is actually received on or before 5:00 pm, prevailing Eastern Time on October 25, 2010 for Non-Governmental Claimants OR on or before 5:00 pm, prevailing Eastern Time on January 18, 2011 for Governmental Units. BY MAIL TO: BMC Group, Inc. Attn: Jennifer Convertibles Claims Processing PO Box 3020 Chanhassen, MN 55317-3020				THIS SPACE FOR COURT USE ONLY Jennifer Convertibles 00355	
DATE		SIGNATURE: The person filing this claim must sign it. Sign and print name and title, if any, of the creditor or other person authorized to file this claim and state address and telephone number if different from the notice address above. Attach copy of power of attorney, if any. Signatures Attached			

Penalty for presenting fraudulent claim is a fine of up to \$500,000 or imprisonment for up to 5 years, or both. 18 U.S.C. §§ 152 AND 3571

In re Jennifer Convertibles, Inc.
United States Bankruptcy Court
Southern District of New York (Manhattan)
Case No. 10-13779

Effective October 28, 2010, Debtor rejected its unexpired non-residential lease for the premises at 383 University Avenue, Palo Alto, CA 94301 (the "Premises"). The lease was entered by and among The Alfred E. Werry Trust, Alfred E. Werry, Jr., Ellen Bergren, and Kathryn Childress (Landord) and J.C. Palo Alto CA VI, Inc., a California corporation (Tenant). Upon information and belief, Debtor dissolved J.C. Palo Alto CA VI, Inc. and became the Tenant of the Premises. The Alfred E. Werry Trust, Alfred E. Werry, Jr., Ellen Bergren, Kathryn Childress, and AEK Partnership (a partnership formed by and among Alfred E. Werry, Jr., Ellen Bergren, and Kathryn Childress) are collectively referred to as the "Claimant" herein and their signatures appear below.

I. Lease Rejection Damages

A. Pre-Petition Unsecured Claim

As of the petition date, Debtor owed Claimant unpaid rent, operating expenses, and CAM in the amount of \$42,797.40. Debtor scheduled Claimant as having a pre-petition unsecured claim in the amount of \$34,690.61, but the documentation attached hereto as Exhibit A shows that \$42,797.40 is the correct amount owing.

B. One Year's Rent

Attached hereto as Exhibit B is a true and correct copy of the lease documents for Debtor's rental of the Premises (the "Lease"). The Lease shows that Debtor was required to pay monthly rent of \$11,271 until December 31, 2010 and that the rent increased to \$11,496 effective January 1, 2011. In addition, Debtor was required to pay operating expenses in the amount of \$2,265.00 per month.

The Lease was rejected by Debtor effective October 28, 2010. Pursuant to 11 U.S.C. § 502(b)(6), Claimant is entitled to one (1) year's lease rejection damages as follows:

Time Period	Amount Owed
Nov-Dec. 2010	2 months rent at \$11,271 = \$22,542
Jan-Oct. 2011	10 months rent at \$11,496 = \$114,960
Nov. 2010- October 2011	12 months operating expenses at \$2,265 = \$27,180
Total	\$164,682

C. Administrative Claim

Claimant has an administrative expense claim for \$13,536, the amount owed for October 2010 rent and operating expenses which Debtor has not paid.

D. Guaranty

In addition to the terms of the Lease, Debtor executed a Guaranty which is attached to the Lease. The Guaranty states that "the sum guaranteed hereby shall in no event ever be less than the dollar amount of Base Rent and Additional Rent due for six (6) months after any default by Tenant under the Lease and failure by Tenant to cure such default." The minimum amount owed under the guaranty is therefore \$88,116 (2 months at \$13,536 plus 4 months at \$13,761).

IV. Summary of Claim

Claimant's total claim amount is \$221,015.40, which consists of (i) Pre-Petition amounts owing of \$42,797.40; (ii) one-year lease rejection damages of \$164,682; and (iii) a total Administrative Expense claim of \$13,536. In addition, Claimant has a claim on its Guaranty with Debtor in the amount of \$88,116.

Signature:

The person filing this claim must sign it. Sign and print name and title, if any, of the creditor or other person authorized to file this claim and state address and telephone number if different from the notice address above. Attach copy of power of attorney, if any.

Penalty for presenting fraudulent claim: Fine of up to \$500,000 or imprisonment for up to 5 years, or both. 18 U.S.C. §§ 152 and 3571.

AEK PARTNERSHIP

BY: Alfred E. Werry, Jr.
Alfred E. Werry, Jr.

DATE: November 17, 2010

BY: Ellen W. Bergren
Ellen Bergren

DATE: November 17, 2010

BY: Kathryn H. Childress
Kathryn Childress

DATE: November 17, 2010

THE ALFRED E. WERRY TRUST

BY: Ellen W. Bergren
[Signature]

Printed Name: Ellen W. Bergren

Title: Trustee

DATE: November 17, 2010

Alfred E. Werry, Jr.

ALFRED E. WERRY, JR.

DATE: November 17, 2010

Ellen W. Bergren

ELLEN BERGREN

DATE: November 7, 2010

Kathryn Childress

KATHRYN CHILDRESS

DATE: November 17, 2010

Jennifer Convertibles, Inc., a Delaware Corporation
383 University Avenue, Palo Alto, CA 94301
Account Summary

Date: 10/5/2010

Outstanding	
May-2010	
through	
Jul-2010:	42,797.40
Oct-2010	
through	
Lease Expiration	
Dec-2013:	544,344.00
	<hr/>
	<u>\$ 587,141.40</u>

EXHIBIT "A"

Jennifer Convertibles, Inc., a Delaware Corporation
383 University Avenue, Palo Alto, CA 94301
Account Summary

Date: 10/5/2010

May-2010	\$	11,271.00	Rent		
May-2010		2,265.00	Operating	\$	13,536.00
May-2010		(241.00)	CAM 2009		
May-2010		400.00	CAM 2010		
May-2010		676.80	Late fee	835.80	14,371.80
Jun-2010		11,271.00	Rent		
Jun-2010		2,265.00	Operating		
Jun-2010		676.80	Late fee	14,212.80	28,584.60
Jul-2010		11,271.00	Rent		
Jul-2010		2,265.00	Operating		
Jul-2010		676.80	Late fee	14,212.80	42,797.40
Total Due before					
Bankruptcy Filing:			\$	42,797.40	
			\$	42,797.40	\$ 42,797.40

Aug & Sep Paid

Oct-2010	\$	11,271.00	Rent		
Oct-2010		2,265.00	Operating	13,536.00	56,333.40
Nov-2010		11,271.00	Rent		
Nov-2010		2,265.00	Operating	13,536.00	69,869.40
Dec-2010		11,271.00	Rent		
Dec-2010		2,265.00	Operating	13,536.00	83,405.40
Jan-2011		11,496.00	Rent		
Jan-2011		2,265.00	Operating	13,761.00	97,166.40
Feb-2011		11,496.00	Rent		
Feb-2011		2,265.00	Operating	13,761.00	110,927.40
Mar-2011		11,496.00	Rent		
Mar-2011		2,265.00	Operating	13,761.00	124,688.40
Apr-2011		11,496.00	Rent		
Apr-2011		2,265.00	Operating	13,761.00	138,449.40
May-2011		11,496.00	Rent		
May-2011		2,265.00	Operating	13,761.00	152,210.40
Jun-2011		11,496.00	Rent		
Jun-2011		2,265.00	Operating	13,761.00	165,971.40
Jul-2011		11,496.00	Rent		
Jul-2011		2,265.00	Operating	13,761.00	179,732.40

Aug-2011	11,496.00	Rent		
Aug-2011	2,265.00	Operating	13,761.00	193,493.40
Sep-2011	11,496.00	Rent		
Sep-2011	2,265.00	Operating	13,761.00	207,254.40
Oct-2011	11,496.00	Rent		
Oct-2011	2,265.00	Operating	13,761.00	221,015.40
Nov-2011	11,496.00	Rent		
Nov-2011	2,265.00	Operating	13,761.00	234,776.40
Dec-2011	11,496.00	Rent		
Dec-2011	2,265.00	Operating	13,761.00	248,537.40
Jan-2012	11,726.00	Rent		
Jan-2012	2,265.00	Operating	13,991.00	262,528.40
Feb-2012	11,726.00	Rent		
Feb-2012	2,265.00	Operating	13,991.00	276,519.40
Mar-2012	11,726.00	Rent		
Mar-2012	2,265.00	Operating	13,991.00	290,510.40
Apr-2012	11,726.00	Rent		
Apr-2012	2,265.00	Operating	13,991.00	304,501.40
May-2012	11,726.00	Rent		
May-2012	2,265.00	Operating	13,991.00	318,492.40
Jun-2012	11,726.00	Rent		
Jun-2012	2,265.00	Operating	13,991.00	332,483.40
Jul-2012	11,726.00	Rent		
Jul-2012	2,265.00	Operating	13,991.00	346,474.40
Aug-2012	11,726.00	Rent		
Aug-2012	2,265.00	Operating	13,991.00	360,465.40
Sep-2012	11,726.00	Rent		
Sep-2012	2,265.00	Operating	13,991.00	374,456.40
Oct-2012	11,726.00	Rent		
Oct-2012	2,265.00	Operating	13,991.00	388,447.40
Nov-2012	11,726.00	Rent		
Nov-2012	2,265.00	Operating	13,991.00	402,438.40
Dec-2012	11,726.00	Rent		
Dec-2012	2,265.00	Operating	13,991.00	416,429.40

Jan-2013	11,961.00	Rent		
Jan-2013	2,265.00	Operating	14,226.00	430,655.40
Feb-2013	11,961.00	Rent		
Feb-2013	2,265.00	Operating	14,226.00	444,881.40
Mar-2013	11,961.00	Rent		
Mar-2013	2,265.00	Operating	14,226.00	459,107.40
Apr-2013	11,961.00	Rent		
Apr-2013	2,265.00	Operating	14,226.00	473,333.40
May-2013	11,961.00	Rent		
May-2013	2,265.00	Operating	14,226.00	487,559.40
Jun-2013	11,961.00	Rent		
Jun-2013	2,265.00	Operating	14,226.00	501,785.40
Jul-2013	11,961.00	Rent		
Jul-2013	2,265.00	Operating	14,226.00	516,011.40
Aug-2013	11,961.00	Rent		
Aug-2013	2,265.00	Operating	14,226.00	530,237.40
Sep-2013	11,961.00	Rent		
Sep-2013	2,265.00	Operating	14,226.00	544,463.40
Oct-2013	11,961.00	Rent		
Oct-2013	2,265.00	Operating	14,226.00	558,689.40
Nov-2013	11,961.00	Rent		
Nov-2013	2,265.00	Operating	14,226.00	572,915.40
Dec-2013	11,961.00	Rent		
Dec-2013	2,265.00	Operating	14,226.00	587,141.40

**Total Rent and
Operating through end
of Lease:**

\$ 544,344.00

\$ 544,344.00

Total :

\$ 587,141.40

**SECOND
AMENDMENT TO LEASE**

This Second Amendment to Lease (the "Second Amendment") is made, for reference purposes only, on February 27, 2009, by and between The Alfred E. Werry Trust, Alfred E. Werry, Jr., Ellen Bergren, and Kathryn Childress (Landlord) and J.C. Palo Alto CA VI, Inc., a California corporation (Tenant), who agree as follows:

RECITALS

This Amendment is made with reference to the following facts and objectives:

- a. Landlord and Tenant entered into a written lease dated June 7, 1994 (the "Lease"), in which Landlord leased to Tenant and Tenant leased from Landlord, premises commonly known as 383 University Avenue, consisting of 3,200 of rentable square feet, Palo Alto, California, 94301 (the "Premises"). Capitalized terms not defined herein shall have the meanings ascribed them in the Lease.
- b. Landlord and Tenant executed an Addendum to The Lease (First Addendum) that deleted Exhibit E-2 of the Lease and replaced it with a new Exhibit E-2
- c. The Term of the Lease expired on June 30, 2004. Tenant exercised its option to extend the term of the lease for an additional five years.
- d. Effective August 1, 2004, the First Amendment to Lease extended the term of the lease to June 30, 2009 and outlined the Base Rent.
- e. The parties desire to amend the Lease as follows:

NOW THEREFORE, for and in consideration of the mutual covenants and obligations set forth in this Second Amendment, Landlord and Tenant do hereby agree as follows:

1. **TERM.** The Term of the Lease shall be extended for fifty-four (54) months (Extended Term). The Lease shall hereafter terminate and expire on ~~June 30, 2013.~~ **DECEMBER 31,**
2. **BASE RENT.** The monthly Base Rent for the Premises shall be as follows:

January 1, 2009 to December 31, 2009	\$11,050.00 per month NNN
January 1, 2010 to December 31, 2010	\$11,271.00 per month NNN
January 1, 2011 to December 31, 2011	\$11,496.00 per month NNN

January 1, 2012 to December 31, 2012
January 1, 2013 to December 31, 2013

\$11,726.00 per month NNN
\$11,961.00 per month NNN

Rent shall be payable in lawful money of the United States to Landlord c/o Ventana Property Services, Inc., 695 Oak Grove, Suite 200, Menlo Park, CA 94025.

3. **AS-IS CONDITION OF PREMISES.** Tenant agrees to continue to occupy and lease the Premises in its "as-is" condition. Landlord shall not be required to provide any further tenant improvements for the Premises.

4. **LEASE STATUS** The Lease shall remain in full force and effect, as amended by this Amendment. Except, as expressly set forth in this Amendment, Lessee will pay all rentals under the Lease.

4. **CONFLICT.** In the event of any conflict or inconsistency between the terms and conditions of the Lease and this Second Amendment, the terms and conditions of the Second Amendment shall take precedence and control. Except as expressly set forth herein, the Lease is unmodified and in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Second Amendment on the dates specified below immediately adjacent to their respective signatures.

