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Hearing Date: Aug. 31, 2010 at 11:00 a.m.
Objection Deadline: Aug. 30, 2010 at 4:00 p.m.

Counsel for the Debtors and Debtors in Possession

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

In re:

JENNIFER CONVERTIBLES, INC.,¹

Debtors.

Chapter 11

Case No. 10-13779 (ALG)

(Jointly Administered)

**DEBTORS' MOTION PURSUANT TO SECTIONS 105(a) AND 363 OF THE
BANKRUPTCY CODE FOR ENTRY OF AN ORDER AUTHORIZING THE DEBTORS
TO ENTER INTO A STIPULATION WITH HAINING MENGNU GROUP CO. LTD.**

Jennifer Convertibles, Inc. ("Jennifer Convertibles") and its affiliated debtors, as debtors in possession (together, the "Debtors"), hereby move this Court (the "Motion") for entry of an order pursuant to sections 105(a) and 363 of title 11 of the United States Code (the "Bankruptcy Code"), authorizing but not requiring them to enter into a stipulation (the "Stipulation") between and among the Debtors and Haining Mengnu Group Co. Ltd. ("Mengnu"), attached hereto as Exhibit A. In support of this Motion, the Debtors respectfully state as follows:

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, if applicable, are: (i) Jennifer Convertibles, Inc. (4646); (ii) Jennifer Convertibles Boylston MA, Inc. (7904); (iii) Jennifer Chicago Ltd. (0505); (iv) Elegant Living Management, Ltd. (5049); (v) Hartsdale Convertibles, Inc. (1681); (vi) Jennifer Management III Corp. (3552); (vii) Jennifer Purchasing Corp. (7319); (viii) Jennifer Management II Corp. (9177); (ix) Jennifer Management V Ltd. (9876); (x) Jennifer Convertibles Natick, Inc. (2227); (xi) Nicole Convertibles, Inc. (5985); (xii) Washington Heights Convertibles, Inc. (0783).

General Background

1. On July 18, 2010 (the “Petition Date”), each of the Debtors commenced with the Bankruptcy Court a voluntary case pursuant to chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”). The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. An Official Committee of Unsecured Creditors was appointed in these chapter 11 cases on July 23, 2010.

2. Jennifer Convertibles, Inc. was organized as a Delaware corporation in 1986, and is currently the owner of (i) the largest group of sofa-bed specialty retail stores and leather specialty retail stores in the United States, with stores located throughout the Eastern seaboard, Midwest, West Coast and Southwest, and (ii) seven big box, full-line furniture stores operated under the Ashley Furniture HomeStore brand (the “Ashley Stores”) under a license from Ashley Furniture Industries, Inc.

3. As of the Petition Date, the Debtors’ stores included 130 stores operated by the Jennifer segment. During fiscal 2007, the Debtors opened their first Ashley Store. As of the Petition Date, the Debtors operate seven Ashley Stores.

4. As of the Petition Date, the Debtors employed 497 people. There are 336 employees in the Jennifer segment, 114 employees in the Ashley segment and 47 corporate employees. None of the employees are represented by a collective bargaining unit.

5. The factual background relating to the Debtors’ commencement of these chapter 11 cases is set forth in additional detail in the Declaration of Rami Abada in Support of First Day Motions (the “Abada Declaration”) filed on July 19, 2010 and incorporated herein by reference.

Jurisdiction

6. This Court has jurisdiction to consider this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

7. The statutory predicates for the relief requested herein are Bankruptcy Code sections 105(a) and 363.

Relief Requested

8. By this Motion, the Debtors seek entry of an order approving the Stipulation with Mengnu, whereby the Debtors, through the use of an escrow agent (the “Escrow Agent”), would set aside funds for the benefit of Mengnu that would, if certain conditions are met, ensure the uninterrupted supply of the Debtors’ business, and minimize the risk of insolvency for Mengnu.²

9. As this court is aware, the Debtors rely on Mengnu to supply its current inventory, without which the Jennifer segment of the Debtors’ business either could not operate or would operate at significantly reduced capacity. While the Debtors believe the relief requested herein is ordinary course, out of an abundance of caution, the Debtors are seeking approval of the proposed arrangement with Mengnu that is contained in the Stipulation. Without the continued support of, and the goods to be provided by, Mengnu, the Debtors will not be able to continue their day-to-day operations of the Jennifer segment of the Debtors’ business.

The Mengnu Relationship

10. Since January of 2009, Mengnu has been the sole source supplier of almost all of the Debtors’ products for its Jennifer business segment. The products manufactured for the

² Nothing in this Motion should be construed as (a) an admission as to the validity of any claim against the Debtors, (b) a waiver of the Debtors’ or any party-in-interest’s right to dispute any such claim, or (c) an approval or assumption of any agreement, contract, program, policy or lease under Bankruptcy Code section 365 or otherwise. Furthermore, any payment made pursuant to the authority requested herein is not intended and should not be construed as an admission of the validity of any claim or waiver of the Debtors’ right to dispute such claim subsequently, and the Debtors reserve all related rights.

Debtors by Mengnu are made according to specifications provided by the Debtors and require Mengnu to tool its facilities to meet the Debtors' needs. Even assuming that the Debtors could procure a replacement supplier of products for their Jennifer segment that could meet the needs of the Debtors, the timing needed for such transition would severely, if not irreparably, impact the Debtors' going concern value and ability to reorganize.

