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**UNITED STATES BANKRUPTCY COURT
THE SOUTHERN DISTRICT OF NEW YORK**

In re:

JENNIFER CONVERTIBLES, INC., et al.,

Debtors.

Chapter 11
Case No. 10-13779 (ALG)
Jointly Administered

**REVISED INTERIM STIPULATION AND ORDER REGARDING
CHARGEBACK RESERVE ACCOUNT**

This Interim Stipulation and Order (“Stipulation”), dated the ~~27th~~3rd day of ~~July~~August, 2010, is between and among Merrick Bank Corporation (“Merrick”); Renaissance Associates (“Renaissance” and, collectively with Merrick, the “Bank”); and Jennifer Convertibles Inc.

(“Jennifer”). (All parties to this Stipulation are collectively referred to hereinafter as the “Parties”).

RECITALS

A. On or about January 13, 2010, the Parties signed a “Merchant Application and Agreement” (“Agreement”) (copy attached as Exhibit A), which Agreement amended a prior agreement between the Parties, pursuant to which Bank has agreed to process Visa and MasterCard transactions initiated by customers utilizing credit cards at Jennifer locations (i.e., receive from a cardholder’s issuing bank, through the Visa/MasterCard interchange systems, payments for goods purchased at Jennifer locations with Visa/MasterCard cards (“Sales Receipts”) and remit such Sales Receipts on a daily basis, less applicable fees and other costs, to Jennifer).

B. Without the Bank’s performance under the Agreement, or the agreement of another bank to provide such services, Jennifer would be unable to accept Visa or MasterCard as a means for payment for its goods.

C. Jennifer’s ordinary course of business is to charge consumers a minimum of 50% of the purchase price for its goods at the time of sale for the Jennifer segment, and, in the case of sales of the Ashley segment goods, 100% of the purchase price at such time (the aggregate of all such down payments made with a Visa or MasterCard card at any given time the “Visa/MasterCard Deposits”) and the remaining balance, with respect to Jennifer segment sales, upon delivery of the purchased item some time later.

D. Pursuant to the rules of Visa and MasterCard, if product in respect of which a Visa/MasterCard Deposit has been made is not delivered, the cardholder may cancel the order (i.e., “chargeback”) and the Bank is obligated to return the Visa/MasterCard Deposit to the consumer.

Likewise, if a cardholder determines not to accept delivered goods (defective, wrong item, etc.) the cardholder may chargeback and the Bank is obligated to return the purchase price to the consumer.

E. The Agreement expires on January 13, 2011 and provides for termination by the Bank “without cause” on thirty (30) days advance written notice (Agreement § 4.02(a)) and “for cause” on notice immediately upon, among other reasons, a material adverse change in Jennifer’s financial condition or Jennifer’s bankruptcy. (Agreement § 4.02(b)).

F. The Agreement provided that the Bank may establish and Jennifer would fund a reserve to protect the Bank from chargeback risk in an amount demanded by the Bank, which may be increased by the Bank (the “Chargeback Reserve Account”). Such amount, as initially set forth in the Agreement, was ~~-\$801,462.52 (the “Chargeback Reserve Account”)~~; \$801,462.52. (Agreement § 3.05).

G. Beginning earlier this year, the Bank increased the Chargeback Reserve Account by withholding daily ~~25%~~an additional portion of the Sales Receipts it otherwise would have remitted to Jennifer (the “~~25%~~ Withholding”); such Withholding ceased as of July 27, 2010.

H. The Chargeback Reserve Account totaled \$3,975,595.25 as of the close of business on July 16, 2010 (the “Interim Reserve”); ~~(the difference between the Interim Reserve amount and the amounts currently held in the Chargeback Reserve Account are known as the “Additional Cash”)~~. As of July ~~14~~28, 2010 the Visa/MasterCard Deposits, as per the most recent data reported to Bank by Jennifer, totaled ~~\$5,149,733~~; 4,294,266.

I. On July 18, 2010 (the “Petition Date”), Jennifer and affiliated debtors commenced voluntary cases pursuant to Chapter 11 of Title 11 of the United States Code and the cases (consolidated under Bankr. Case No. 10-13779) were assigned to the Honorable Allan L. Gropper, United States Bankruptcy Judge (the “Court”).

J. Jennifer will benefit by entering this Stipulation by (i) allowing it time to negotiate with the Bank toward modifying the Agreement to (x) extend the term beyond its current termination date and (y) provide a formula regarding the amount of the Chargeback Reserve Account to which the Bank will be entitled on any given day, which formula will provide certainty to Jennifer as to cash flow and (ii) providing significant additional cash both immediately and during the term of this Stipulation as it will result in, as set forth below, the immediate release of ~~the Additional Cash~~ one million dollars upon Approval (as defined below) and ~~the immediate~~ continuing cessation of the ~~25%~~ Withholding.