"LANDLORD"

The Alfred E. Werry Trust, Alfred E. Werry, Jr., Ellen Bergren, and Kathryn Childress

By: Alfred E. Werry Jr.

Date March 25 - 09

By: Ellen W. Bergren

Date Mar - 19 - 09

By: Kathryn Childress

Date March 19 2009

"TENANT"

J.C. Palo Alto CA VI, Inc., a California corporation

By: Kevin John Lee VP

Date March 3. 2009

**FIRST
AMENDMENT TO LEASE**

This First Amendment to Lease (the "First Amendment") is made, for reference purposes only, on April 13, 2004, by and between The Alferd E. Werry Trust, Alfred E. Werry, Jr., Ellen Bergren, and Kathryn Childress (Landlord) and J.C. Palo Alto CA VI, Inc., a California corporation (Tenant), who agree as follows:

RECITALS

This Amendment is made with reference to the following facts and objectives:

- a. Landlord and Tenant entered into a written lease dated June 7, 1994 (the "Lease"), in which Landlord leased to Tenant and Tenant lease from Landlord, premises commonly known as 383 University Avenue, consisting of 3,200 of rentable square feet, Palo Alto, California, 94301 (the "Premises").
- b. Landlord and Tenant executed an Addendum to The Lease (First Addendum) that deleted Exhibit E-2 of the Lease and replaced it with a new Exhibit E-2
- c. The Term of the Lease expires on July 31, 2004.
- d. The parties desire to amend the Lease as follows:

NOW THEREFORE, for and in consideration of the mutual covenants and obligations set forth in this First Amendment, Landlord and Tenant do hereby agree as follows:

1. **TERM.** The Lease, the Term of the Lease shall be extended for five (5) years (Extended Term). The Lease shall hereafter terminate and expire on June 30, 2009.

2. **BASE RENT.** The monthly Base Rent for the Premises shall be as follows:

August 1, 2004 to July 31, 2005	\$11,110.00 per month ✓
August 1, 2005 to July 31, 2006	\$11,554.00 per month ✓
August 1, 2006 to July 31, 2007	\$12,017.00 per month
August 1, 2007 to July 31, 2008	\$12,497.00 per month
August 1, 2008 to July 31, 2009	\$12,997.00 per month

10 300.00 - 20%
11 047. - 15%
11 050
200 EACH EHR
11 104

Rent shall be payable in lawful money of the United States to Landlord c/o Ventana Property Services, Inc., 695 Oak Grove, Suite 200, Menlo Park, CA 94025.

3. AS-IS CONDITION OF PREMISES. Tenant agrees to continue to occupy and lease the Premises in its "as-is" condition. Landlord shall not be required to provide any further tenant improvements for the Premises.

4. LEASE STATUS The Lease shall remain in full force and effect, as amended by this Amendment. Except, as expressly set forth in this Amendment, Lessee will pay all rentals under the Lease.

IN WITNESS WHEREOF, the parties have executed this First Amendment on the dates specified below immediately adjacent to their respective signatures.

"LANDLORD"

The Alfred E. Werry Trust, Alfred E. Werry, Jr., Ellen Bergren, and Kathryn Childress

By: Alfred E. Werry, Jr.

Date 6/7/04

By: Ellen W. Bergren

Date 6-3-04

By: Kathryn H. Childress

Date 6-3-04

"TENANT"

J.C. Palo Alto CA VI, Inc., a California corporation

By: Allen E. Fisher, Pres. J.C. Palo Alto CA VI, Inc.

Date May 5, 2004

FIRST ADDENDUM TO LEASE

This First Addendum to Lease is entered into by and between the Alfred E. Werry Trust, Alfred E. Werry, Jr., Ellen Bergren, and Kathryn Childress (collectively ("Landlord")) and J.C. Palo Alto CA VI, Inc., a California corporation ("Tenant") concerning the certain premises located at 383 University Avenue, Palo Alto, California.

RECITALS:

- A) Landlord and Tenant have previously entered into a lease of the Premises dated June 7, 1994.
- B) The parties now desire to revise Exhibit E-2 of the Lease.

NOW, THEREFORE, the parties hereby agree as follows:

1. Exhibit E-2 of the Lease is hereby deleted in its entirety and a new Exhibit E-2 attached hereto is substituted in lieu thereof.
2. Except as modified hereby the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, Landlord and Tenant agree to the provisions of this First Addendum to Lease.

"Landlord"

Alfred E. Werry, Jr.
ALFRED E. WERRY, JR.

Ellen Bergren
ELLEN BERGREN

Kathryn Childress
KATHRYN CHILDRESS

ALFRED E. WERRY TRUST

By:

Its:

"Tenant"

J.C. PALO ALTO CA VI, INC.

By: _____

HARLEY GREENFIELD
President

Dated: _____

EXHIBIT E-2

RENT FOR EXTENDED TERM

1. Extended Term Rent. The monthly Base Rent for the first year of the extended term (the "Extended Term") shall be the greater of: (i) one hundred three percent (103%) of the monthly Base Rent payable hereunder for the last full month of the Lease term immediately preceding commencement of the Extended Term, or (ii) the fair market rental for the Premises, as improved. The monthly Base Rent for each subsequent year of the Extended Term shall be one hundred three percent (103%) of the monthly Base Rent payable hereunder for the immediately preceding year. In the event the parties fail to agree upon the amount of the monthly Base Rent for the first year of the Extended Term on or before one hundred fifty (150) days prior to commencement thereof, the monthly Base Rent for the first year of the Extended Term shall be determined by appraisal in the manner hereafter set forth; provided, however, that in no event shall the monthly Base Rent for the first year of the Extended Term be less than one hundred three percent (103%) of the monthly Base Rent payable hereunder for the last full month of the Lease term immediately preceding commencement of the Extended Term.

In the event it becomes necessary under this paragraph to determine the fair market monthly Base Rent by appraisal, one hundred fifty (150) days prior to commencement of the Extended Term, Landlord and Tenant each shall appoint a real estate appraiser (MAI or AIREA) who has at least five (5) years experience in appraising commercial real property in the Palo Alto area. Each such broker is hereinafter referred to as an "appraiser." Such appraisers shall each determine the fair market monthly Base Rent for the Premises taking into account the value of the Premises and the amenities provided by the Building and prevailing comparable rentals. Such appraisers shall, within twenty (20) business days after their appointment, complete their appraisals and submit their appraisal reports to Landlord and Tenant. If the two (2) appraisals of fair market monthly Base Rent for the Premises vary by five percent (5%) or less of the higher appraisal, the average of the two shall be multiplied by ninety-five percent (95%) and the result shall be the Base Rent for the Premises for the first year of the Extended Term (except that in no event shall the Base Rent for the Premises for the first year of the Extended Term be less than the monthly Base Rent payable hereunder for the last full month of the Lease term immediately preceding the commencement of the Extended Term). If said appraisals of fair market monthly Base Rent vary by more than five percent (5%) of the higher appraisal, said appraisers, within ten (10) days after submission of the last appraisal, shall appoint a third appraiser who also shall be a certified real estate appraiser having at least five (5) years experience in appraising commercial real property in the Palo Alto area. Such third appraiser shall, within twenty (20) business days after his appointment, determine by appraisal the fair market monthly Base Rent of the Premises, taking into account the same factors referred to above, and submit his appraisal report to Landlord and Tenant. The fair market monthly Base Rent determined by the third appraiser for the Premises shall be averaged with whichever of the other two appraised values is closest to that determined by the third appraiser, and said average shall be the Base Rent for the Premises for the first

Landlord's Initials

Tenant's Initials

year of the Extended Term (except that in no event shall the Base Rent for the Premises for the first year of the Extended Term be less than one hundred and three percent (103%) of the monthly Base Rent payable hereunder for the last full month of the Lease term immediately preceding the commencement of the Extended Term). If either Landlord or Tenant fails to appoint an appraiser, or if an appraiser appointed by either of them fails, after his appointment, to submit his appraisal within the required period in accordance with the foregoing, the appraisal submitted by the appraiser properly appointed and timely submitting his appraisal shall be controlling. If the two appraisers appointed by Landlord and Tenant are unable to agree upon a third appraiser within the required period in accordance with the foregoing, application shall be made within twenty (20) days thereafter by either Landlord or Tenant to the San Francisco office of the American Arbitration Association, which shall appoint a licensed real estate broker satisfying the requirements set forth above. The cost of all appraisals under this paragraph shall be borne equally by Landlord and Tenant.

Landlord's Initials

Ally

ELUB
W.C.C.

Tenant's Initials

DB

File
copy

383 UNIVERSITY AVENUE,
PALO ALTO

Number 2 of
3 executed
counterparts.

LEASE SUMMARY

The following information is incorporated into the terms of the attached Standard Lease.

I. LANDLORD: The Alfred E. Werry Trust, Alfred E. Werry, Jr., Ellen Bergren, and Kathryn Childress

II. TENANT: J.C. Palo Alto CA VI, Inc., a California corporation

III. PREMISES: 383 University Avenue, Palo Alto, California: the entire two-story building consisting of approximately 3,200 rentable square feet.

IV. TERM:

Lease Term: Ten (10) Years, and sixty (60) days

Lease Commencement: The Lease Term shall commence after delivery of possession of the Premises in accordance with Paragraph 2.1 of the Lease. The scheduled Commencement Date will be July 1, 1994.

V. OPTION TO EXTEND: One 5-year option. See Exhibits E-1 and E-2.

VI. CHARGES:

Base Rent: Monthly Base Rent is initially Eight Thousand Eight Hundred Dollars (\$8,800).

Rental Adjustment Schedule: See Exhibit F

Percentage Rent: See Paragraph 3.3

Security Deposit: Eight Thousand Eight Hundred Dollars (\$8,800).

Tenant's Allocable Share of Building

Operating Expenses, Taxes and Insurance: One Hundred Percent (100%)

Initial Estimated Monthly Expenses: Eight Hundred Dollars (\$800) or 25 cents per foot per month

VII. Guaranty: Lease to be guaranteed by Jennifer Convertibles, Inc.

Landlord's Initials K.W.C.

EWB

Tenant's Initials JB

2.4 Option to Extend. The provisions of the extension option are set forth in attached Exhibit "E-1". Rent during any extended term is set forth in Exhibit "E-2".

3. Rent.

3.1 Payment of Rent. Tenant shall pay to Landlord the Base Rent as stated in the Lease Summary, without deduction, offset, prior notice or demand, in advance on the first day of each calendar month of the term of this Lease, except that rent for the first month shall be due upon execution of this Lease. Rent shall be payable in lawful money of the United States to Landlord at such place as Landlord may designate. Tenant's obligation to pay rent for any partial month shall be prorated on the basis of a thirty (30) day month. Base Rent shall be increased in accordance with the "Rent Adjustment Schedule" attached to this Lease as Exhibit "F".

3.2 Expense Reimbursements.

(a) Tenant shall pay to Landlord during the term hereof, in addition to the Base Rent, as additional rent (the "Additional Rent"):

(i) Tenant's "Allocable Share" (as described in Paragraph 3.2(d)) of Operating Expenses, as set forth in Paragraph 6.3(b) herein;

(ii) Tenant's Allocable Share of all Real Property Taxes relating to the Property, as set forth in Paragraph 7.2 herein;

(iii) Tenant's "Allocable Share" of insurance premiums, as set forth in Paragraph 11.5; and

(iv) All charges, costs and expenses which Tenant is required to pay hereunder, together with all late charges, interest, costs and expenses including reasonable attorneys' fees, that may accrue thereto in the event of Tenant's failure to pay such amounts, and all damages, reasonable costs and expenses which Landlord may incur by reason of Tenant's default or breach of this Lease.

(b) In the event of nonpayment by Tenant of Additional Rent, Landlord shall have all the rights and remedies with respect thereto as Landlord has for nonpayment of Base Rent.

(c) From and after the Commencement Date, Tenant shall pay to Landlord on the first day of each calendar month of the Lease term an amount estimated by Landlord to be the monthly Additional Rent. The initial "Estimated Monthly Expense" for the Premises is set forth on the Lease Summary. The "Estimated Monthly Expense" may be adjusted upon thirty (30) days' prior written notice by Landlord to Tenant of the changed Estimated Monthly Expense.

(d) Tenant's "Allocable Share" shall be that percentage as set forth on the Lease Summary and shall not be modified for any reason, including as the

Landlord's Initials ASW
K.W.C.
E.W.B.

Tenant's Initials KE

result of any modifications in any calculations or change in useable, rentable or gross square footage of the Building, without the written agreement of Landlord and Tenant.

(e) Within sixty (60) days after the expiration of each calendar year during the Lease term, Landlord shall make a determination of the actual Operating Expenses for such year. Landlord shall submit to Tenant a written statement, certified by Landlord, in sufficient detail for verification by Tenant and a summary showing Operating Expenses on a line item basis by category, which statement shall include the amount of actual Operating Expenses for such calendar year and any amounts owed by either Landlord or Tenant to the other for such year. Within forty-five (45) days after delivery of such statement, including any statement delivered after the expiration or termination of this Lease, Tenant shall pay to Landlord the difference, if any, between the amount paid by Tenant as estimated Operating Expenses and the amount owed by Tenant for the actual Operating Expenses for such calendar year. If Tenant's payment of the estimated Operating Expenses was greater than the amount owed by Tenant for the actual Operating Expenses, then Landlord shall, at Tenant's election, either credit such amount against the next due installments of Base Rent and/or Additional Rent or pay the same to Tenant within forty-five (45) days after delivery of Landlord's annual statement. Notwithstanding the foregoing, Tenant may at any time within one (1) year after delivery of Landlord's annual statement give Landlord written notice of Tenant's intent to inspect, examine and audit Landlord's records pertaining to Operating Expenses for the calendar year covered by such statement ("Audit Notice"). Tenant shall have the right, upon delivery of an Audit Notice to Landlord, to inspect, audit and/or copy Landlord's books, records and accounts pertaining to Operating Expenses for the calendar year specified in the Audit Notice, and Landlord shall make such books, records and accounts available to Tenant and its agents, and accountants for review during regular business hours at Landlord's principal place of business. Any overpayment or underpayment of Tenant's Allocable Share of Operating Expenses revealed by Tenant's audit shall be adjusted by the parties by payment by Tenant or credit to Tenant, as the case may be, within thirty (30) days after Tenant delivers written notice of such overpayment or underpayment to Landlord. If Tenant's audit discloses that Tenant's Percentage Share of Operating Expenses has been overstated by five percent (5%) or more, Landlord shall pay the reasonable cost of such audit. If Tenant delivers an Audit Notice to Landlord within thirty (30) days after the date of Tenant's receipt of Landlord's annual statement, the time period for payment of the difference between Tenant's Allocable Share of actual Operating Expenses and the amount paid by Tenant as estimated Operating Expenses shall be tolled until Tenant gives Landlord written notice that its audit is completed.