11. On July 26, 2010, this Court entered an Order Granting Administrative Expense Status to Debtors' Obligations to Haning Mengnu Group Co. Ltd. Arising from the Post-Petition Delivery of Goods, and Authorizing Debtors to Pay those Obligations Cash on Delivery within the Ordinary Course of Business (the "COD Order") [Docket # 81], pursuant to which the Bankruptcy Court authorized the Debtors to make "Cash on Delivery" ("COD") payments to Mengnu in respect of prepetition orders for products which Mengnu had placed in transit as of the Debtors' Petition Date, and which had not been received by the Debtors as of the Petition Date.

12. The Debtors have approximately \$4.7 million of open purchase orders with Mengnu (the "Unshipped Products").

13. The Unshipped Products are currently in various stages of production at Mengnu's facilities. Some of the Unshipped Products are even ready to be shipped to the Debtors. Previously, with respect to other inventory that was in transit (on ships in the water), Mengnu and the Debtors were comfortable with the COD Order. However, with regard to the Unshipped Products, Mengnu is requesting that the Debtors modify terms from COD to CIA (75 payment upon shipment/25 payment upon receipt of goods). The Debtors believe that it is not unusual for a foreign vendor or any trade vendor to operate on a letter of credit, pre-pay, or CIA basis.

Proposed Terms of Stipulation³

14. In the wake of Mengnu's refusal to ship the Unshipped Products on COD, the Debtors, in their business judgment, have determined that CIA terms and the proposed terms below are appropriate and in the best interests of all interested parties. Mengnu has indicated that it will resume shipment of the Unshipped Products upon this Court's approval of the Stipulation. In light of the consequences the Debtors would suffer if Mengnu continues to hold the Unshipped Products, the Debtors propose that the Court approve the Stipulation, the essential terms of which are set forth below:

- i. The Debtors shall identify in writing specific "cans" included within the Unshipped Products that it wishes to obtain shipment of from Mengnu in accordance with a specified schedule which shall include proposed shipping dates (the "Revised Orders") and shall submit the same to Mengnu on a weekly or other basis agreed to by the parties. The Debtors shall also provide copies of such requests and Revised Orders to the Official Committee of Unsecured Creditors (the "Committee").
- ii. Mengnu shall review the Revised Orders provided by the Debtors pursuant to paragraph i above and discuss the same with the Debtors with a view to accommodating the Debtors' requests to the extent practicable, and the parties shall confirm to each other the result thereof. The Debtors shall provide the Committee with notice of such results.
- iii. When Unshipped Products for which Revised Orders have been agreed to by the parties are ready to be loaded onto a vessel leaving port in Shanghai, Mengnu shall notify the Debtors and the Committee and provide the Debtors with documentation, in form and substance similar to Exhibit 1 of the Stipulation, detailing the Revised Orders to be shipped. Upon receipt of such documentation and notification, the Debtors shall fund into escrow as provided in paragraph iv below as a prepayment of the purchase price thereof (including shipping) 75% of the landed cost of the Unshipped Products (as stated in the invoice) by wire transfer, in immediately available funds, (the "75% Prepayment"). Thereupon, Mengnu shall release the Unshipped Products for loading on the vessel.

³ The summary of the terms of the Stipulation and Escrow Agreement contained herein are subject in all respects to the actual terms of the Stipulation and Escrow Agreement, and to the extent that this Motion and the terms of the Stipulation and Escrow Agreement are inconsistent, the terms of the Stipulation and Escrow Agreements shall control.

- iv. The Debtor shall place each 75% Prepayment in an interest-bearing escrow account (the “Escrow Account”) administered by an escrow agent appointed by the Debtor and Mengnu all pursuant to the terms and conditions of the escrow agreement (the “Escrow Agreement”) annexed to the Stipulation as Exhibit 2 and incorporated herein by reference.
- v. Mengnu shall be obligated to ship any Unshipped Products if it has been notified by the Escrow Agent (as defined below) that the Escrow Agent has received the 75% Prepayment for such Unshipped Products.
- vi. The Debtors shall be responsible for paying all fees and expenses associated with the Escrow Account, including the fees of the Escrow Account.
- vii. All interest earnings in the Escrow Account shall, first, be credited against the fees and expenses associated with the Escrow Account, and the balance, if any, will be paid over to Mengnu at the time the Escrow Account is closed.
- viii. The Escrow Agent shall be ACL Adjustment Associates Inc., c/o Anthony C. Labrosciano.
- ix. The Debtors shall pay the 25% balance (the “25% Balance”) due on the landed cost of the inventory (as stated in the invoice) on the close of business on the second business day following the Debtors’ receipt of the Unshipped Products.

Applicable Authority

15. As justification for the relief requested in this Motion, Bankruptcy Code section 105(a) empowers a court to issue “any order, process, or judgment that is necessary or appropriate to carry out the provisions of [the Code]. The purpose of section 105(a) is to ensure a bankruptcy court’s power to take whatever action “is appropriate or necessary in aid of the exercise of [its] jurisdiction.” In re Casse, 198 F.3d 327, 336 (2d Cir. 1999); In re The 1031 Tax Group, LLC, 397 B.R. 670, 684 (Bankr. S.D.N.Y. 2008).