K. All parties reserve their rights.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby stipulated and agreed by and between the Parties hereto as follows:

1. The term of this Stipulation shall commence on the date of execution by Merrick, Renaissance and Jennifer and shall terminate on the earliest of (i) ~~21~~ 14 days from the date of entry of an Order by the Court approving this Stipulation ("Approval"); (ii) August 4, 2010, if the Court has not entered an Order on or before that date; or (iii) the date of entry of an Order by the Court denying the relief requested in this Stipulation, provided however, either Party may move for relief from this Stipulation upon good cause shown, including but not limited to the change in the ratio of Visa/MasterCard Deposits to the balance of the outstanding Chargeback Reserve Account and the need for adequate protection. During the term of this Stipulation, Jennifer will not move for relief from this Stipulation in order to request the return of all or any part of the Interim Reserve.

2. ~~Upon the execution of this Stipulation,~~ Bank shall ~~cease the 25%~~refrain from reinstating Withholding absent a Court order permitting such reinstatement.

3. Upon the ~~d~~Date of Approval, Bank shall remit ~~the Additional Cash~~\$1,000,000 currently held in the Interim Reserve to Jennifer.

4. Bank shall hold the Interim Reserve (with the exception of the amounts set forth in paragraph 3 supra) and shall be entitled to recoup chargebacks in accordance with the terms of the Agreement, including but not limited to recoupments of such losses from the Interim Reserve, regardless of whether the ~~obligation of Jennifer to the Bank with respect to any~~transaction date as referenced in the chargeback is ~~deemed a pre-petition or post-petition obligation~~ petition (“Post Petition Recoupment”) or pre-petition (“Pre-Petition Recoupment”) (collectively, the “Post-Petition Recoupments and the Pre-Petition Recoupments are defined as “Recoupment”).

5. Notwithstanding termination of this Stipulation, the Bank shall be authorized to take Post Petition Recoupments against the Interim Reserve.

6. ~~5.~~The Bank will submit an accounting of such ~~r~~Recoupments to Jennifer on a weekly basis, and Jennifer reserves its right to challenge ~~such recoupment~~any such Recoupment, to the extent that such Recoupment does not comport with the ordinary course of business between the Parties.

7. ~~6.~~To the extent ~~Jennifer’s major supplier, Mengnu, or any other~~any person or entity, receives a post-Petition Date lien over Jennifer’s estate property, either by Court approval ~~of the pending critical vendor first-day motion related to Mengnu,~~ or otherwise, any such lien shall be subordinate to Merrick’s rights, if any, to the funds in the Chargeback Reserve Account (including the Interim Reserve) as set forth in the Agreement.

8. ~~7.~~ Jennifer will provide the weekly Visa/MasterCard Deposit report to Merrick, on a post-Petition Date basis. Merrick reserves the right to move to compel additional reporting as needed and Jennifer reserves the right to object to any such motion.

9. ~~8. With the exception of paragraphs 4 and 6 (which~~ Any Recoupment taken in accordance with paragraph 4 prior to termination of this Stipulation, which is not otherwise challenged pursuant to paragraph 6, shall be deemed authorized, and not subject to challenge, notwithstanding the termination of this Stipulation. Paragraphs 2, 5, 6 and 7 shall survive termination) ~~of this Stipulation regardless of whether the Agreement is rejected (and in the case of such rejection, paragraphs 5 and 6 remain limited by the temporal terms of the Agreement). With the exception of the foregoing,~~ upon the termination of this Stipulation for any reason, none of its provisions shall survive.

10. ~~9.~~ All other terms and conditions of the Agreement remain unchanged.

11. ~~10.~~ This Stipulation shall be binding upon, and shall inure to the benefit of, the parties and their respective successors and assigns.

12. ~~11.~~ The Parties may mutually consent (such consent to be in writing) to extend the term of this Stipulation.

13. ~~12.~~ The signatories to this Stipulation represent and acknowledge that they have the requisite authority to execute this Stipulation.

14. ~~13.~~ This Agreement may be executed by facsimile and in counterparts, each facsimile being deemed an original and constituting one original document.

Dated: ~~July 27,~~August 3, 2010

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SO ORDERED:

ALLAN L. GROPPER
UNITED STATES BANKRUPTCY JUDGE