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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

**SECOND INTERIM STIPULATION REGARDING
CHARGEBACK RESERVE ACCOUNT**

This Second Interim Stipulation (“Second Stipulation”), dated the 19th day of 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 Second 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”), 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. 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”).

F. On August 4, 2010, the Court approved the Revised Interim Stipulation and Order Regarding Chargeback Reserve Account (the “First Stipulation”)¹, pursuant to which the Bank remitted to Jennifer \$1,000,000 then being held in the Interim Reserve.

G. As of August 19, 2010, the Bank held \$3,286,062 in the Interim Reserve and the Visa/Mastercard Deposits, as per the most recent data reported to Bank by Jennifer, totaled \$3,253,104.

H. Jennifer will benefit by entering this Second 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 additional cash both immediately and during the term of this Second Stipulation as it will result in, as set forth below, the release of three hundred and fifty thousand dollars upon execution of this Second Stipulation by Merrick, Renaissance, Jennifer and the Official Committee of Unsecured Creditors (the “Execution”), and continuing cessation of the Withholding.

I. All parties reserve their rights.

¹ Capitalized terms not otherwise defined herein shall have the meaning ascribed to such terms in the First Stipulation [Dkt No. 128]

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 Second Stipulation shall be an extension of the First Stipulation in accordance with paragraph 12 thereof and shall relate back to the expiration of the First Stipulation, which by its terms expired on August 18, 2010, and shall extend through and including Friday, September 3, 2010, provided however, either Party may move for relief from this Second 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 Second Stipulation, Jennifer will not move for relief from this Second Stipulation in order to request the return of all or any further part of the Interim Reserve.

2. Bank shall refrain from reinstating Withholding absent a Court order permitting such reinstatement.

3. Within one (1) business day after Execution, Bank shall remit \$350,000 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 transaction date as referenced in the chargeback is post - 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 Second Stipulation, the Bank shall be authorized to take Post Petition Recoupments against the Interim Reserve.

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

7. To the extent any person or entity, receives a post-Petition Date lien over Jennifer’s estate property, either by Court approval 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. Jennifer will provide the weekly Visa/MasterCard Deposit report to Merrick, on a post-Petition Date basis. Jennifer also will provide, identical to the prepetition practice, the following separate reports to Merrick on August 19, August 26, and September 2: (1) Jennifer’s Cash Flow Projections (weekly); (2) Merrick Exposure Presentation (weekly); (3) Jennifer Segment Exposure Document (weekly); (4) Ashley Segment Exposure Document (weekly); (5) Financial Statements (monthly); (6) Ashley Inventory Report (weekly); (7) Jennifer General Stock Inventory Report (weekly); (8) Jennifer Store Warehouse Report (weekly). Merrick reserves the right to move to compel additional reporting as needed, and Jennifer reserves the right to object to any such motion.

9. Any Recoupment taken in accordance with paragraph 4 prior to termination of this Second Stipulation, which is not otherwise challenged pursuant to paragraph 6, shall be deemed authorized, and not subject to challenge, notwithstanding the termination of this Second

Stipulation. Paragraphs 2, 5, 6 and 7 shall survive termination of this Second 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 Second Stipulation for any reason, none of its provisions shall survive.

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

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

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

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

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

Dated: August 20, 2010

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*Attorneys for the Official Committee of
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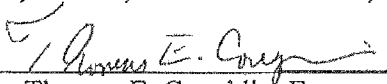
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