3.3 Percentage Rent. Tenant shall have percentage rent equal to five percent (5%) of "Tenant's Gross Revenue" for any lease year to the extent five percent (5%) of "Tenant's Gross Revenue" exceeds the sum of Base Rent and Tenants' reimbursements pursuant to Sections 3.2(a)(i), (ii) and (iii) for such lease year. "Tenant's Gross Revenue" shall mean all income from sales or services provided by Tenant from the Premises, excluding any sales or excise taxes. The Percentage Rent shall be paid annually, on or before the forty-fifth (45th) day after the end of each Lease Year, without deduction, offset, prior notice or demand. Within forty-five (45) days after the end of each Lease Year, Tenant shall furnish Landlord with a statement certified by

Landlord's Initials *K.W.C.*

Tenant's Initials *HR*

and Expiration Date to reflect any portion of a calendar year occurring within the Lease term.

(b) The term "Operating Expenses" shall mean all costs and disbursements which Landlord shall pay or become obligated to pay in connection with the insurance described in Paragraphs 11.3 and 11.4 below, the maintenance, repair and operation of the Property, including management and accounting services, and further including, but not limited to all services provided pursuant to Paragraph 8.1, and all labor, materials, supplies and services, including the cost of all maintenance contracts, used or consumed in performing Landlord's maintenance obligations hereunder. Operating Expenses shall not include any repairs or maintenance for warranty items set forth in Exhibit "B". A fee for administrative expenses incurred by Landlord in connection with management, and operation of the property equal to four percent (4%) of the Base Rent payable hereunder to Landlord shall also be included. Operating Expenses shall also include all costs and disbursements which Landlord shall pay or become obligated to pay in connection with the maintenance, repair and operation of the outside area of the Building, including landscaping costs, if any. Tenant shall not have any obligation to reimburse Landlord for any expense not actually paid. In addition to the foregoing, Tenant shall reimburse Landlord in full for any damages to the Premises or the Building which are caused by Tenant, its agents, employees or contractors and which are not reimbursed by insurance. Any Operating Expenses which constitute capital items for purpose of Generally Accepted Accounting Principles shall be amortized over ten (10) years, with interest on the unamortized balance accruing at ten percent (10%) per annum.

(c) Operating Expenses shall not include (i) expenses for repairs or other work occasioned by fire, windstorm or other insured casualty; (ii) expenses incurred in leasing or procuring new tenants (i.e., lease commissions, tenant inducements, advertising expenses and expenses of renovating space for new tenant); (iii) legal expenses in enforcing the terms of any lease; (iv) interest or amortization payments on any mortgage or mortgages and/or capital improvements; (v) reserve funds; (vi) administrative expenses other than management fees payable under Paragraph 6.3.(b) above; (vii) expenses in connection with maintaining and operating any garage operated by Landlord incident to the operation of the Building; (viii) the cost of preparing Landlord's income tax returns; (ix) removal of hazardous material contamination not caused by tenant; and (x) direct settlement payments by Landlord in personal injury or property claims not attributable to Tenant's negligence.

(d) Landlord estimates that the costs for common area maintenance, taxes and insurance for the first Lease Year shall be approximately as follows:

CAM	\$6,600
Insurance	\$1,000
Real Estate Taxes	\$2,700

(e) Any statement rendered by Landlord to Tenant for Tenant's Allocable Share of Operating Expenses shall be deemed accepted by Tenant unless,

Landlord's Initials K.W.C.

Tenant's Initials [Signature]

E.W.B.

B9K
C224

(Dada)

383 UNIVERSITY AVENUE,
PALO ALTO

ORIGINAL
Number 2 of
3 executed
counterparts.

LEASE SUMMARY

The following information is incorporated into the terms of the attached Standard Lease.

I. LANDLORD: The Alfred E. Werry Trust, Alfred E. Werry, Jr., Ellen Bergren, and Kathryn Childress

II. TENANT: J.C. Palo Alto CA VI, Inc., a California corporation

III. PREMISES: 383 University Avenue, Palo Alto, California: the entire two-story building consisting of approximately 3,200 rentable square feet.

IV. TERM:

Lease Term: Ten (10) Years, and sixty (60) days

Lease Commencement: The Lease Term shall commence after delivery of possession of the Premises in accordance with Paragraph 2.1 of the Lease. The scheduled Commencement Date will be July 1, 1994.

V. OPTION TO EXTEND: One 5-year option. See Exhibits E-1 and E-2.

VI. CHARGES:

Base Rent: Monthly Base Rent is initially Eight Thousand Eight Hundred Dollars (\$8,800).

Rental Adjustment Schedule: See Exhibit F

Percentage Rent: See Paragraph 3.3

Security Deposit: Eight Thousand Eight Hundred Dollars (\$8,800).

Tenant's Allocable Share of Building

Operating Expenses, Taxes and Insurance: One Hundred Percent (100%)

Initial Estimated Monthly Expenses: Eight Hundred Dollars (\$800) or 25 cents per foot per month

VII. Guaranty: Lease to be guaranteed by Jennifer Convertibles, Inc.

Landlord's Initials A.E.W. Jr.

E.B.

Tenant's Initials J.C.

VIII. EXECUTION: The undersigned Landlord and Tenant agree to the provisions of this Lease, including the attached Exhibits.

Dated as of April 7th, 1994

Jun 7th

Landlord:

Alfred E. Werry, Jr.
Alfred E. Werry, Jr.

Ellen Bergren
Ellen Bergren

Kathryn Childress
Kathryn Childress

Alfred E. Werry Trust

By: *Alfred E. Werry, Jr.*
Its: *Lawyer of Attorney*

Tenant:

J.C. Palo Alto CA VI, Inc., a California corporation

By: *[Signature]*
Harley Greenfield
Its President

Landlord's Initials *K.W.C.*
E.W.B.

Tenant's Initials *NG*

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Landlord's Initials KWC
EWB

Tenant's Initials AK

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E.W.B.

Tenant's Initials TC

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Landlord's Initials RWC

EWB

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Landlord's Initials K.W.C.

PAR294621.04

E.W.B.

E.W.B.

Tenant's Initials [Signature]

383 UNIVERSITY AVENUE
PALO ALTO, CALIFORNIA

This Lease is made and entered into by and between "Landlord" and "Tenant" as these terms are defined in the "Lease Summary", which Lease Summary constitutes and is numbered as page i of this Lease.

1. Premises.

1.1 Description of Premises. Landlord leases the Premises (as hereinafter defined) to Tenant for Tenant's exclusive use and Tenant leases the Premises from Landlord for the term, at the rental, and upon all of the conditions set forth herein and in the Lease Summary. The Premises consist of the entire building (the "Building") located at 383 University Avenue, Palo Alto, all shown on the plan attached as Exhibit A. The Building and the land on which it is located are referred to collectively as the "Property".

1.2 Landlord's Shell Improvements. Landlord shall provide the Premises to Tenant improved in the manner described in Exhibit B (the "Shell Improvements"). Except for the items specifically identified as "Shell Improvements", the Tenant shall accept the Premises and the Building in its existing condition as of the date of execution of this Lease. Landlord makes no representations or warranties as to the condition of the Premises other than as set forth on Exhibit B.

1.3 Tenant Improvements. Tenant shall construct Tenant Improvements, as approved by Landlord, in accordance with Exhibit C attached to this Lease.

1.4 Tenant Improvement Allowance. Landlord shall provide Tenant a Tenant improvement allowance of Twenty-five Thousand Six Hundred Dollars (\$25,600) payable on commencement of payment of Base Rent in accordance with Paragraph 3.1.

1.5 Surrender of Premises. Tenant agrees, at no later than the end of the Lease, to remove all trade fixtures and personal property, to repair any damage caused by such removal, to remove all Tenant's signs wherever located and to surrender all keys to the Premises and surrender the Premises, in the same good order and repair in which Tenant is obliged to keep and maintain the Premises by the provisions of this Lease, reasonable wear and tear and damage by fire, casualty or taking excepted. Any property not so removed shall be deemed abandoned and may be removed and disposed of by Landlord in such manner as Landlord shall determine, without any obligation on the part of Landlord to account to Tenant for any proceeds therefrom, all of which shall become the property of Landlord.

2. Term. This Lease shall begin on the Commencement Date and continue for the term stated in the Lease Summary, in accordance with the following:

C. 4 1/2 yrs.

Landlord's Initials K.W.C.

E.W.B.

Tenant's Initials J.C.

2.1 Commencement of Term and Rent Commencement Date.

(a) The scheduled Commencement Date set forth in Paragraph 2.2 shall be adjusted to coincide with the completion by Landlord of the work to be performed by Landlord in the Premises set forth in Exhibit "B". In the event the work to be performed by Landlord in the Premises has not been completed by the scheduled Commencement Date and Landlord cannot deliver possession of the Premises to Tenant, then the Commencement Date shall be adjusted to reflect a date coincidental with Landlord's ability to deliver possession of the Premises to Tenant. The termination date of the Lease shall be similarly adjusted and any anniversary dates for rental increases or for renewals by Tenant shall be adjusted to reflect the adjusted Commencement Date. The first "Lease Year" during the term hereof shall be the period commencing on the rent Commencement Date, if it occurs on the first day of a calendar month, or the first day of the next succeeding calendar month if the rent commencement date occurs on any date other than the first day of a calendar month, and shall terminate twelve (12) full calendar months thereafter.

(b) Notwithstanding anything in this Lease to the contrary, all Base Rent and Additional Rent payments under this Lease shall not commence or begin to accrue until sixty (60) days after delivery to Tenant of the Premises with the work to be performed by Landlord in accordance with Exhibit "B" substantially completed. For purposes hereof, the Premises shall be deemed deliverable to Tenant and substantially completed at such time as Tenant is capable of commencing construction of its Tenant Improvements without interference by Landlord. Landlord shall give Tenant at least ten (10) days' written notice prior to delivery of the Premises to Tenant.

(c) Within five (5) days of the date of the tendered possession of the Premises to the Tenant, both Landlord and Tenant agree to execute the letter of possession in form attached hereto as Exhibit "D".

2.2 Postponement. The scheduled Commencement Date shall be July 1, 1994. However, if delivery of possession of the Premises does not occur on or before July 1, 1994, the Commencement Date will be postponed without liability to either party or affecting the validity of the Lease in accordance with Paragraph 2.1. Notwithstanding the foregoing, if delivery of the Premises hereof does not occur by August 15, 1994, Tenant shall have the option of terminating this Lease within thirty (30) days thereof by written notice to Landlord, in which event the parties shall have no further rights or obligations hereunder.

2.3 Delivery of Possession. Delivery of possession of the Building and the Premises to Tenant shall in no event be deemed to have occurred until actual and exclusive physical possession of the Building and the Premises shall have been delivered to Tenant in the condition required by Exhibit "B" and Section 2.1(b) hereof, free and clear of all violations, prior leases, tenants and/or occupants, with any warranties and representations contained in this Lease being true and fulfilled as of such date, and with the condition of the Premises being such as to allow issuance of a building permit for work to be performed by Tenant, provided that Tenant shall be responsible for processing the application for such permit.

Landlord's Initials KWC

Tenant's Initials EC

2.4 Option to Extend. The provisions of the extension option are set forth in attached Exhibit "E-1". Rent during any extended term is set forth in Exhibit "E-2".

3. Rent.

3.1 Payment of Rent. Tenant shall pay to Landlord the Base Rent as stated in the Lease Summary, without deduction, offset, prior notice or demand, in advance on the first day of each calendar month of the term of this Lease, except that rent for the first month shall be due upon execution of this Lease. Rent shall be payable in lawful money of the United States to Landlord at such place as Landlord may designate. Tenant's obligation to pay rent for any partial month shall be prorated on the basis of a thirty (30) day month. Base Rent shall be increased in accordance with the "Rent Adjustment Schedule" attached to this Lease as Exhibit "F".

3.2 Expense Reimbursements.

(a) Tenant shall pay to Landlord during the term hereof, in addition to the Base Rent, as additional rent (the "Additional Rent"):

(i) Tenant's "Allocable Share" (as described in Paragraph 3.2(d)) of Operating Expenses, as set forth in Paragraph 6.3(b) herein;

(ii) Tenant's Allocable Share of all Real Property Taxes relating to the Property, as set forth in Paragraph 7.2 herein;

(iii) Tenant's "Allocable Share" of insurance premiums, as set forth in Paragraph 11.5; and

(iv) All charges, costs and expenses which Tenant is required to pay hereunder, together with all late charges, interest, costs and expenses including reasonable attorneys' fees, that may accrue thereto in the event of Tenant's failure to pay such amounts, and all damages, reasonable costs and expenses which Landlord may incur by reason of Tenant's default or breach of this Lease.

(b) In the event of nonpayment by Tenant of Additional Rent, Landlord shall have all the rights and remedies with respect thereto as Landlord has for nonpayment of Base Rent.

