UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	:	Chapter 11
JENNIFER CONVERTIBLES, INC., *et al.*,[1]	:	Case No. 10-13779 (ALG)
Debtors.	:	(Jointly Administered)

AMENDED DISCLOSURE STATEMENT WITH RESPECT TO JOINT CHAPTER 11 PLAN OF REORGANIZATION FOR JENNIFER CONVERTIBLES, INC. AND ITS AFFILIATED DEBTORS

Dated: ~~November 19,~~December 17, 2010
New York, New York

OLSHAN GRUNDMAN FROME ROSENZWEIG & WOLOSKY LLP
Michael S. Fox
Jordanna L. Nadritch
Jayme M. Bethel
Park Avenue Tower
65 East 55th Street
New York, New York 10022
Telephone: (212) 451-2300
Facsimile: (212) 451-2222
Counsel to the Debtors and Debtors-in-Possession

[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).

THE VOTING DEADLINE TO ACCEPT OR REJECT THE PLAN IS 4:00 P.M. [DATE], 2011 PREVAILING EASTERN TIME, UNLESS THE DEBTOR, IN CONSULTATION WITH THE COMMITTEE, EXTENDS THE VOTING DEADLINE PRIOR TO [DATE], 2011. TO BE COUNTED, THE VOTING AND CLAIMS AGENT MUST ACTUALLY RECEIVE YOUR BALLOT ON OR BEFORE THE VOTING DEADLINE.

CERTAIN INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT, THE PLAN AND ANY EXHIBITS ATTACHED HERETO IS SPECULATIVE, AND PERSONS SHOULD NOT RELY ON SUCH DOCUMENTS IN MAKING INVESTMENT DECISIONS WITH RESPECT TO (A) THE DEBTOR OR (B) ANY OTHER ENTITIES THAT MAY BE AFFECTED BY THE DEBTOR'S CHAPTER 11 CASE.

JENNIFER CONVERTIBLES, INC. AND ITS AFFILIATED SUBSIDIARIES (THE "DEBTORS") ARE PROVIDING THE INFORMATION IN THE DISCLOSURE STATEMENT FOR THE CHAPTER 11 PLAN OF REORGANIZATION OF THE DEBTORS TO HOLDERS OF CLAIMS AND INTERESTS FOR PURPOSES OF SOLICITING VOTES TO ACCEPT OR REJECT THE PLAN. YOU SHOULD NOT RELY UPON OR USE THE INFORMATION IN THE DISCLOSURE STATEMENT FOR ANY OTHER PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN.

THE VOTING DEADLINE TO ACCEPT OR REJECT THE PLAN IS 4:00 P.M. (PREVAILING EASTERN TIME) ON [DATE] 2011, UNLESS EXTENDED BY THE DEBTORS (THE "VOTING DEADLINE"). TO BE COUNTED, BALLOTS MUST BE RECEIVED BY THE CLAIMS AGENT (AS DEFINED HEREIN) ON OR BEFORE THE VOTING DEADLINE.

THE DISCLOSURE STATEMENT HAS BEEN PREPARED PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE AND RULE 3016(B) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND IS NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER SIMILAR LAWS. THE DEBTORS BELIEVE THAT THE SOLICITATION OF VOTES ON THE PLAN MADE BY THE DISCLOSURE STATEMENT, AND THE OFFER OF THE NEW SECURITIES THAT MAY BE DEEMED TO BE MADE PURSUANT TO THE SOLICITATION ARE EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND RELATED STATE STATUTES BY REASON OF THE EXEMPTION PROVIDED BY SECURITIES ACT SECTION 4(2), OR OTHER APPLICABLE EXEMPTIONS, AND EXPECT THAT THE ISSUANCE OF THE SECURITIES UNDER THE PLAN WILL BE EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND RELATED STATE STATUTES BY REASON OF THE APPLICABILITY OF SECTIONS 1145(a)(1) AND (2) OF THE BANKRUPTCY CODE AND SECURITIES ACT SECTION 4(2), OR OTHER APPLICABLE EXEMPTIONS.

