

ESCROW AGREEMENT

THIS AGREEMENT is made this ___ day of August, 2010, by and between (i) ACL Adjustment Associates Inc., c/o 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

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

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 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) The Escrow Agent shall immediately deposit and hold all escrow funds in a deposit account with TD Bank NA with a maturity of not more than 30 days.

(e) 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.

(f) 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.

(g) 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.

(h) 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 111 cases are pending.

(i) 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.

(j) 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.

(k) 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

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: enciger@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

ACL Adjustment Associates Inc.,

By: _____

ACL Adjustment Associates, Inc.,
Anthony C. Labroschiano
165 Central Ave
Hasbrouk Heights, NJ 07604
tel: 201-288-7144
fax: 201-288-7455
flabroschiano@aclcollect.com

Haining Mengnu Group Co. Ltd

By: 

James Y. Jiang
~~King and Wood~~
444 Madison Avenue, 44th Floor
New York, NY 10022
jjangyiwei@kingandwood.com

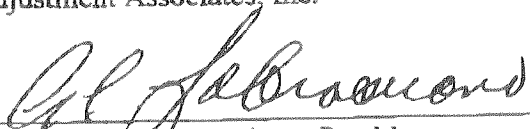
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