(c) From and after the Commencement Date, Tenant shall pay to Landlord on the first day of each calendar month of the Lease term an amount estimated by Landlord to be the monthly Additional Rent. The initial "Estimated Monthly Expense" for the Premises is set forth on the Lease Summary. The "Estimated Monthly Expense" may be adjusted upon thirty (30) days' prior written notice by Landlord to Tenant of the changed Estimated Monthly Expense.

(d) Tenant's "Allocable Share" shall be that percentage as set forth on the Lease Summary and shall not be modified for any reason, including as the

Landlord's Initials EWC

Tenant's Initials EWC

result of any modifications in any calculations or change in useable, rentable or gross square footage of the Building, without the written agreement of Landlord and Tenant.

(e) Within sixty (60) days after the expiration of each calendar year during the Lease term, Landlord shall make a determination of the actual Operating Expenses for such year. Landlord shall submit to Tenant a written statement, certified by Landlord, in sufficient detail for verification by Tenant and a summary showing Operating Expenses on a line item basis by category, which statement shall include the amount of actual Operating Expenses for such calendar year and any amounts owed by either Landlord or Tenant to the other for such year. Within forty-five (45) days after delivery of such statement, including any statement delivered after the expiration or termination of this Lease, Tenant shall pay to Landlord the difference, if any, between the amount paid by Tenant as estimated Operating Expenses and the amount owed by Tenant for the actual Operating Expenses for such calendar year. If Tenant's payment of the estimated Operating Expenses was greater than the amount owed by Tenant for the actual Operating Expenses, then Landlord shall, at Tenant's election, either credit such amount against the next due installments of Base Rent and/or Additional Rent or pay the same to Tenant within forty-five (45) days after delivery of Landlord's annual statement. Notwithstanding the foregoing, Tenant may at any time within one (1) year after delivery of Landlord's annual statement give Landlord written notice of Tenant's intent to inspect, examine and audit Landlord's records pertaining to Operating Expenses for the calendar year covered by such statement ("Audit Notice"). Tenant shall have the right, upon delivery of an Audit Notice to Landlord, to inspect, audit and/or copy Landlord's books, records and accounts pertaining to Operating Expenses for the calendar year specified in the Audit Notice, and Landlord shall make such books, records and accounts available to Tenant and its agents, and accountants for review during regular business hours at Landlord's principal place of business. Any overpayment or underpayment of Tenant's Allocable Share of Operating Expenses revealed by Tenant's audit shall be adjusted by the parties by payment by Tenant or credit to Tenant, as the case may be, within thirty (30) days after Tenant delivers written notice of such overpayment or underpayment to Landlord. If Tenant's audit discloses that Tenant's Percentage Share of Operating Expenses has been overstated by five percent (5%) or more, Landlord shall pay the reasonable cost of such audit. If Tenant delivers an Audit Notice to Landlord within thirty (30) days after the date of Tenant's receipt of Landlord's annual statement, the time period for payment of the difference between Tenant's Allocable Share of actual Operating Expenses and the amount paid by Tenant as estimated Operating Expenses shall be tolled until Tenant gives Landlord written notice that its audit is completed.

3.3 Percentage Rent. Tenant shall have percentage rent equal to five percent (5%) of "Tenant's Gross Revenue" for any lease year to the extent five percent (5%) of "Tenant's Gross Revenue" exceeds the sum of Base Rent and Tenants' reimbursements pursuant to Sections 3.2(a)(i), (ii) and (iii) for such lease year. "Tenant's Gross Revenue" shall mean all income from sales or services provided by Tenant from the Premises, excluding any sales or excise taxes. The Percentage Rent shall be paid annually, on or before the forty-fifth (45th) day after the end of each Lease Year, without deduction, offset, prior notice or demand. Within forty-five (45) days after the end of each Lease Year, Tenant shall furnish Landlord with a statement certified by

Landlord's Initials RLC

Tenant's Initials TR

Tenant of Tenant's Gross Revenue during the preceding Lease Year. Landlord shall have the right, not more than once every twelve (12)-month period, to have its accountants or representatives audit all statements of Tenant's Gross Revenue and, in connection with such audit, to examine all of Tenant's records (including supporting data) of Tenant's Gross Revenue. If any such audit discloses a deficiency in the payment of Percentage Rent, Tenant shall forthwith pay to Landlord the amount of such deficiency. If any such audit discloses that Tenant's Gross Revenue exceeds the sum reported by Tenant by more than five percent (5%) and Tenant has underpaid the Percentage Rent, then Tenant shall pay the reasonable cost of such audit and examination. Any information obtained by Landlord pursuant to the provisions of this Paragraph shall be treated as confidential, except in connection with any proposed financing or sale of the Building by Landlord.

3.4 Late Payment; Interest. If any installment of Rent, Additional Rent, Percentage Rent or any other sum due from Tenant is not received by Landlord within ten (10) days after the due date, Tenant shall pay to Landlord as liquidated damages an additional sum equal to five percent (5%) of the amount overdue (but not to exceed One Thousand Dollars (\$1,000) for any single event of late payment) to compensate Landlord for reasonably foreseeable processing and accounting charges, and any charges that may be incurred by Landlord with regard to any financing secured by the Property.

3.5 Security Deposit. Tenant has deposited the Security Deposit with Landlord as security for the full and faithful performance by Tenant of every term and covenant of this Lease. In the event of an "Event of Default" by Tenant (as defined in Paragraph 17.1), Landlord may use or apply any portion of the Security Deposit to cure the default or to compensate Landlord for its damages from the default, in which event Tenant shall promptly deposit with Landlord the sum necessary to restore the Security Deposit to its original amount. The Security Deposit shall be applied toward a portion of Base Rent for the Thirty-Seventh (37th) month of the Lease term. Tenant shall not be entitled to any interest on the Security Deposit, and Landlord shall be entitled to commingle the Security Deposit with its general funds.

4. Uses.

4.1 Premises. The Premises shall be used only for the retail sale of sofas, furniture, home furnishings and related items and ancillary items, and for no other purpose except with Landlord's prior written consent. Tenant will engage in no activity on the Premises that would, in the judgment of any reasonable insurer of the Premises, increase the premium on any of Landlord's insurance over the amount otherwise charged therefor or cause such insurance to be canceled. Tenant will comply with all applicable laws and governmental regulations pertaining to its use of the Premises. Tenant will not cause any excessive loads to be placed upon the floor slabs or the walls of the Premises by the placement of its furnishings or equipment or otherwise. Tenant will commit no nuisance or waste on the Premises and will not cause any unreasonable odors, noise, smoke, vibration, electronic emissions, or any other item to emanate from the Premises so as to damage the Property or any other person's property.

Landlord's Initials KWC

EWB

Tenant's Initials EWB

4.2 Exterior. No area outside of the Building or the exterior of the Building is leased to or may be used by Tenant except for placement of exterior signs in accordance with Paragraph 14. No rubbish containers may be stored outside of the Premises except in containers approved by the Landlord and the City of Palo Alto. No materials may be stored outside of the Premises by Tenant.

4.3 Hazardous Materials.

(a) Tenant shall not cause or permit to be discharged by any of its employees, agents or representatives under its direct control from or about the Premises or the Building any materials identified by any federal, state, or local governmental body or agency as hazardous materials (collectively, "Hazardous Materials"). Tenant shall at its sole expense comply with all applicable governmental rules, regulations, codes, ordinances, statutes and other requirements respecting Hazardous Materials in connection with Tenant's activities on or about the Premises or the Property. Tenant shall at its sole cost perform all clean-up and remedial actions which may be required of Tenant by any governmental authority pertaining to any discharge of such materials by Tenant.

(b) Tenant shall indemnify and hold Landlord harmless from all costs, claims, judgments, losses, demands, causes of action, proceedings or hearings, including Landlord's attorneys' fees and court costs, relating to the storage, placement or use of Hazardous Materials by Tenant on or about the Premises. Tenant shall reimburse Landlord for (i) losses in or reductions to rental income resulting from Tenant's use, storage, or disposal of Hazardous Materials; (ii) all costs of clean-up or other alterations to the Premises necessitated by Tenant's use, storage, or disposal of Hazardous Materials; and (iii) any diminution in the fair market value of the Property caused by Tenant's use, storage, or disposal of Hazardous Materials. The obligations of Tenant under this Paragraph 4.3 shall survive the expiration of the Lease term.

(c) Landlord agrees to defend, indemnify and hold harmless Tenant, its officers, directors, employees and agent, from and against any and all liability, loss, suits, claims, actions, causes of action, proceedings, demands, costs, penalties, fines and expenses, including without limitation attorneys' fees, consultants' fees, litigation costs, and cleanup costs, asserted against or incurred by Tenant at any time and from time to time by reason of or arising out of the presence of any Hazardous Materials on the Premises not caused by Tenant, or arising out of the generation, storage, treatment, handling, transportation, disposal or release, other than by Tenant, of any Hazardous Material at or near the Premises. The foregoing obligation of Landlord shall survive the expiration or sooner termination of this Lease.

5. Alterations and Additions. Except for the Tenant Improvements to be constructed by Tenant prior to the Commencement Date, Tenant shall not make any alteration, addition or utility installation (collectively "Alterations") to the Premises without Landlord's prior written consent. Notwithstanding the immediately preceding sentence, Tenant shall have the right to make interior, nonstructural alterations within the Premises without Landlord's approval, provided that: (i) such Alterations do not exceed Ten Thousand Dollars (\$10,000) in cost per project; (ii) prior to commencing

Landlord's Initials RLC

Tenant's Initials ML

such Alterations, Tenant shall give written notice to Landlord specifying the work to be done and the area of the Premises affected by such work; and (iii) Tenant shall obtain all necessary governmental permits and approvals prior to commencing such work. In making any Alterations hereunder, Tenant shall comply with all applicable building codes and other governmental requirements. Any Alterations shall remain on the Premises at the end of the Lease term and become the property of the Landlord. In making all Alterations, Tenant shall indemnify, defend and hold Landlord harmless from mechanics' liens and all other liability resulting therefrom. Tenant shall not proceed to make any Alterations until five (5) days after delivery to Landlord of a written notice of the proposed Alterations, in order that Landlord may post on the Premises appropriate notices to avoid any liability or liens by reason thereof.

6. Maintenance and Repair.

6.1 Tenant's Obligations. Except for those portions of the Building which Landlord is obligated to maintain pursuant to Paragraph 6.2 below, Tenant, at Tenant's sole cost and expense, shall maintain in first class condition and repair the Premises and every part thereof, including all doors and windows in the Premises. Without limiting the generality of the foregoing, Tenant shall employ regular janitorial services for the Premises and shall perform any needed "touch-up" painting to the walls of the Premises as needed during the term. In addition, subject to Landlord's satisfying its warranty obligations under Exhibit B, Tenant shall maintain and repair all heating, ventilation, air-conditioning and other equipment installed on the roof of the Building and shall maintain all interior plumbing and electrical systems and equipment. If Tenant refuses or neglects to make repairs and/or maintain the Premises, or any part thereof, in a manner and within a time period reasonably satisfactory to Landlord, Landlord shall have the right, upon giving Tenant reasonable written notice of its election to do so, to make such repairs or perform such maintenance on behalf of and for the account of Tenant. In such event the cost of such work shall be paid by Tenant promptly upon receipt of a bill therefor.

6.2 Landlord's Obligations. Subject to Tenant's obligations pursuant to Paragraph 6.1 above and Paragraph 6.3 below, and the provisions of this Lease concerning damage or destruction, Landlord covenants and agrees that it will, at all times during the Lease term, maintain and keep in good order and repair the foundation, floorslab, exterior, exterior walls, steel frame, roof, structural portions, (gutters), downspouts, if any, and underground utility lines of the Premises and the Building, and all utility lines of the Premises. Landlord shall make all repairs and replacements without, to the extent practicable, interfering with the conduct of Tenant's business. Landlord agrees to transfer or enforce for the benefit of Tenant the unexpired portions, if any, of any warranties relating to the Premises, the equipment that is a part thereof, and the HVAC system.

6.3 Tenant's Obligation to Reimburse.

(a) Tenant shall pay Tenant's Allocable Share of all Operating Expenses (as defined below) as may be paid or incurred by Landlord during the term of this Lease. All Operating Expenses shall be prorated as of the Commencement Date

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Tenant's Initials AC

and Expiration Date to reflect any portion of a calendar year occurring within the Lease term.

(b) The term "Operating Expenses" shall mean all costs and disbursements which Landlord shall pay or become obligated to pay in connection with the insurance described in Paragraphs 11.3 and 11.4 below, the maintenance, repair and operation of the Property, including management and accounting services, and further including, but not limited to all services provided pursuant to Paragraph 8.1, and all labor, materials, supplies and services, including the cost of all maintenance contracts, used or consumed in performing Landlord's maintenance obligations hereunder. Operating Expenses shall not include any repairs or maintenance for warranty items set forth in Exhibit "B". A fee for administrative expenses incurred by Landlord in connection with management, and operation of the property equal to four percent (4%) of the Base Rent payable hereunder to Landlord shall also be included. Operating Expenses shall also include all costs and disbursements which Landlord shall pay or become obligated to pay in connection with the maintenance, repair and operation of the outside area of the Building, including landscaping costs, if any. Tenant shall not have any obligation to reimburse Landlord for any expense not actually paid. In addition to the foregoing, Tenant shall reimburse Landlord in full for any damages to the Premises or the Building which are caused by Tenant, its agents, employees or contractors and which are not reimbursed by insurance. Any Operating Expenses which constitute capital items for purpose of Generally Accepted Accounting Principles shall be amortized over ten (10) years, with interest on the unamortized balance accruing at ten percent (10%) per annum.