16. The Debtors believe that they may revise their terms with Mengnu from COD to CIA in the ordinary course of business. Nonetheless, to the extent the relief requested is deemed outside of the Debtors’ ordinary course operations, the Debtors are seeking permission of the

court under Bankruptcy Code section 363(b)(1) out of an abundance of caution and in the interest of full disclosure.

17. Bankruptcy Code section 363(b)(1) authorizes a debtor in possession to use property of the estate other than in the ordinary course of business after notice and a hearing, and Bankruptcy Code section 363(c) authorizes a debtor in possession to enter into transactions in the ordinary course of business without notice and a hearing. To do so, “the debtor must articulate some business justification, other than the appeasement of major creditors.” In re Lionel Corp., 722 F.2d 1063, 1071 (2d Cir. 1983); In re Ionosphere Clubs, Inc., 98 B.R. 174, 175 (Bankr. S.D.N.Y. 1989). “The business judgment rule is a presumption that in making a business decision the directors of a corporation acted on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the company.” Official Comm. of Subordinated Bondholders v. Integrated Res., Inc. (In re Integrated Res., Inc.), 147 B.R. 650, 656 (S.D.N.Y. 1990). Courts are loath to interfere with corporate decisions absent a showing of bad faith, self-interest, or gross negligence. Id.

18. Here, more than ample business justification exists. As discussed herein, the Debtors’ failure to obtain the Unshipped Products from Mengnu could have a material adverse impact on their ability to operate in the ordinary course of business, and as such, the Debtors believe they are acting on sound business judgment by entering into the Stipulation.

19. During the course of these negotiations, Mengnu has reiterated that it will not resume shipment of goods to the Debtors without such terms as set forth in the Stipulation. Therefore, for all of the above reasons, the Debtors believe that making payments to Mengnu in accordance with the Stipulation is in the best interests of the Debtors’ estates, other creditors, and other parties in interest. Accordingly, the Debtors seek approval of the proposed Stipulation.

Notice

20. No trustee, examiner or statutory creditors' committee has been appointed in these chapter 11 cases. Notice of this Motion has been provided to: (i) Office of the United States Trustee for the Southern District of New York; (ii) those creditors holding the thirty (30) largest unsecured claims against the Debtors' estate (on a consolidated basis); (iii) counsel to the Official Committee of Unsecured Creditors; (iv) counsel to Mengnu; and (v) any other party who has filed a notice of appearance in these cases. The Debtors submit that such notice is sufficient under the circumstances.

No Previous Request

21. No previous request for the relief sought herein has been made to this or any other Court.

WHEREFORE the Debtors respectfully request entry of the Proposed Order granting the relief requested herein and such other and further relief as the Court may deem just and appropriate.

Dated: New York, New York
August 26, 2010

OLSHAN GRUNDMAN FROME
ROSENZWEIG & WOLOSKY LLP

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*Counsel for the Debtors and Debtors in
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EXHIBIT A

Stipulation

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Counsel to the Debtors and Debtors in Possession

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

In re:
JENNIFER CONVERTIBLES, INC.,

Debtors.

Chapter 11

Case No. 10-13779 (ALG)

**STIPULATION FOR ENTRY OF ORDER
AUTHORIZING DEBTOR TO MAKE PAYMENTS TO
HAINING MENGNU GROUP CO. LTD. CASH IN ADVANCE**

Jennifer Convertibles, Inc. ("Jennifer Convertibles"), and its affiliated debtors, as debtors-in-possession (collectively, the "Debtors"), on the one hand, and Haining Mengnu Group Co. Ltd. ("Mengnu"), on the other hand (collectively, the "Parties," and individually, the "Party"), agree and stipulate as follows (the "Stipulation"):

WHEREAS, since January of 2009, Mengnu has been the sole source supplier of almost all of the Debtors' products for its larger Jennifer business segment, which include sofa beds, leather products and related products;

WHEREAS, the products manufactured for the Debtors by Mengnu are made according to specifications provided by the Debtors and require Mengnu to tool its facilities to meet the Debtors' needs. Even assuming that the Debtors could procure a replacement supplier of products for their Jennifer segment that could meet the needs of the Debtors, the timing needed for such transition would severely, if not irreparably, impact the Debtors' going concern value and ability to reorganize.

WHEREAS, Mengnu has asserted claims against the Debtors for at least \$16,673,770 (the "Pre-Petition Claims"), in respect of products the Debtors ordered from Mengnu before they filed for Chapter 11 bankruptcy on July 18, 2010 (the "Petition Date"), and which Mengnu shipped, and the Debtors received, pre-petition (the "Pre-Petition Products");

WHEREAS, on July 19, 2010, the Debtors filed their *Motion Pursuant to Sections 105(a), 363, 364 and 503 of the Bankruptcy Code and Bankruptcy Rules 6003 and 6004 for Entry of an Order Authorizing, but not Requiring, Payment of Certain Prepetition Obligations to Critical and Foreign Vendor, Haining Mengnu Group Co. Ltd* (the "Critical Vendor Motion") [Docket # 4], which, if granted, would obligate Mengnu to continue shipping products to the Debtors;

WHEREAS, the Court has not entered an order on the Critical Vendor Motion;

WHEREAS, the Debtors placed pre-petition orders from Mengnu for products which Mengnu had placed in transit as of the Debtor's Petition Date, and which had not been received by the Debtors as of the Petition Date (the "Shipped Products");

