

**OLSHAN GRUNDMAN FROME  
ROSENZWEIG & WOLOSKY LLP**

Park Avenue Tower  
65 East 55<sup>th</sup> Street  
New York, New York 10022  
Michael S. Fox, Esq.  
Jordanna L. Nadritch, Esq.  
Jayme M. Bethel, Esq.  
212.451.2300

*Counsel for the Debtors and Debtors in Possession*

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

In re:

JENNIFER CONVERTIBLES, INC.,<sup>1</sup>  
  
Debtors.

Chapter 11

Case No. 10-13779 (ALG)

(Jointly Administered)

**STATEMENT OF CLARIFICATION WITH RESPECT TO THE DEBTORS'  
EMERGENCY MOTION FOR ENTRY OF AN ORDER AUTHORIZING  
THE DEBTORS TO ENTER INTO A DIP CREDIT AGREEMENT**

1. Jennifer Convertibles, Inc. and its affiliated debtors, as debtors and debtors in possession (together, the “Debtors” or “Obligors”) seek to clarify paragraphs 14 and 15 of the Debtors’ Emergency Motion for Entry of an Order Authorizing the Debtors to Enter into a DIP Credit Agreement, dated November 19, 2010 (docket no. 335) (the “Motion”)<sup>2</sup> to the extent that they are inconsistent with the terms of the Proposed Interim Order (the “Proposed Order”) and

<sup>1</sup> 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).

<sup>2</sup> All capitalized terms not defined herein shall have the meanings ascribed to them in the Motion.

the Senior Secured Superpriority Debtor-in-Possession Credit Agreement, dated as of November 19, 2010 (the “DIP Agreement”).

2. The terms of the Proposed Order and the DIP Agreement with respect to the liens on the Collateral being granted to Haining Mengnu Group Co. Ltd. (“Mengnu”) to secure the proposed DIP financing are correct. Pursuant to paragraph 6 of the Proposed Order, “Upon entry of this Interim Order, Mengnu is hereby granted valid, perfected, enforceable, and non-avoidable security interests, liens, and mortgages in the Collateral. “Collateral” is defined in the DIP Agreement as “all property and assets of the Obligors, of any nature whatsoever and wherever located real or personal, tangible or intangible, now owned or hereafter acquired, whether tangible or intangible, including but not limited to cash, receivables, inventory, equipment, customer and vendor list and intellectual property.”

3. Thus, in that regard, paragraphs 14 and 15 of the Motion should be clarified as follows (revised portion in bold):

14. In accordance with the DIP Agreement, Mengnu is backstopping or guaranteeing a letter of credit facility, in the amount of up to \$3 million, to be funded by a bank (the “LC Bank”) to or for the benefit of the Debtors’ credit card processor, Merrick Bank Corporation (“Merrick”) (as amended, supplemented or otherwise modified from time to time, the “LC Facility”). The LC Facility will replace approximately \$3 million of the Debtors’ funds currently being held by Merrick in a reserve account that serves to protect Merrick from potential chargeback risk (as discussed below, the “Reserve”), and Merrick will then release the approximately \$3 million in the Reserve to the Debtors for the operation of their businesses. The Debtors have agreed to grant Mengnu **valid, perfected, enforceable, and non-avoidable security interests, liens, and mortgages in** substantially all of the Debtors’ assets, ~~not~~ including inventory assets acquired by the Debtors from Ashley (the “Collateral”), pursuant to section 364 of the Bankruptcy Code.

15. In addition, the DIP Agreement provides that Mengnu, in its sole discretion, agrees to loan the Debtors immediately available cash, capped by the vested amount of funds in the Escrow Account (as defined and described below) at any given time. The Debtors believe the total amount available under this portion of the DIP Agreement could be as great as \$3.5 million. With respect to this portion of the DIP financing, the Debtors have agreed to grant Mengnu **valid, perfected, enforceable, and**

**non-avoidable security interests, liens, and mortgages** in the **Collateral**, pursuant to section 364 of the Bankruptcy Code.

4. The Debtors hereby request that the terms of the Motion be so modified and that all other relief requested be the same as filed.

Dated: New York, New York  
November 23, 2010

OLSHAN GRUNDMAN FROME  
ROSENZWEIG & WOLOSKY LLP

By: /s/ Michael S. Fox  
Michael S. Fox  
Jordanna L. Nadritch  
Jayme M. Bethel  
Park Avenue Tower  
65 East 55<sup>th</sup> Street  
New York, New York 10022  
(212) 451-2300

*Counsel for the Debtors and Debtors in  
Possession*