(c) Operating Expenses shall not include (i) expenses for repairs or other work occasioned by fire, windstorm or other insured casualty; (ii) expenses incurred in leasing or procuring new tenants (i.e., lease commissions, tenant inducements, advertising expenses and expenses of renovating space for new tenant); (iii) legal expenses in enforcing the terms of any lease; (iv) interest or amortization payments on any mortgage or mortgages and/or capital improvements; (v) reserve funds; (vi) administrative expenses other than management fees payable under Paragraph 6.3.(b) above; (vii) expenses in connection with maintaining and operating any garage operated by Landlord incident to the operation of the Building; (viii) the cost of preparing Landlord's income tax returns; (ix) removal of hazardous material contamination not caused by tenant; and (x) direct settlement payments by Landlord in personal injury or property claims not attributable to Tenant's negligence.

(d) Landlord estimates that the costs for common area maintenance, taxes and insurance for the first Lease Year shall be approximately as follows:

CAM	\$6,600
Insurance	\$1,000
Real Estate Taxes	\$2,700

(e) Any statement rendered by Landlord to Tenant for Tenant's Allocable Share of Operating Expenses shall be deemed accepted by Tenant unless,

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within one (1) year after the receipt of such statement, Tenant shall notify Landlord in writing of the items it disputes ("Notice of Dispute"). Pending the determination of such dispute, Tenant shall pay all amounts due as indicated on the statement and such payments shall be without prejudice to Tenant. In connection with determining and resolving such dispute, Tenant may upon reasonable prior written notice and at Landlord's home office, audit and review the books of Landlord kept in connection with Landlord's Operating Expenses. If the dispute is not amicably settled between Landlord and Tenant within sixty (60) days after completion of Tenant's audit or review, either party may refer the disputed items to a reputable firm of independent certified public accountants, selected by Landlord and approved by Tenant, for a decision, and the decision of such firm shall be conclusive and binding upon Landlord and Tenant. The expenses involved in such determination shall be borne by the party against whom a decision is rendered by such accountants, provided that if more than one (1) item is disputed and the decision shall be against both parties, then the expenses shall be apportioned according to the monetary value of the items decided against each party. If the dispute on any item shall be determined in Tenant's favor, the amount of Tenant's overpayment shall be refunded to Tenant within thirty (30) days of such accounting firm's notice of its decision.

7. Taxes.

7.1 Tenant's Personal Property. Tenant shall pay prior to delinquency all taxes, license fees, and public charges assessed or levied against Tenant, Tenant's estate in this Lease or Tenant's leasehold improvements, trade fixtures, furnishings, equipment and other personal property.

7.2 Tenant's Obligations to Pay Real Property Taxes. Tenant shall pay Tenant's Allocable Share of "Real Property Taxes" (as defined in Paragraph 7.3 below) during the Lease term. Tenant's liability to pay Real Property Taxes shall be prorated on the basis of a 365-day year to account for any fractional portion of a tax year included in the Lease term at the commencement or expiration hereof. Landlord covenants and warrants that Landlord shall pay such taxes prior to delinquency and any late payments, penalties or like charges shall be the responsibility of and paid by Landlord so long as Tenant complies with the requirements of this Lease.

7.3 Definition. The term "Real Property Taxes" shall mean all taxes, general and special assessments, and other charges imposed by any taxing authority and levied against the Property or against Landlord by virtue of its ownership thereof or collection of rental income therefrom (excepting only estate taxes, inheritance taxes, and income taxes that are payable on nonrental as well as rental income). "Taxing authority" includes all entities having taxing or assessment authority by law or by virtue of any recorded instrument binding on the owner of the Property. If the taxing authority permits payment to be made in installments, Tenant's obligations to reimburse Landlord for taxes under this Paragraph 7, shall be limited to its proper share of such installments.

7.4 Supplemental Assessments. Tenant shall be liable for Tenant's Allocable Share of any supplemental assessments levied against the Property which are applicable to any portion of the Lease term. Tenant's liability for supplemental

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Tenant's Initials KE

assessments shall survive the expiration or earlier termination of the Lease term. Tenant shall pay Landlord such amounts within thirty (30) days of Tenant's receipt of Landlord's invoice for supplemental assessments.

7.5 Real Estate Taxes/Abatements. If Landlord shall obtain any abatement, refund or rebate in Real Estate Taxes attributable to the period during which Tenant occupies the Premises, Landlord shall promptly forward to Tenant its share of such abatement, refund or rebate (less Tenant's Allocable Share of the actual cost and expense of obtaining them).

8. Utilities and Services.

8.1 Utilities and Services Provided by Landlord. Landlord shall provide janitorial services only to exterior areas of the Building, the cost of which shall be included in "Operating Expenses". In addition, Landlord shall provide water, gas, electricity, and other utility hook-ups to the Premises and should be registered in the name of Tenant. Tenant shall pay directly the costs of all utilities. Electrical and gas utilities shall be separately metered to the Premises and shall be registered in the name of Tenant. Tenant shall pay directly the costs of all utilities. Landlord shall not be responsible for providing any security protection for all or any portion of the Property and Tenant shall at its own expense provide or obtain any security services that it desires.

8.2 Tenant's Obligation to Pay for Utilities and Services. Tenant shall pay for all costs of providing utility services to the Premises including, all charges for water, gas, electricity, refuse pickup, sewer and all other utilities and services supplied or furnished to the Premises directly to the charging authority.

8.3 No Liability Due to Interruption. No failure or interruption of any such utilities or service shall entitle Tenant to terminate this Lease or to withhold rent or other sums due hereunder and Landlord shall not be liable to Tenant for any such failure or interruption unless caused by the willful misconduct of Landlord.

9. Indemnity. Tenant hereby indemnifies and holds Landlord harmless from and against any and all claims, demands, liabilities, and expenses, including attorneys' fees, arising from Tenant's use of the Premises or from any act permitted, or any omission to act, in or about the Premises by Tenant or its agents, employees, contractors, or invitees, or from any breach or default by Tenant of this Lease, or from any injury to person or property, except to the extent caused by Landlord's negligence or willful misconduct. In the event any action or proceeding shall be brought against Landlord by reason of any such claim, Tenant shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord.

10. Waiver of Claims. Tenant hereby waives any claims against Landlord for injury to Tenant's business or any loss of income therefrom, for damage to Tenant's property, or for injury or death of any other person in or about the Premises or the Property from any cause whatsoever, except to the extent caused by Landlord's negligence or willful misconduct.

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11. Insurance.

11.1 Tenant's Liability Insurance. Tenant shall, at its expense, obtain and keep in force during the term of this Lease a policy of comprehensive public liability insurance insuring Landlord and Tenant against any liability arising out of the operation of Tenant's business and the condition, use, occupancy or maintenance of the Premises. Such insurance policy shall have a combined single limit for both bodily injury and property damage in an amount not less than Two Million Dollars (\$2,000,000), which amount shall be increased, if at all, upon request by the Landlord effective as of the fifth anniversary of the Commencement Date to an amount which does not exceed commercially reasonable levels. The policy shall contain cross liability endorsements (to the extent available on commercially reasonable terms) and shall insure performance by Tenant of the indemnity provisions of Paragraph 9 above. The limits of said insurance shall not limit the liability of Tenant hereunder.

11.2 Tenant's Property Insurance. Tenant shall, at its expense, keep in force during the term of this Lease, a policy of fire and property damage insurance, including protection for glass and windows to the Premises, in an "all risk" form, insuring Tenant's inventory, fixtures, equipment, personal property, and leasehold improvements within the Premises (whether installed by Landlord or Tenant) for the full replacement value thereof. Tenant also shall obtain and maintain business interruption insurance in an amount not less than Tenant's annual gross revenue from the Premises and not less than an amount adequate to provide for payment of Base Rent and other amounts due Landlord under this Lease during a one year interruption of Tenant's business due to fire or other casualty.

11.3 Landlord's Liability Insurance. Landlord shall maintain a policy of comprehensive general liability insurance in an amount of not less than two million dollars (\$2,000,000) insuring Landlord (and such other entities as designated by Landlord) against liability for personal injury, bodily injury or death and damage to property occurring or resulting from an occurrence in, on, or about the Property with such coverage as Landlord may from time to time reasonably deem advisable.

11.4 Landlord's Property Insurance. Landlord shall maintain a policy or policies of insurance covering loss or damage to the Property, including protection from rental loss and coverage for operating expenses resulting from loss or damage to the Building, and such other hazards (including earthquake, provided it is available on commercially reasonable terms) as are normally insured in the industry in such amounts and with such coverage as Landlord deems advisable, but in no event for less than 90% of replacement value (except for earthquake coverage). All proceeds under such policies shall be payable exclusively to Landlord.

11.5 Insurance Premiums and Deductibles are "Operating Expenses". Premiums for any insurance obtained by Landlord pursuant to Paragraphs 11.3 and 11.4 above shall be "Operating Expenses," and any deductible amounts payable in connection with such insurance are also "Operating Expenses." Landlord may obtain such insurance for the Building separately, or together with other buildings and improvements which Landlord elects to insure together under blanket policies of insurance. In such case

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Tenant shall be liable for only such portion of the premiums for such blanket policies as are allocable to the Premises, as reasonably determined by the insurer or Landlord. Landlord shall furnish Tenant a photostatic copy of the invoice for its insurance premiums for the Building.

11.6 Waiver of Subrogation. Tenant and Landlord each hereby waives, and shall cause their respective insurers to similarly waive, any and all rights of recovery against the other, or against the officers, employees, partners, agents and representatives of the other, for loss of or damage to the property of the waiving party or the property of others under its control, to the extent such loss or damage is (or would have been) insured against under any insurance policy carried (or required to be carried) by Landlord or Tenant hereunder.

11.7 Insurance Policies. All of Tenant's insurance shall be primary insurance written in a form reasonably satisfactory to Landlord by companies reasonably acceptable to Landlord and shall specifically provide by endorsements reasonably acceptable to Landlord that such policies shall: (i) not be subject to cancellation or other change except after at least thirty (30) days' prior written notice to Landlord; (ii) be primary insurance; (iii) specifically waive subrogation pursuant to this Lease. All liability policies maintained by Tenant hereunder shall name Landlord and Landlord's property management company as additional insured parties. Copies of the policies or certificates evidencing the policies shall be deposited with Landlord on or prior to the Commencement Date, and upon each renewal of such policies, which shall be effected not less than thirty (30) days prior to the expiration date of the term of such coverage.

12. Damage or Destruction.

12.1 Damage. Except as otherwise provided in this Paragraph 12.1, if any portion of the Premises that Landlord is obligated to maintain is damaged or destroyed by any cause, if such damage is insured against, and if the insurance proceeds are available for rebuilding, then this Lease will not terminate and Landlord will cause such damage to be repaired with reasonable diligence, subject to delays in the disbursement of insurance proceeds and restoration delays caused by inclement weather, governmental action or inaction, and shortage of materials or services. Landlord's obligation in this regard shall be enforceable by Tenant only if such damage interferes with Tenant's reasonable occupancy of the Premises. Provided that the damage did not result from the negligence or willful misconduct of Tenant, Tenant's rent will abate to the extent that the damage and repair period interferes with Tenant's use of the Premises. If the damage is not insured against, if the damage occurs during the last twenty-four (24) months of the Lease term, including any Extended Term for which Tenant has exercised an option to extend, or if the available insurance proceeds are not equal to at least ninety percent (90%) of the full cost of replacement or repair, Landlord may, at its option exercised by written notice to Tenant within thirty (30) days of the date that Landlord learns of the damage, elect either to complete the repair at Landlord's expense, or to terminate this Lease as of the date of damage. If Landlord elects to terminate the Lease because the damage is not insured against or because available insurance proceeds are not sufficient for the repair, Tenant may require Landlord to keep the Lease in full force and effect provided that Tenant pays for the cost of any repair to the Building not

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fully covered by Landlord's insurance. If Landlord elects to repair, Base Rent and Additional Rent will abate in the manner described above. If the damage occurs during the last twenty-four (24) months of the Lease term, including any Extended Term for which Tenant has exercised an option to extend, or if Tenant reasonably determines that the damage cannot be repaired and the Tenant's business operation cannot be opened to the public within seven and one-half (7 1/2) months of the damage, then Tenant may, at its option, exercised by written notice to Landlord within thirty (30) days of the date that Tenant learns of the damage, elect to terminate this Lease. Other than the obligation to repair stated above, Landlord shall have no liability to Tenant on account of damage or destruction.

12.2 Tenant's Property. Landlord's obligation to rebuild or restore shall not include Tenant's trade fixtures, equipment, merchandise, or any improvements, alterations or additions made by Tenant to the Premises.

12.3 Waiver. Tenant waives the provisions of California Civil Code Sections 1932(2) and 1933(4), and any similar or successor statutes relating to termination of leases in the event of damage or destruction, and agrees that the parties' rights and obligations in such event shall instead be governed by this Lease.

13. Condemnation. If any part of the Premises shall be taken for any public, or quasi-public use, under any statute or by right of eminent domain or purchase in lieu thereof, and a part thereof remains which is susceptible to occupation hereunder, this Lease shall, as to the part so taken, terminate as of the date title shall vest in the condemnor or purchaser, and the rent payable hereunder shall be adjusted so that Tenant shall be required to pay for the remainder of the Lease term only such portion of such rent as the value of the part remaining after such taking bears to the value of the entire Premises prior to such taking; but in such event Landlord shall have the option to terminate this Lease as of the date when title to the part so taken vests in the condemnor or purchaser. If all of the Premises, or such part thereof be taken so that there does not remain a portion susceptible to occupation hereunder, this Lease shall thereupon terminate. Notwithstanding the foregoing, if any taking materially lessens the ability of Tenant to conduct its business at the Premises, Tenant may terminate this Lease. All compensation awarded upon any taking hereunder shall belong exclusively to the Landlord. Notwithstanding any provision to the contrary contained herein, Tenant may make its own claim for any separate award that may be made by the condemnor for Tenant's loss of business or for the taking of or injury to Tenant's improvements, or on account of any cost or loss Tenant may sustain in the removal of Tenant's trade fixtures, equipment, and furnishings, or as a result of any alterations, modifications, or repairs that may be reasonably required by Tenant in order to place the remaining portion of the Premises not taken in a suitable condition for the continuance of Tenant's occupancy. If this Lease is terminate pursuant to the provisions of this paragraph, then all rentals and other charges payable by Tenant to Landlord under this Lease will be paid to the date of the taking, and any rentals and other charges paid in advance and allocable to the period after the date of the taking will be repaid to Tenant by Landlord. Landlord and Tenant will then be released from all further liability under this Lease.