WHEREAS, on July 26, 2010, the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) entered an *Order Granting Administrative Expense Status to Debtors’ Obligations to Haning Mengnu Group Co. Ltd. Arising from the Post-Petition Delivery of Goods, and Authorizing Debtors to Pay those Obligations Cash on Delivery within the Ordinary Course of Business* (the “Post-Petition COD Order”) [Docket # 81], pursuant to which the Bankruptcy Court authorized the Debtors to make “Cash on Delivery” payments to Mengnu in respect of the Shipped Products;

WHEREAS, the Debtors placed approximately \$4.7 million worth of open purchase orders on or before July 31, 2010 with Mengnu (the “Purchase Orders”) for products which have not yet been placed into transit (the “Unshipped Products”);

WHEREAS, the Parties have arrived at an agreement on the following payment terms for the Unshipped Products;

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED:

1. The Debtors shall identify in writing specific “cans” included within the Unshipped Products that it wishes to obtain shipment of from Mengnu in accordance with a specified schedule which shall include proposed shipping dates (the “Revised Orders”) and shall submit the same to Mengnu on a weekly or other basis agreed to by the parties. The Debtors shall also provide copies of such requests and Revised Orders to the Official Committee of Unsecured Creditors (the “Committee”).

2. Mengnu shall review the Revised Orders provided by the Debtors pursuant to paragraph 1 above and discuss the same with the Debtors with a view to accommodating the Debtors’ requests to the extent practicable, and the parties shall confirm to each other the result thereof. The Debtors shall provide the Committee with notice of such results.

3. When Unshipped Products for which Revised Orders have been agreed to by the parties are ready to be loaded onto a vessel leaving port in Shanghai, Mengnu shall notify the Debtors and the Committee and provide the Debtors with documentation, in form and substance similar to Exhibit 1 attached hereto, detailing the Revised Orders to be shipped. Upon receipt of such documentation and notification, the Debtors shall fund into escrow as provided in paragraph 4 below as a prepayment of the purchase price thereof (including shipping) 75% of the landed cost of the Unshipped Products (as stated in the invoice) by wire transfer, in immediately available funds, (the "75% Prepayment"). Thereupon, Mengnu shall release the Unshipped Products for loading on the vessel.

4. The Debtor shall place each 75% Prepayment in an interest-bearing escrow account (the "Escrow Account") administered by an escrow agent appointed by the Debtor and Mengnu all pursuant to the terms and conditions of the escrow agreement (the "Escrow Agreement") annexed hereto as Exhibit 2 and incorporated herein by reference.¹

¹ Mengnu and the Debtors agree that the Escrow Agreement shall contain the following terms and otherwise be in form and substance satisfactory to each of Mengnu and the Debtors:

- a. The Escrow Agent shall release the 75% Prepayment to Mengnu (i) subject to paragraph b below, upon Mengnu providing to the Escrow Agent a written statement that the freight forwarder located in the United States for the goods in respect of which the prepayment is made has contacted the Debtors to arrange for the delivery of such goods to the Debtors within the next seven days (which statement shall be accompanied by a copy of the notification from the freight forwarder to Mengnu that it has so contacted the Debtors), or (ii) subject to paragraph b below, upon Mengnu providing the Escrow Agent with Mengnu's statement that the goods have been received by the Debtors accompanied by either (p) a copy of a receipt signed by or on behalf of the Debtors evidencing that such goods have been received by the Debtors or (q) a copy of written advice from the freight forwarder that the goods have been so received by the Debtor, or (iii) when Debtors and Mengnu jointly instruct the Escrow Agent in writing to release the funds. The Debtors will notify the Committee of any joint instruction in (iii).
- b. In the event that (i) or (ii) of paragraph a above occur, the Escrow Agent shall wait for a period of 2 business days before releasing the funds to Mengnu, during which period the Debtors may object to the release of the funds on the grounds that the statement submitted by Mengnu to the Escrow Agent is untrue in any material respect by providing the Escrow Agent and Mengnu with a written statement to such effect, which shall include an explanation as to why Mengnu's statements that the event described in (i) or (ii) of paragraph a above occurred is untrue in any material respect. If the Debtors do not object during this 2 business day period, the Escrow Agent shall immediately release the funds to Mengnu.
- c. If the Debtors objects to the release of a 75% Prepayment from escrow as provided above or there is otherwise a dispute between the Parties with respect to Mengnu's right to payment in respect of any

5. Mengnu shall be obligated to ship any Unshipped Products if it has been notified by the Escrow Agent (as defined below) that the Escrow Agent has received the 75% Prepayment for such Unshipped Products.

6. The Debtors shall be responsible for paying all fees and expenses associated with the Escrow Account, including the fees of the Escrow Account.

7. All interest earnings in the Escrow Account shall, first, be credited against the fees and expenses associated with the Escrow Account, and the balance, if any, will be paid over to Mengnu at the time the Escrow Account is closed.

8. The Escrow Agent shall be ACL Adjustment Associates Inc., c/o Anthony C. Labrosciano.

9. The Debtors shall pay the 25% balance (the "25% Balance") due on the landed cost of the inventory (as stated in the invoice) on the close of business on the second business day following the Debtors' receipt of the Unshipped Products.

10. Nothing in this Stipulation shall be construed to have any effect on the Debtors' Critical Vendor Motion or, except as expressly provided in paragraph 1 above, the Bankruptcy Court's Post-Petition COD Order.