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Tenant's Initials J.C.

14. Advertisements and Signs. Tenant shall be entitled to place, maintain, and Landlord shall allow to be permitted, placed and maintained appropriate dignified displays of customary type for its display windows on the interior of the window area, or elsewhere on the Premises so as to be visible to the public as may be allowed by law and subject to the prior approval of the City of Palo Alto.

15. Entry by Landlord. Landlord and its agents shall have the right to enter the Premises for the purpose of inspecting the same, showing the Premises to prospective purchasers or others (excepting future tenants unless the period of time is nine (9) months from the termination date of this Lease), posting notices of non-responsibility, or making repairs, alterations or additions to any portion of the Building.

16. Assignment and Subletting.

16.1 Landlord's Consent Required. Except as provided in Section 16.5 below, Tenant shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Tenant's interest in the Lease or in the Premises, without Landlord's prior written consent, which shall not be unreasonably withheld or delayed.

16.2 Documentation. Prior to any assignment or sublease, Tenant shall (a) provide to Landlord the proposed assignee's or sublessee's name, address, financial statements for the previous three (3) years, (if available) and copies of all documents relating to Tenant's proposed assignment or sublease, and (b) shall specify all monies and other consideration to be received by Tenant for such assignment or sublease. Within fifteen (15) days after the receipt of such documentation, Landlord shall either (a) consent in writing to the proposed assignment or sublease subject to the terms and conditions hereinafter set forth, or (b) notify Tenant in writing that Landlord refuses such consent unless Landlord specifically identifies its reasons for denial. In the event Landlord fails to deliver such written notice within the required period, consent to the proposed sublease or assignment shall be deemed approved.

16.3 Terms and Conditions. In connection with any proposed assignment or sublease, Tenant shall pay to Landlord all processing costs and attorneys' fees incurred by Landlord (not to exceed Five Hundred Dollars (\$500)), regardless of whether Landlord consents to such assignment or sublease (or whether such consent is required). Each assignment or sublease shall be in form satisfactory to Landlord and shall be subject and subordinate to the provisions of this Lease. Once approved by Landlord, such assignment or sublease shall not be modified without Landlord's prior written consent. Each assignee or sublessee shall agree to perform all of the obligations of Tenant hereunder and shall acknowledge that the termination of this Lease shall, at Landlord's sole election, constitute a termination of every such assignment or sublease. Notwithstanding any assignment or sublease, Tenant shall remain primarily liable for all obligations and liabilities of Tenant under this Lease. Landlord may accept rent from a proposed assignee or sublessee without waiving its right to withhold consent to a proposed assignment or subletting.

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16.4 Landlord's Remedies. Any assignment or sublease without Landlord's prior written consent where such consent is required shall at Landlord's election be void, and shall constitute a default under this Lease. The consent by Landlord to any assignment or sublease shall not constitute a waiver of the provisions of this Paragraph 16 with respect to any subsequent assignment or sublease.

16.5 Permitted Assignments. Notwithstanding the above, no consent shall be required for, and Tenant shall have the right to make, any assignment, transfer or subletting of the Premises, or any part thereof (i) to a parent, subsidiary or affiliated company, or (ii) directly or indirectly, in any manner, in connection with a merger, or a consolidation or a combination, or a sale of substantially all of the assets constituting a portion and/or all of the retail chain of which the business in the Premises is a part in the state in which the Premises is located. Upon any assignment in accordance with the foregoing, the Tenant named herein shall be relieved of any further liability hereunder. Tenant shall have the absolute right to assign, sublet or otherwise transfer its interest in this Lease to a licensee, franchisee or operating subsidiary of Tenant, without Landlord's approval, written or otherwise, as long as Tenant remains fully liable for full performance of all its obligations under this Lease.

17. Default.

17.1 Event of Default. The occurrence of any of the following events (an "Event of Default") shall constitute a default and breach of this Lease by Tenant:

(a) The failure by Tenant to make any payment of rent or any other required payment, as and when due, and such failure shall not have been cured within ten (10) days after written notice thereof from Landlord;

(b) Tenant's failure to perform any other term, covenant or condition contained in this Lease and such failure shall have continued for thirty (30) days after written notice of such failure is given to Tenant; provided that where such failure cannot reasonably be cured within said thirty (30) day period, Tenant shall not be in default if Tenant commences such cure within said thirty (30) day period and thereafter diligently pursues all reasonable efforts to complete said cure until completion thereof;

(c) Tenant's assignment of its assets for the benefit of its creditors; the filing of a petition by or against Tenant, where such action is not dismissed within sixty (60) days, seeking adjudication or reorganization under the Bankruptcy Code; the appointment of a receiver to take possession of, or a levy by way of attachment or execution upon, substantially all of Tenant's assets at the Premises.

17.2 Remedies. Upon any Event of Default (as defined above), Landlord shall have the following remedies, in addition to all other remedies now or hereafter provided by law or equity, subject to Landlord's obligation to mitigate damages:

(a) Landlord shall be entitled to keep this Lease in full force and effect and Landlord may enforce all of its rights and remedies under this Lease, including

Landlord's Initials K.W.E.

Tenant's Initials RLB

the right to recover rent and other sums as they become due, plus interest at ten percent (10%) per annum (the "Interest Rate"), from the due date of each installment of rent or other sum until paid; or

(b) Landlord may terminate Tenant's right to possession by giving Tenant written notice of termination, whereupon this Lease and all of Tenant's rights in the Premises shall terminate. Any termination under this paragraph shall not release Tenant from the payment of any sum then due Landlord or from any claim for damages or rent accrued.

In the event this Lease is terminated pursuant to this Paragraph 17.2(b), Landlord may recover from Tenant all damages incurred by Landlord by reason of Tenant's default, including but not limited to: (i) The cost of recovering possession of the Premises; (ii) Expenses of reletting, including necessary renovation and alteration of the Premises; (iii) Reasonable attorneys' fees, any real estate commissions actually paid and that portion of any leasing commission paid by Landlord applicable to the unexpired term of this Lease; (iv) The worth at the time of award of the unpaid rent which had been earned at the time of termination; (v) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss for the same period that Tenant proves could have been reasonably avoided; (vi) The worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss for the same period that Tenant proves could be reasonably avoided; and (vii) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which in the ordinary course of things would be likely to result therefrom.

The "worth at the time of award" of the amounts referred to in subparagraphs (iv) and (v) of this Paragraph 17.2(b) shall be computed by allowing interest at the Interest Rate. The "worth at the time of award" of the amount referred to in subparagraph (vi) of this Paragraph 17.2(b) shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). The term "rent" as used in this paragraph shall include all sums required to be paid by Tenant to Landlord pursuant to the terms of this Lease.

17.3 No Relief From Forfeiture After Default. Tenant waives all rights of redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, and under any other present or future law, in the event Tenant is evicted or Landlord otherwise lawfully takes possession of the Premises by reason of any Event of Default.

17.4 Landlord's Right to Perform Tenant's Obligations. If Tenant shall at any time fail to perform any obligation required of Tenant hereunder, and provided Tenant has been provided a thirty (30) day notice from Landlord concerning such obligation, then Landlord may, at its option, perform such obligation to the extent Landlord deems desirable, and may pay any and all expenses incidental thereto. No such action by Landlord shall be deemed a waiver by Landlord of any of Landlord's rights or

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Tenant's Initials JK

remedies, or a release of Tenant from performance of such obligation. All sums so paid by Landlord shall be due and payable by Tenant to Landlord on the day immediately following Landlord's payment thereof. Landlord shall have the same rights and remedies for the nonpayment of any such sums as for default by Tenant in the payment of rent.

17.5 Remedies Not Exclusive. Any and all rights and remedies that Landlord or Tenant may have under this Lease, and at law and in equity, shall be cumulative and shall not be deemed inconsistent with each other, and any two or more of all such rights and remedies may be exercised at the same time insofar as permitted by law.

17.6 Termination, Surrender and Abandonment. No act or conduct of Landlord, including, without limitation, efforts to relet the Premises, an action in unlawful detainer or service of notice upon Tenant or surrender of possession by Tenant pursuant to such notice or action, shall extinguish the liability of Tenant to pay rent or other sums due hereunder or terminate this Lease, unless Landlord notifies Tenant in writing of Landlord's election to terminate this Lease. No act or conduct of Landlord, including the acceptance of the keys to the Premises, other than a written acknowledgment of acceptance of surrender signed by Landlord, shall be deemed to be or constitute an acceptance of the surrender of the Premises by Tenant prior to the expiration of the Lease term. The surrender of this Lease by Tenant, voluntarily or otherwise, shall, at Landlord's option, operate as an assignment to Landlord of any and all existing assignments and subleases, or Landlord may elect to terminate any or all of such assignments and subleases by notifying the assignees and sublessees of its election within fifteen (15) days after such surrender.

17.7 Landlord's Default. In the event of any failure by Landlord to perform any of Landlord's obligations under this Lease, Tenant will give Landlord written notice specifying such default with particularity, and Landlord shall thereupon have thirty (30) days in which to cure any such default. Unless and until Landlord fails to so cure any default after such notice, Tenant shall not have any remedy or cause of action by reason thereof. If a default by Landlord remains uncured after the expiration of the thirty (30) day period (except for obligations of Landlord which reasonably require greater than thirty (30) days to fulfill, and provided Landlord has initiated performance of any such obligation within such thirty (30) day period and has thereafter diligently acted to fulfill any such obligation), then Tenant shall have the right, as Tenant's sole and exclusive remedies, to either (i) bring an action for damages, or (ii) cure such default and all reasonable sums expended by Tenant in effecting such cure, together with interest thereon from the date of such expenditure at the Interest Rate, shall be due and payable by Landlord to Tenant within thirty (30) days of Tenant's written demand accompanied by reasonable documentation substantiating such sums.

17.8 Effect of Waivers on Default. No consent or waiver, express or implied, by either party to or of any breach of any covenants, conditions or duty of the other shall be construed as a consent or waiver to or of any other breach of the same or any other covenant, condition or duty.

Landlord's Initials KWC

Tenant's Initials JK

18. Effect of Conveyance. The term "Landlord" as used in this Lease, means only the current owner(s) of the Building so that in the event of any sale or other transfer of the Building, the transferor shall be deemed to be relieved of all obligations of the Landlord hereunder from and after the date of such sale, and the transferee shall be deemed to have assumed and agreed to perform any and all obligations of Landlord hereunder arising from and after said date.

19. Instruments Required by Lender. Upon written request from Landlord, Tenant agrees to forthwith execute and deliver to Landlord, such instruments, including a current statement of Tenant's financial condition, as may be reasonably required by any mortgagee or holder of a deed of trust or other encumbrance on the Property. Landlord shall keep and protect all such information as confidential except as necessary to obtain debt or equity financing.

20. Tenant's Estoppel Certificate. Tenant shall, from time to time, within ten (10) days after receipt by Tenant from Landlord of written request therefor, deliver a duly executed and acknowledged and factually accurate estoppel certificate to Landlord in a form reasonably satisfactory to Landlord and Tenant.

21. Subordination and Attornment. Tenant agrees that this Lease may, at the option of Landlord, be subject and subordinate to any mortgage, deed of trust, any other instrument of security, or ground lease which is now or hereafter placed on the Property, provided that the mortgagee, beneficiary, other secured party or ground lessor executes a Non-Disturbance Agreement in a form reasonably approved by Landlord and Tenant. Subject to Landlord's providing an executed Non-Disturbance Agreement, the subordination described herein is hereby made effective without any further act of Tenant. Tenant shall, at any time hereafter, on demand, execute any instruments, releases, or other documents that may be required by any mortgagee, mortgagor, or trustor or beneficiary under any security instrument for the purpose of subjecting and subordinating this Lease to the lien of such instrument and Tenant shall agree to reasonable modifications to the form of Non-Disturbance Agreement so long as such modifications do not diminish Tenant's possessory rights under this Lease. Tenant shall attorn to any third party purchasing or otherwise acquiring the Premises at any sale or other proceeding or pursuant to the exercise of any rights, powers or remedies under any instruments of security or ground leases now or hereafter encumbering all or any part of the Premises, as if such third party had been named as Landlord under this Lease. Landlord shall within thirty (30) days of execution of this Lease obtain a non-disturbance agreement from any current mortgager with a security interest in the Property.

22. Notices. Any notice from Landlord to Tenant or from Tenant to Landlord shall be sent by certified mail, return receipt requested. All notices shall be addressed or delivered, if to:

To Landlord: Alfred E. Werry, et al.
c/o Premier Property Mgmt.
532 Emerson Street, Suite 203
Palo Alto, CA 94301

Landlord's Initials KWC

E.E.B.

Tenant's Initials CL

To Tenant: J.C. Palo Alto CA VI, Inc.
c/o Jennifer Convertibles, Inc.
245 Rogers Avenue
Inwood, New York 11696

With A Copy To: Law Office of Bernard Wincig
Attn: Bernard Wincig, Esq.
574 Fifth Avenue
New York, New York 10036

23. Consent. Where pursuant to the terms of this Lease, or in connection with the administration of the Lease, the consent, approval, judgment, satisfaction or similar exercise of discretion of or by one party shall be required, requested or appropriate, such party covenants and agrees that its consent, approval, judgment, satisfaction or similar exercise of discretion shall not be unreasonably withheld, delayed or conditioned, and shall not be charged for.

24. Actions of Landlord. Whenever Landlord shall enter, or perform any work in or about the Premises, such entry shall be made, and such work shall be performed, to the extent practicable, without interfering with the conduct of Tenant's business.

25. Damages. In determining any damages hereunder, Landlord shall use its reasonable efforts to mitigate its damages.

26. Mutuality of Lease Provisions. All provisions of said Lease relating to (i) payment of attorneys' fees, (ii) effect of waivers (or lack of waivers), and (iii) delays ("force majeure"), shall be deemed mutual, Tenant having the same rights with respect thereto as Landlord.

27. Plate Glass. Tenant is permitted to self-insure plate glass.

28. Imputation. For purposes of this Lease, the negligence, affirmative act or violation of the provisions of this Lease by an employee or agent of Landlord or Tenant, or by a contractor, employed by Landlord or Tenant, shall be the negligence, affirmative act or violation of the provisions of this Lease of Landlord or Tenant, as the case may be.

29. Guaranty. Tenants obligations under this Lease shall be guaranteed by Jennifer Convertibles, Inc. by guaranty in form attached hereto as Exhibit "G", to be executed concurrently herewith.

30. Execution. Landlord shall have seven (7) days from receipt of Tenant's executed copies of the Lease in which to execute and return this Lease to Tenant or this Lease shall be considered null and void and Landlord shall return any and all monies, if any, advanced by Tenant to Landlord in connection with this Lease.

31. No Accord and Satisfaction. No payment by Tenant, or receipt by Landlord, of an amount which is less than the full amount of Base Rent and all other

Landlord's Initials J.C.V.
E.W.B.

Tenant's Initials JG

sums payable by Tenant hereunder at such time shall be deemed to be other than on account of (a) the earliest of such other sums due and payable, and thereafter (b) to the earliest Base Rent or other sum due and payable hereunder. No endorsement or statement on any check or any letter accompanying any payment of Base Rent or such other sums shall be deemed an accord and satisfaction, and Landlord may accept any such check or payment without prejudice to Landlord's right to receive payment of the balance of such rent and/or other sums, or Landlord's right to pursue Landlord's remedies.

32. Attorneys' Fees. If any action or proceeding at law or in equity, or an arbitration proceeding (collectively, an "action"), shall be brought to recover any rent under this Lease, or for or on account of any breach of or to enforce or interpret any of the terms, covenants, or conditions of this Lease, or for the recovery of possession of the Premises, the prevailing party shall be entitled to recover from the other party as a part of such action or in a separate action brought for that purpose, its reasonable attorneys' fees and costs and expenses incurred in connection with the prosecution or defense of such action. "Prevailing party" within the meaning of this paragraph shall include, without limitation, a party who brings an action against the other after the other is in breach or default, if such action is dismissed upon the other's payment of the sums allegedly due or upon the performance of the covenants allegedly breached, or if the party commencing such action or proceeding obtains substantially the relief sought by it in such action, whether or not such action proceeds to a final judgment or determination. In addition, each party agrees to reimburse the other party for all of such other party's legal fees and expenses incurred in the enforcement and protection of all of such other party's rights under the Lease and applicable laws, whether or not an action has been brought, including reasonable attorneys' fees and costs incurred in any out-of-court settlement or in connection with the filing of a bankruptcy petition by or against the first party.

33. Holding Over. This Lease shall terminate without further notice at the expiration of the lease term. Any holding over after the expiration of the lease term, with the express written consent of Landlord, shall be construed to be a tenancy from month to month, at a monthly rental of one hundred twenty-five percent (125%) of the last applicable Base Rent, and shall otherwise be on the terms and conditions herein specified.

34. General Provisions.

34.1 Entire Agreement. This instrument, together with the exhibits attached hereto, constitutes the entire agreement made between the parties hereto and may not be modified orally or in any manner other than by an agreement in writing signed by all of the parties hereto or their respective successors in interest.

34.2 Timeliness. Time is of the essence with respect to the performance of each and every provision of this Lease in which time of performance is a factor. Whenever the provisions of this Lease provide that the consent of the party must be obtained, except as otherwise specifically provided, such party agrees to act reasonably and in a timely manner in determining whether to grant or withhold its consent.

Landlord's Initials KLLC

Tenant's Initials He

34.3 Captions. The captions of the numbered paragraphs of this Lease are inserted solely for the convenience of the parties hereto and shall have no effect upon the construction or interpretation of any part hereof.

34.4 California Law. This Lease shall be construed and interpreted in accordance with the laws of the State of California.

34.5 Partial Invalidity. If any provision of this Lease is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the provisions hereof shall nonetheless continue in full force and effect.

34.6 No Warranties. Any agreements, warranties or representations not expressly contained herein shall not bind either Landlord or Tenant.

34.7 Joint and Several Liability. If Tenant is more than one person or entity, each such person or entity shall be jointly and severally liable under the Lease.

34.8 Binding on Successors. The covenants and conditions herein contained, subject to the provisions as to assignment, shall apply to and be binding upon the parties hereto and their respective successors in interest.

34.9 Authority. The parties hereby represent and warrant that they have all necessary power and authority to execute and deliver this Lease on behalf of Landlord and Tenant, respectively.

34.10 Memorandum of Lease. At the request of Landlord or Tenant, Landlord and Tenant shall execute and cause to be recorded a short form memorandum of lease as reasonably approved by Landlord and Tenant.

34.11 No Light, Air or View Easement. Any diminution or shutting off of light, air or view by any structure which may be erected on lands adjacent to or in the vicinity of the Building shall in no way affect this Lease, entitle Tenant to any reduction of rent or impose any liability upon Landlord.

34.12 Brokers. Landlord agrees to pay a brokerage commission to Premier Properties Management, Inc., a California corporation, and to Specialty Realty Group, Inc. pursuant to a separate commission agreement. Each party hereby agrees to indemnify and hold the other harmless from any claims for commissions arising from its dealings with any other broker or agent.

34.13 Force Majeure. If either party hereto shall be delayed or prevented from the performance of any act required hereunder by reason of acts of God, strikes, inability to procure materials, restrictive governmental laws or regulations, delay by the other party hereto or other cause without fault and beyond the control of the party obligated to perform (financial inability excepted), then upon notice to the other party, the performance of such act shall be excused for the period of the delay and the period for the performance of such act shall be extended for a period equal to the period of such delay; provided, however, the party so delayed or prevented from performing shall

Landlord's Initials KWC

Tenant's Initials ACB

exercise good faith efforts to remedy any such cause of delay or cause preventing performance.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease on the dates specified below immediately adjacent to their respective signatures. Delivery of this Lease to Landlord, duly executed by Tenant, constitutes an offer by Tenant to lease the Premises as herein set forth, and under no circumstances shall such delivery be deemed to create an option or reservation to lease the Premises for the benefit of Tenant. This Lease shall only become effective and binding upon execution of this Lease by Landlord and delivery of a signed copy to Tenant.

"LANDLORD"

Alfred E. Werry, Jr.
Alfred E. Werry, Jr.

Ellen Bergren
Ellen Bergren

Kathryn Childress
Kathryn Childress

Alfred E. Werry Trust

By: Alfred E. Werry, Jr.
Its: Bank of America

"TENANT"

J.C. Palo Alto, CA VI, Inc.,
a California corporation

By: Harley Greenfield
Its: President

Landlord's Initials KWS

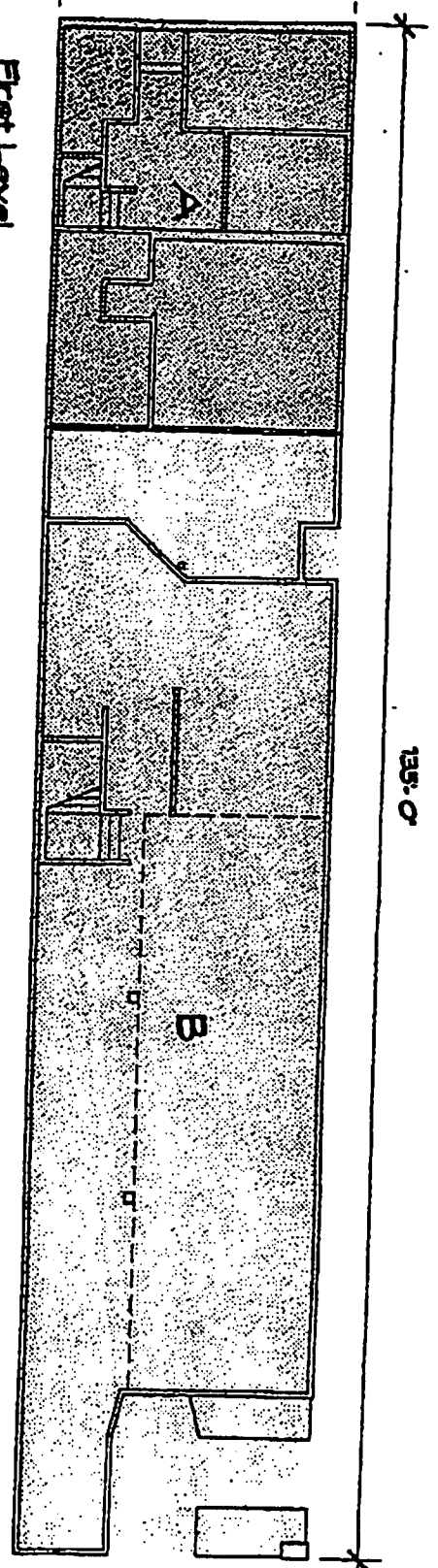
EWJ
EMB

Tenant's Initials HG

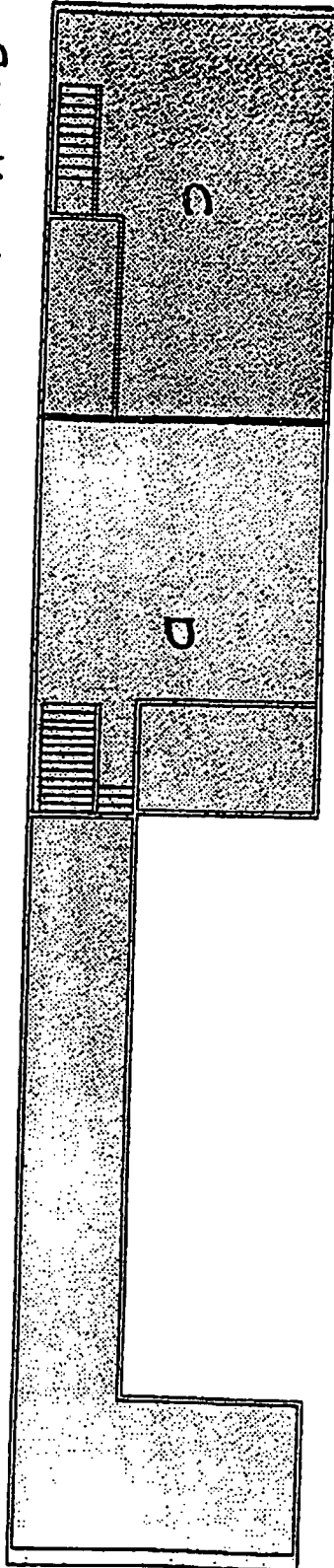
EXHIBIT A

THE PREMISES

First Level



Second Level



AREA CALCULATION SUMMARY

AREA A	884.50 SF.
AREA B	2490.75 SF.
AREA C	884.50 SF.
AREA D	1698.00 SF.
TOTAL	5957.75 SF.

383 UNIVERSITY AVENUE
West

The Acorn Group

Landlord's Initials *KWC*

Rev. B

Tenant's Initials *AL*

EXHIBIT B

THE SHELL IMPROVEMENTS

Subject to the provisions of Paragraph 1.2 hereof, Landlord shall cause to be constructed at Landlord's sole expense the following improvements to the Building which shall be referred to as the "Shell Improvements".

(a) Landlord shall install on the roof of the Building a new 2.5-ton HVAC equipment unit for the rear portion of the Premises. An existing 5-ton HVAC unit servicing the front portion of the Premises shall remain in its current location. The HVAC equipment shall be installed, and operable, but shall not be distributed throughout the Premises except for placement of a shaft serving the Premises. Distribution of the HVAC shall be an element of the Tenant Improvements.

(b) Landlord shall provide a smooth floor surface for Tenant ready for placement by Tenant of Tenant's flooring;

(c) Landlord shall provide Tenant the existing electrical power panel with at least 200 amps of capacity at that location of the Premises as existing as of the date of execution of this Lease. Distribution of electrical service shall be an element of the Tenant Improvements.

(d) Landlord shall provide one handicap-accessible toilet room as existing in the location at the Premises as existing as of the date of execution of this Lease.

(e) Landlord will demolish the interior of the space as defined in the demolition plan from the Schutte Hayes Architects dated 4/27/94. The demolition will include:

Front Space: 383 University

- 2) The mezzanine storage and office space
- 3) All interior demising walls
- 4) The existing bathrooms

Back Space: 460 Waverly

- 5) Second floor up to point A (see floor plan)
- 6) All first floor interior walls up to point A
- 7) Open the wall between 383 UA and 460 WA as wide as possible per engineered drawing from Seva Engineering dated 5/9/94.

Landlord's Initials KWC

Tenant's Initials DC

(f) Landlord shall install a new roof.

(g) Landlord shall perform minor exterior repairs, including removal of the front awning, cleaning and paint touch-up to the exterior of the Building.

Landlord represents and warrants that the Shell Improvements Work will be performed in a good, workmanlike manner free from defective workmanship and materials. Landlord warrants that for one year from the Commencement Date, all HVAC, plumbing and primary electrical systems and equipment and roof will be free from defects or need for repair or maintenance expenditures, other than maintenance expenses which are necessary in the ordinary course of business for a retail tenant comparable to Tenant.