11. Mengnu reserves all rights and defenses with respect to its Pre-Petition Claims, and nothing in this Stipulation shall be construed to imply otherwise.

12. This Stipulation constitutes the entire agreement between Mengnu and the Debtors with respect to the subject matter hereof.

Unshipped Product on account of which the Debtors have made a prepayment into escrow as provided above, the Parties shall seek relief from the bankruptcy court on an expedited bases (to the extent possible) for a resolution of the dispute. Upon final resolution of the dispute by the bankruptcy court, the Debtors and Mengnu shall jointly instruct the Escrow Agent to disburse funds from the Escrow Account in accordance with such resolution.

13. The undersigned persons represent and warrant that they have full authority to execute this Stipulation on behalf of the respective Parties and that the respective Parties have full knowledge of, and have consented to, this Stipulation.

14. Each of the Parties shall bear its own attorneys' fees and costs with respect to the execution and delivery of this Stipulation.

15. This Stipulation may be executed in counterparts, any of which may be transmitted by facsimile or electronic mail, and each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

16. This Stipulation shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflict of laws.


17. This Stipulation may not be amended without the express written consent of all Parties hereto and approval by Bankruptcy Court.

18. This Stipulation shall be binding upon the Parties hereto and upon all of their affiliates, assigns and successors.

19. It is acknowledged that each Party has participated in and jointly consented to the drafting of this Stipulation and any claimed ambiguity shall not be construed for or against either Party on account of such drafting.

20. The Bankruptcy Court shall retain jurisdiction over any and all disputes or other matters arising under or otherwise relating to this Stipulation.

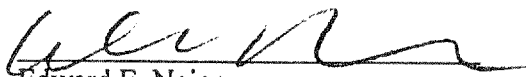
Dated: August 26, 2010
New York, New York



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Counsel to Haining Mengnu Group Co. Ltd.

Exhibit 1

Notification

Direct Customer								
Customer Name	Customer Dest. City, State	Customer PO#	P.O. Order Date	Req. Ship Date	Req. Arrival Date	Schedule Completion Date	In Warehouse	Payments
Jennifer	Dayton, NJ	GMOTYNJ-540	02/23/10	04/06/10	05/06/10	07/15/10	07/18/10	20,175.00
Jennifer	Dayton, NJ	GMOTYNJ-541	02/23/10	04/06/10	05/06/10	07/15/10	07/18/10	20,175.00
Jennifer	Dayton, NJ	GMOTYNJ-571	02/27/10	04/19/10	05/19/10	07/15/10	07/18/10	17,252.76
Jennifer	Dayton, NJ	GMOTYNJ-572	03/02/10	04/20/10	05/20/10	07/15/10	07/18/10	20,258.00
Jennifer	Dayton, NJ	GMOTYNJ-606	03/13/10	05/03/10	06/03/10	07/15/10	07/18/10	17,609.00
Jennifer	Dayton, NJ	GMOTYNJ-674	04/06/10	05/14/10	06/14/10	08/18/10	08/09/10	16,189.86
Jennifer	Dayton, NJ	GMOTYNJ-679	04/21/10	06/02/10	07/02/10	07/30/10	07/18/10	17,550.00
Jennifer	Dayton, NJ	GMOTYNJ-684	04/21/10	06/02/10	07/02/10	06/25/10	06/26/10	17,550.00
Jennifer	Dayton, NJ	GNJMOT-1349	03/09/10	04/27/10	05/27/10	07/15/10	07/18/10	20,505.00
Jennifer	Dayton, NJ	GNJMOT-1365	03/12/10	04/30/10	05/30/10	07/15/10	07/18/10	17,697.00
Jennifer	Dayton, NJ	GNJMOT-1368	03/12/10	04/30/10	05/30/10	07/15/10	07/18/10	18,367.00
Jennifer	Dayton, NJ	GNJMOT-1383	03/12/10	04/30/10	05/30/10	07/15/10	07/18/10	14,410.00
Jennifer	Dayton, NJ	GNJMOT-1393	03/27/10	05/17/10	06/17/10	07/15/10	07/18/10	16,890.00
Jennifer	Dayton, NJ	GNJMOT-1395	03/27/10	05/17/10	06/17/10	08/18/10	08/09/10	19,316.00
Jennifer	Dayton, NJ	GNJMOT-1396	03/27/10	05/17/10	06/17/10	06/25/10	06/26/10	17,818.00
Jennifer	Dayton, NJ	GNJMOT-1401	03/27/10	05/17/10	06/17/10	07/15/10	07/18/10	20,315.00
Jennifer	Dayton, NJ	GNJMOT-1483	05/04/10	06/14/10	07/14/10	07/30/10	07/18/10	16,900.00
Jennifer	Ontario, CA	WMOTY-416	02/23/10	04/06/10	04/23/10	07/15/10	07/18/10	18,090.00
Jennifer	Ontario, CA	WMOTY-417	02/23/10	04/06/10	04/23/10	07/15/10	07/18/10	18,090.00
Jennifer	Ontario, CA	WMOTY-443	03/16/10	05/04/10	05/21/10	07/15/10	07/18/10	18,960.00
Jennifer	Ontario, CA	WMOTY-482	04/06/10	05/06/10	06/06/10	07/15/10	07/18/10	18,200.00
Jennifer	Ontario, CA	WMOTY-422	02/23/10	04/13/10	04/30/10	06/25/10	06/26/10	16,594.00
Jennifer	Ontario, CA	WMOTY-486	04/07/10	05/19/10	06/05/10	06/25/10	06/26/10	17,708.00
Jennifer	Ontario, CA	WMOTY-418	02/23/10	04/06/10	04/23/10	06/25/10	06/26/10	15,090.00

Direct Customer								
Customer Name	Customer Dest. City, State	Customer PO#	P.O. Order Date	Req. Ship Date	Req. Arrival Date	Schedule Completion Date	In Warehouse	Payments
Jennifer	Ontario, CA	WMOTY-432	02/27/10	04/19/10	05/06/10	08/18/10	08/08/10	16,158.54
Jennifer	Ontario, CA	WMOTY-483	04/06/10	05/06/10	06/06/10	07/15/10	07/18/10	18,200.00
Jennifer	Ontario, CA	WMOTY-491	04/22/10	06/02/10	06/19/10	08/25/10		15,563.00
Jennifer	Dayton, NJ	GNUMOT-1490	05/04/10	06/14/10	07/14/10	08/25/10		20,633.00
Jennifer	Dayton, NJ	GNUMOT-1422	03/31/10	05/01/10	06/01/10	06/25/10	06/26/10	15,480.00
Jennifer	Dayton, NJ	GNUMOT-1423	03/31/10	05/01/10	06/01/10	07/15/10	07/18/10	14,844.00

Total 532,588.16
75% 399,441.12

Below two should ship on 8/28.

Jennifer	Dayton, NJ	GNUMOT-1468	04/22/10	06/02/10	07/02/10	08/25/10		15,928.00
Jennifer	Dayton, NJ	GNUMOT-1394	03/27/10	05/17/10	06/17/10	08/25/10		16,917.00

Exhibit 2

Escrow Agreement

ESCROW AGREEMENT

THIS AGREEMENT is made this ___ day of August, 2010, by and between (i) Anthony C. Labroschiano, as Escrow Agent ("ACL"), (ii) Jennifer Convertibles, Inc. and its related subsidiaries (the "Debtors"), and (iii) Haining Mengnu Group Co. Ltd. ("Mengnu").

WHEREAS, the Debtors and Mengnu have entered into a stipulation (the "Stipulation") pursuant to which the Debtors have agreed to make payments of cash in advance for Unshipped Products¹ in accordance with the terms of the Stipulation; and

WHEREAS, ACL is willing to serve as Escrow Agent pursuant to the terms and conditions of this Agreement; and

WHEREAS, the Debtors will, from time to time, deposit funds with the Escrow Agent in accordance with the terms of the Stipulation; and

WHEREAS, to the extent that funds are deposited by the Debtors with the Escrow Agent, the Escrow Agent shall disburse such funds in accordance with the terms in this Agreement;

NOW, THEREFORE, in consideration of the premises, and further consideration of the covenants set forth hereafter, it is hereby agreed mutually as follows:

I. Designation as Escrow Agent.

Subject to the terms and conditions hereof, the Debtors appoint ACL as Escrow Agent and ACL hereby accepts such appointment.

II. Deposit of Escrow Funds.

(a) After execution of this Agreement and upon receipt of any and all funds from the Debtors (the "Funds"), the Funds shall be deposited into a separate account, (the "Escrow Account") established by Escrow Agent.

(b) Escrow Agent will hold the Funds in an Escrow Account, together with all investments thereof and all interest, if any, accumulated thereon and proceeds therefrom, in escrow upon the terms and conditions set forth in this Agreement and shall not disburse the Funds from the Escrow Accounts except as provided herein.

III. Disbursement of Escrow Account.

a. The Escrow Agent shall disburse the Funds to Mengnu (i) subject to paragraph b below, upon Mengnu providing to the Escrow Agent a written statement that the freight forwarder located in the United States for the goods in respect of which the prepayment is made has contacted the Debtors to arrange for the delivery of such goods to the Debtors within the next seven days (which statement shall be accompanied by a copy of the notification from the freight

¹ Capitalized terms not defined herein shall have the meaning ascribed to them in the Stipulation.

forwarder to Mengnu that it has so contacted the Debtors), or (ii) subject to paragraph b below, upon Mengnu providing the Escrow Agent with Mengnu's statement that the goods have been received by the Debtors accompanied by either (p) a copy of a receipt signed by or on behalf of the Debtors evidencing that such goods have been received by the Debtors or (q) a copy of written advice from the freight forwarder that the goods have been so received by the Debtor, or (iii) when Debtors and Mengnu jointly instruct the Escrow Agent in writing to release the Funds. The Debtors will notify the Official Committee of Unsecured Creditors of any joint instruction in (iii). Mengnu shall inform the Debtors of any instructions made to the Escrow Agent pursuant to (i) and (ii) above.

b. In the event that (i) or (ii) of paragraph a above occur, the Escrow Agent shall wait for a period of 2 business days before releasing the Funds to Mengnu, during which period the Debtors may object to the release of the Funds on the grounds that the statement submitted by Mengnu to the Escrow Agent is untrue in any material respect by providing the Escrow Agent and Mengnu with a written statement to such effect, which shall include an explanation as to why Mengnu's statements that the event described in (i) or (ii) of paragraph a above occurred is untrue in any material respect. If the Debtors do not object during this 2 business day period, the Escrow Agent shall immediately release the Funds to Mengnu.

c. If the Debtors object to the release of the Funds from the Escrow Account as provided above or there is otherwise a dispute between the Debtors and Mengnu with respect to Mengnu's right to payment in respect of any Unshipped Product on account of which the Debtors have made a prepayment into escrow as provided above, the Debtors and Mengnu shall seek relief from the bankruptcy court on an expedited bases (to the extent possible) for a resolution of the dispute. Upon final resolution of the dispute by the bankruptcy court, the Debtors and Mengnu shall jointly instruct the Escrow Agent to disburse funds from the Escrow Account in accordance with such resolution.