Except for the work and warranties specifically set forth on this Exhibit B, Tenant accepts the Premises in its "AS IS" condition.

Landlord's Initials KWC

Tenant's Initials EWB

EXHIBIT C
TENANT IMPROVEMENTS

1. Tenant Improvements.

(a) Landlord shall provide the Shell Improvements. All other improvements to the Building shall be constructed by Tenant and shall be referred to as the "Tenant Improvements". The Tenant Improvements shall be constructed in a good and workmanlike manner, in compliance with all applicable laws, regulations and codes, and in accordance with plans and specifications be prepared by Tenant at Tenant's expense. Landlord shall have the right to approve the plans and specifications for the Tenant Improvements, which approval shall not be unreasonably withheld or delayed. Landlord's consent shall be deemed given if Landlord does not respond to Tenant's request for such consent within five (5) days after the date of Landlord's receipt of plans and specifications for the Tenant Improvements together with Tenant's request for approval of such plans and specifications. If Landlord disapproves the plans and specifications, Landlord shall give Tenant written notice of such disapproval specifying the reasons and basis for its disapproval within five (5) days after the date of Landlord's receipt of the plans and specifications. The parties shall thereafter confer and negotiate in good faith to reach agreement on the plans and specifications for the Interior Improvements.

Tenant shall deliver preliminary plans for the Tenant Improvements to Landlord on or before June 1, 1994.

(b) Construction of Tenant Improvements. Tenant shall have access to the Building in order to construct and install the Tenant Improvements therein at any time on or after June 1, 1994. The Tenant Improvements shall be constructed by a contractor chosen by Tenant provided such contractor is reputable, bondable by reputable bonding companies, and carries the kinds of insurance and in the amounts set forth in Paragraph 2 below. Tenant shall pay promptly for all labor and materials supplied to Tenant in connection with the construction of the Tenant Improvements, shall not cause or permit any liens for such labor and materials to attach to the Property, and shall bond or discharge any such lien which may be filed or recorded within fifteen (15) days after Tenant receives actual notice of such filing or recording. Tenant shall have no obligation to remove the Tenant Improvements upon the expiration or earlier termination of the Lease. Tenant shall be responsible for payment of all costs of Tenant Improvements.

2. Insurance. During the period of construction of the Tenant Improvements, Tenant or its general contractor shall procure and maintain in effect the following insurance coverages with an insurance company or companies authorized to do business in California and the following agreements shall apply:

Landlord's Initials KWC

Tenant's Initials ALC

(a) Worker's Compensation - statutory limits for the state in which the work is to be performed, together with "ALL STATES" and "VOLUNTARY COMPENSATION" coverage endorsements;

(b) Employer's Liability Insurance with a limit of not less than Two Million Dollars (\$2,000,000);

(c) Comprehensive Liability - at least Two Million Dollars (\$2,000,000) combined single limit, including personal injury, contractual and products/completed operations liability. Coverage must include the following: (i) premises - operations; (ii) elevators and hoists; (iii) independent contractor; (iv) contractual liability assumed under this contract; (v) completed operations - products; and (vi) explosion, underground and collapse (XUC) coverage;

(d) Automobile Liability - including owned, hired and non-owned vehicles of at least Two Million Dollars (\$2,000,000) combined single limit for bodily injury or property damage. Coverage must include the following: (1) owned vehicles; (2) leased vehicles; (3) hired vehicles; and (4) non-owned vehicles;

(e) Tenant shall furnish Landlord with certificates of insurance evidencing such coverage prior to the commencement of the Interior Improvements. All insurance shall be carried in companies having a Best's Guide rating of A- or better. The following statement shall appear in each certificate of insurance provided Landlord by Tenant hereunder: "It is agreed that in the event of any material change in, cancellation or non-renewal of this policy, thirty (30) days prior notice will be given to:

Alfred E. Werry et al.
c/o Premier Property Management
532 Emerson Street, Suite 203
Palo Alto, CA 94301

(f) The carrying of any of the insurance required hereunder shall not be interpreted as relieving Tenant of any responsibility to Landlord.

Alfred E. Werry et al.

Landlord's Initials *K.L.C.*

E.W.B.

Tenant's Initials *Ne*

EXHIBIT E-1

OPTION TO EXTEND TERM

Options to Extend Term.

1. Options. At the expiration of the original ten (10) year term hereof (the "Expiration Date"), Tenant may extend the term of this Lease for one additional period, for a term of five (5) years (the "Extended Term"), commencing immediately following the Expiration Date (the "Extended Term"). Tenant shall exercise this option, if at all, by giving Landlord notice of Tenant's intention to do so at least six (6) months but no more than nine (9) months prior to the Expiration Date. In no event shall any purported exercise of such option by Tenant be effective if Tenant is in default of any material term, covenant, agreement or obligation on its part under this Lease during the period from the date Tenant exercised its option hereunder up to and including the commencement of the Extended Term. The Extended Term shall be upon all of the terms and conditions hereof, except that the Base Rent shall be adjusted as set forth on Exhibit E-2.

Landlord's Initials K.W.C.

(a. 7. 11)

E.W.B

Tenant's Initials *[Signature]*

EXHIBIT E-2

RENT FOR EXTENDED TERM

1. Extended Term Rent. The monthly Base Rent for the first year of the extended term (the "Extended Term") shall be the greater of: (i) 103% of the monthly Base Rent payable hereunder for the last full month of the Lease term immediately preceding commencement of the Extended Term, or (ii) the fair market rental for the Premises, as improved. In the event the parties fail to agree upon the amount of the monthly Base Rent for the first year of the Extended Term on or before one hundred fifty (150) days prior to commencement thereof, the monthly Base Rent for the first thirty (30) months of the Extended Term shall be determined by appraisal in the manner hereafter set forth; provided, however, that in no event shall the monthly Base Rent for the Extended Term be less than one hundred three percent (103%) of the monthly Base Rent payable hereunder for the last full month of the Lease term immediately preceding commencement of the Extended Term.

In the event it becomes necessary under this paragraph to determine the fair market monthly Base Rent by appraisal, one hundred fifty (150) days prior to commencement of the Extended Term, Landlord and Tenant each shall appoint a real estate appraiser (MAI or AIREA) who has at least five (5) years experience in appraising commercial real property in the Palo Alto area. Each such broker is hereinafter referred to as an "appraiser." Such appraisers shall each determine the fair market monthly Base Rent for the Premises taking into account the value of the Premises and the amenities provided by the Building and prevailing comparable rentals. Such appraisers shall, within twenty (20) business days after their appointment, complete their appraisals and submit their appraisal reports to Landlord and Tenant. If the two (2) appraisals of fair market monthly Base Rent for the Premises vary by five percent (5%) or less of the higher appraisal, the average of the two shall be multiplied by ninety-five percent (95%) and the result shall be the Base Rent for the Premises for the first year of the Extended Term (except that in no event shall the Base Rent for the Premises for the first year of the Extended Term be less than the monthly Base Rent payable hereunder for the last full month of the Lease term immediately preceding the commencement of the Extended Term). If said appraisals of fair market monthly Base Rent vary by more than five percent (5%) of the higher appraisal, said appraisers, within ten (10) days after submission of the last appraisal, shall appoint a third appraiser who also shall be a certified real estate appraiser having at least five (5) years experience in appraising commercial real property in the Palo Alto area. Such third appraiser shall, within twenty (20) business days after his appointment, determine by appraisal the fair market monthly Base Rent of the Premises, taking into account the same factors referred to above, and submit his appraisal report to Landlord and Tenant. The fair market monthly Base Rent determined by the third appraiser for the Premises shall be averaged with whichever of the other two appraised values is closest to that determined by the third appraiser, and said average shall be the Base Rent for the Premises for the first year of the Extended Term (except that in no event shall the Base Rent for the Premises for the first year of the Extended Term be less than one hundred and three percent (103%) of the monthly Base Rent payable hereunder for the last full month of the Lease

Landlord's Initials E.E.C.

Tenant's Initials Y

term immediately preceding the commencement of the Extended Term). If either Landlord or Tenant fails to appoint an appraiser, or if an appraiser appointed by either of them fails, after his appointment, to submit his appraisal within the required period in accordance with the foregoing, the appraisal submitted by the appraiser properly appointed and timely submitting his appraisal shall be controlling. If the two appraisers appointed by Landlord and Tenant are unable to agree upon a third appraiser within the required period in accordance with the foregoing, application shall be made within twenty (20) days thereafter by either Landlord or Tenant to the San Francisco office of the American Arbitration Association, which shall appoint a licensed real estate broker satisfying the requirements set forth above. The cost of all appraisals under this paragraph shall be borne equally by Landlord and Tenant.

Landlord's Initials

C. E. J.
K. W. C.
E. E. B.

Tenant's Initials

N

EXHIBIT G

GUARANTY OF LEASE

WHEREAS, The Alfred E. Werry Trust, Alfred E. Werry, Jr., Ellen Bergren, and Kathryn Childress as "Landlord" and J.C. Palo Alto VI, Inc., a California corporation, as "Tenant" have entered into that certain "Lease" dated _____, 1994, concerning the premises commonly known as 383 University Avenue, Palo Alto, California; and

WHEREAS, _____
herein referred to as "Guarantor" has a financial interest in the Tenant; and

WHEREAS, Landlord would not execute the Lease if Guarantor did not execute and deliver to Landlord this Guaranty of Lease.

NOW, THEREFORE, for and in consideration of the execution of the foregoing Lease by Landlord and as a material inducement to Landlord to execute said Lease, Guarantor hereby jointly, severally, unconditionally and irrevocably guarantees the prompt payment by Tenant of all rentals and all other sums payable by Tenant under said Lease and the faithful and prompt performance by Tenant of each and every one of the terms, conditions and covenants of said Lease to be kept and performed by Tenant.

It is specifically agreed and understood that the terms of the foregoing Lease may be altered, affected, modified or changed by agreement between Landlord and Tenant, or by a course of conduct, and said Lease may be assigned by Tenant or any assignee of Tenant without consent or notice to Guarantor and that this Guaranty shall thereupon and thereafter guarantee the performance of said Lease as so changed, modified, altered or assigned. No assignment which is permitted by Landlord under the terms of the Lease without the consent of the Landlord and no release of Tenant from its obligations under the Lease in connection therewith shall relieve Guarantor of its obligations hereunder.

This Guaranty shall not be released, modified or affected by failure or delay on the part of Landlord to enforce any of the rights or remedies of the Landlord under said Lease, whether pursuant to the terms thereof or at law or in equity.

This Guaranty shall be limited to the sum of Three Hundred Fifty Thousand Dollars (\$350,000) reduced by the sum of Nine Thousand Seven Hundred Twenty-two Dollars and Twenty-two Cents (\$9,722.22) per calendar month for each and every calendar month during the Lease term, provided that the sum guaranteed hereby shall in no event ever be less than the total dollar amount of Base Rent and Additional Rent due for six (6) months after any default by Tenant under the Lease and failure by Tenant to cure such default.

No notice of default need be given to Guarantor, it being specifically agreed and understood that the guarantee of the undersigned is a continuing guarantee under which Landlord may proceed forthwith and immediately against Tenant or against Guarantor

Landlord's Initials *ALC*

Tenant's Initials *ALC*

following any breach or material default by Tenant, provided Tenant has failed to cure such default within the applicable cure period, or for the enforcement of any rights which Landlord may have as against Tenant pursuant to or under the terms of the within Lease or at law or in equity.

Landlord shall have the right to proceed against Guarantor hereunder following any breach or material default by Tenant.

Guarantor does hereby subordinate all existing or future indebtedness of Tenant to Guarantor to the obligations owed to Landlord under the Lease and this Guaranty.

The term "Landlord" whenever hereinabove used refers to and means the Landlord in the foregoing Lease specifically named and also any assignee of Landlord, whether by outright assignment or by assignment for security, and also any successor to the interest of said Landlord or of any assignee in such Lease or any part thereto, whether by assignment or otherwise. So long as the Landlord's interest in or to the leased premises or the rents, issues and profits therefrom, or in, to or under said Lease, are subject to any mortgage or deed of trust or assignment for security, no acquisition by Guarantor of the Landlord's interest in the in the leased premises or under said Lease shall affect the continuing obligation of Guarantee under the Guaranty which shall nevertheless continue in full force and effect for the benefit of the mortgagee, beneficiary, trustee or assignee under such mortgage, deed of trust or assignment, of any purchase at sale by judicial foreclosure or under private power of sale, and the successors and assigns of any such mortgagee, beneficiary, trustee, assignee or purchaser.

The term "Tenant" whenever hereinabove used refers to and means the Tenant in the foregoing Lease specifically named and also any assignee or subtenant of said Lease and also any successor to the interests of said Tenant, assignee or subtenant of such Lease or any part thereof, whether by assignment, sublease or otherwise.

In the event any action be brought by said Landlord against Guarantor hereunder to enforce the obligation of Guarantor hereunder, the unsuccessful party in such action shall pay to the prevailing party therein a reasonable attorney's fee which shall be fixed by the Court.

Executed at 574 Fifth Ave., New York, NY, this 7th day of June, 1994.

JENNIFER CONVERTIBLES, INC.,
a Delaware corporation

By: [Signature]
Harley Greenfield
Its: President

Landlord's Initials K.L.C.

Tenant's Initials [Signature]

EXHIBIT E

RENT ADJUSTMENT SCHEDULE

Base Rent shall be adjusted in accordance with the following schedule:

<u>Months</u>	<u>Base Rent</u>
1-24	\$ 8,800
25	\$ 00
26-48	\$ 9,328
49-72	\$ 9,887
73-96	\$10,480
97-120	\$11,110

Landlord's Initials _____

Tenant's Initials _____