IV. Authority and Duties of Escrow Agent and Limitation of Liability.

(a) In acting hereunder, Escrow Agent shall have only such duties as are specified herein and no implied duties shall be read into this Escrow Agreement, and Escrow Agent shall not be liable for any act done, or omitted to be done, by it in the absence of its gross negligence or willful misconduct.

(b) Escrow Agent may act in reliance upon any writing or instrument or signature which it, in good faith, believes to be genuine, and may assume the validity and accuracy of any statement or assertion contained in such a writing or instrument and may assume that any person purporting to give any writing, notice, advice or instruction in connection with the provisions hereof has been duly authorized to do so.

(c) Escrow Agent shall be entitled to consult with legal counsel in the event that a question or dispute arises with regard to the construction of any of the provisions hereof, and shall incur no liability and shall be fully protected in acting in accordance with the advice or opinion of such counsel.

(d) Escrow Agent shall not be required to use its own funds in the performance of any of its obligations or duties or the exercise of any of its rights or powers, and shall not be required to take any action which, in Escrow Agent's sole and absolute judgment, could involve it in expense or liability unless furnished with security and indemnity which it deems, in its sole and absolute discretion, to be satisfactory.

(e) The Debtors shall pay to Escrow Agent compensation for its services hereunder to be determined from time to time by the application of the current rates than charged by Escrow Agent for accounts of similar size and character at the rate of 0.75% of all Funds deposited with Escrow Agent. In the event Escrow Agent renders any extraordinary services in connection with the escrow account at the request of the parties, Escrow Agent shall be entitled to additional compensation therefor. The terms of this paragraph shall survive termination of this Escrow Agreement.

(f) The Debtors hereby agree to indemnify Escrow Agent, his employees and agents (collectively, the "Indemnified Parties"), and hold the Indemnified Parties harmless from any and against all liabilities, losses, actions, suits or proceedings at law or in equity, and any other expenses, fees or charges of any character or nature, including, without limitation, attorney's fees and expenses, which an Indemnified Party may incur or with which it may be threatened by reason of acting as or on behalf of Escrow Agent under this Agreement or arising out of the existence of the Escrow Account, except to the extent the same shall be caused by Escrow Agent's gross negligence or willful misconduct. The terms of this paragraph shall survive termination of this Agreement.

(g) In the event Escrow Agent receives conflicting instructions hereunder, Escrow Agent shall be fully protected in refraining from acting until such conflict is resolved to the satisfaction of Escrow Agent. Notwithstanding, the Escrow Agent shall be bound by the rulings of the bankruptcy court in which the Debtors' chapter 11 cases are pending.

(h) The Debtors acknowledge that ACL is acting solely as a stakeholder at their request and that the Escrow Agent shall not be liable for any action taken by Escrow Agent in good faith and believed by Escrow Agent to be authorized or within the rights or powers conferred upon Escrow Agent by this Agreement.

(i) The Escrow Agent does not have any interest in the Debtors, but is serving only as Escrow Agent. The Escrow Agent shall not be liable for any loss resulting from the making of any investment in accordance with this Agreement

(j) Escrow Agent may resign as Escrow Agent, and, upon its resignation, shall thereupon be discharged from any and all further duties and obligations under this Escrow Agreement by giving notice in writing of such resignation to the Debtors, which notice shall specify a date upon which such resignation shall take effect. Upon the resignation of Escrow Agent, the Debtors shall within seven (7) business days after receiving the foregoing notice from Escrow Agent, designate a substitute escrow agent (the "Substitute Escrow Agent"), which Substitute Escrow Agent shall, upon its designation and notice of such designation to Escrow Agent, succeed to all of the rights, duties and obligations of Escrow Agent hereunder. In the

event the Debtors shall not have delivered to Escrow Agent a written designation of Substitute Escrow Agent within the aforementioned seven (7) day period, together with the consent to such designation by the Substitute Escrow Agent, the Escrow Agent may apply to a court of competent jurisdiction to appoint a Substitute Escrow Agent, and the costs of obtaining such appointment shall be reimbursable from the Debtors.

V. Notices.

Except as otherwise provided herein, any notice, instruction or instrument to be delivered hereunder shall be in writing and shall be effective upon receipt at the addresses set forth on the signature page hereof or at such other address specified in writing by the addressee, or if to the Escrow Agent, upon receipt via facsimile or telecopier transmission, at the number set forth on the signature page hereof, or at such other number specified by Escrow Agent with a courtesy copy to (i) Michael Fox, Esq., Olshan Grundman Frome Rosenzweig & Wolosky LLP, Park Avenue Tower, 65 East 55th Street, New York, New York 10022, Email: mfox@olshanlaw.com, and (ii) Edward E. Neiger, Esq., Neiger LLP, 317 Madison Avenue, 21st Floor, New York, NY 10017, Email: eneiger@neigerllp.com.

VI. Amendment.

This Escrow Agreement may not be amended, modified, supplemented or otherwise altered except by an instrument in writing signed by the parties hereto.

VII. Termination.

Unless otherwise extended, this Agreement will terminate on the earlier of December 31, 2010 or 30 days subsequent to the disbursement of all funds in the Escrow Account, as provided above.

VIII. Tax Reporting.

The parties hereto, other than the Escrow Agent, agree that, for tax reporting purposes, all interest and other income earned from the investment of amounts in the Escrow Account ("Taxable Income") in any tax year shall accrue for the benefit of ACL. ACL shall be under no liability of interests on any funds received by it however.

IX. Anti-Terrorism/Anti-Money Laundering Laws.

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT - To help the United States government fight the funding of terrorism or money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens a new account. What this means for the parties to this Agreement: the Escrow Agent will ask for your name, address, date of birth, and other information that will allow the Escrow Agent to identify you (e.g., your social security number or tax identification number.) The Escrow Agent may also ask to see your driver's license or other identifying documents (e.g., passport, evidence of formation of corporation, limited liability company, limited partnership, etc., certificate of good standing.)

Each party to this Agreement hereby agrees to provide the Escrow Agent, prior to the establishment of the Escrow Account, with the information identified above pertaining to it by completing the form attached as Exhibit A and returning it to the Escrow Agent. Exhibit A includes one form for individuals and another form for entities.

X. Governing Law.

This is a New York contract and shall be governed by New York law in all respects.

XI. Corporate Authority

Each party represents and warrants that it has been duly authorized and has full authority on behalf of the respective parties hereto to execute and deliver this agreement and it has done so in compliance with applicable law.

XII. Counterparts.

This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and such counterparts together shall constitute and be one and the same instrument.

[This space is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused their names to be hereto subscribed by their respective Officers as of the day and year first above written.

Dated: August __, 2010

Jennifer Convertibles, Inc.,
Debtors and Debtors-in-Possession

By: _____
Rami Abada, President, CFO and COO

Anthony C. Labrosciano

By: _____
Anthony C. Labrosciano
165 Central Ave
Hasbrouk Heights, NJ 07604
tel: 201-288-7144
fax: 201-288-7455
tlabrosciano@aclcollect.com

Haining Mengnu Group Co. Ltd

By: _____
James Y. Jiang
King & Wood
444 Madison Avenue, 44th Floor
New York, NY 10022
jiangyiwei@kingandwood.com

EXHIBIT B

Proposed Order

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

In re:

JENNIFER CONVERTIBLES, INC.,¹

Debtors.

Chapter 11

Case No. 10-13779 (ALG)

(Jointly Administered)

**ORDER AUTHORIZING THE DEBTORS TO ENTER INTO
A STIPULATION WITH HAINING MENGNU GROUP CO. LTD.**

Upon the motion, dated August 26, 2010 (the “Motion”)² of Jennifer Convertibles, Inc. and its affiliated debtors, as debtors in possession (collectively, the “Debtors”), for entry of an order pursuant to sections 105(a) and 363 of title 11 of the United States Code (the “Bankruptcy Code”), authorizing but not requiring them to enter into a stipulation (the “Stipulation”) between and among the Debtors and Haining Mengnu Group Co. Ltd. (“Mengnu”); and the Court having jurisdiction to consider the Motion and the relief requested therein pursuant to 28 U.S.C. §§ 157 and 1334 and the Standing Order M-61 Referring to Bankruptcy Judges for the Southern District of New York Any and All Proceedings Under Title 11, dated July 10, 1984; and venue being proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409; and due and proper notice of the Motion having been provided to the parties listed therein, and it appearing that no other or further notice need be provided; and a hearing having been held to consider the relief requested in the Motion (the “Hearing”); and the appearances of all interested parties having been noted in

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, if applicable, are: (i) Jennifer Convertibles, Inc. (4646); (ii) Jennifer Convertibles Boylston MA, Inc. (7904); (iii) Jennifer Chicago Ltd. (0505); (iv) Elegant Living Management, Ltd. (5049); (v) Hartsdale Convertibles, Inc. (1681); (vi) Jennifer Management III Corp. (3552); (vii) Jennifer Purchasing Corp. (7319); (viii) Jennifer Management II Corp. (9177); (ix) Jennifer Management V Ltd. (9876); (x) Jennifer Convertibles Natick, Inc. (2227); (xi) Nicole Convertibles, Inc. (5985); (xii) Washington Heights Convertibles, Inc. (0783).

² All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

the record of the Hearing; and the Court having determined that the legal and factual bases set forth in the Motion establish just cause for the relief granted herein; and it appearing that the relief requested in the Motion is in the best interests of the Debtors, their estates, creditors, and parties in interest; and upon all of the proceedings had before the Court and after due deliberation and sufficient cause appearing therefor,

IT IS HEREBY ORDERED THAT:

1. The Motion is GRANTED.
2. The Debtors are hereby authorized to enter into the Stipulation with Mengnu.
3. This Court shall retain jurisdiction to interpret and enforce this Order.

Dated: _____, 2010
New York, New York

UNITED STATES BANKRUPTCY JUDGE