THE DEBTORS WILL BE FILING A PLAN SUPPLEMENT NO LATER THAN TEN (10) DAYS PRIOR TO THE CONFIRMATION HEARING.

THE PLAN IS PREMISED UPON THE "SUBSTANTIVE CONSOLIDATION" OF THE ESTATES OF THE DEBTORS FOR THE PURPOSES OF VOTING, CONFIRMATION AND MAKING DISTRIBUTIONS TO THE HOLDERS OF ALLOWED CLAIMS UNDER THE PLAN. FOR MORE INFORMATION ON THE EFFECTS OF SUBSTANTIVE CONSOLIDATION, PLEASE REFER TO SECTION 4.04 OF THE DISCLOSURE STATEMENT.

IF THE PLAN IS CONFIRMED BY THE BANKRUPTCY COURT AND THE EFFECTIVE DATE OCCURS, ALL HOLDERS OF CLAIMS AGAINST, AND HOLDERS OF INTERESTS IN, THE DEBTORS (INCLUDING, WITHOUT LIMITATION, THOSE HOLDERS OF CLAIMS OR INTERESTS WHO DO NOT SUBMIT BALLOTS TO ACCEPT OR REJECT THE PLAN OR WHO ARE NOT ENTITLED TO VOTE ON THE PLAN) WILL BE BOUND

BY THE TERMS OF THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY.

THE DISCLOSURE STATEMENT MAY CONTAIN "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH STATEMENTS CONSIST OF ANY STATEMENT OTHER THAN A RECITATION OF HISTORICAL FACT AND CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY," "EXPECT," "ANTICIPATE," "ESTIMATE" OR "CONTINUE" OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. THE READER IS CAUTIONED THAT ALL FORWARD-LOOKING STATEMENTS ARE NECESSARILY SPECULATIVE AND THERE ARE CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE REFERRED TO IN SUCH FORWARD-LOOKING STATEMENTS. THE DISTRIBUTION PROJECTIONS AND OTHER INFORMATION CONTAINED HEREIN AND ATTACHED HERETO ARE ESTIMATES ONLY, AND THE TIMING AND AMOUNT OF ACTUAL DISTRIBUTIONS TO HOLDERS OF ALLOWED CLAIMS MAY BE AFFECTED BY MANY FACTORS THAT CANNOT BE PREDICTED. THEREFORE, ANY ANALYSES, ESTIMATES OR RECOVERY PROJECTIONS MAY OR MAY NOT TURN OUT TO BE ACCURATE. DUE TO THESE UNCERTAINTIES, READERS CANNOT BE ASSURED THAT ANY FORWARD-LOOKING STATEMENTS WILL PROVE TO BE CORRECT. THE DEBTORS ARE UNDER NO OBLIGATION TO (AND EXPRESSLY DISCLAIM ANY OBLIGATION TO) UPDATE OR ALTER ANY FORWARD-LOOKING STATEMENTS WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS, OR OTHERWISE, UNLESS INSTRUCTED TO DO SO BY THE BANKRUPTCY COURT.

NO LEGAL OR TAX ADVICE IS PROVIDED TO YOU BY THE DISCLOSURE STATEMENT. THE DEBTORS URGE EACH HOLDER OF A CLAIM OR AN INTEREST TO CONSULT WITH ITS OWN ADVISORS WITH RESPECT TO ANY LEGAL, FINANCIAL, SECURITIES, TAX OR BUSINESS ADVICE IN REVIEWING THE DISCLOSURE STATEMENT, THE PLAN AND EACH OF THE PROPOSED TRANSACTIONS CONTEMPLATED THEREBY. FURTHERMORE, THE BANKRUPTCY COURT'S APPROVAL OF THE ADEQUACY OF DISCLOSURE CONTAINED IN THE DISCLOSURE STATEMENT DOES NOT CONSTITUTE THE BANKRUPTCY COURT'S APPROVAL OF THE MERITS OF THE PLAN.

IT IS THE DEBTORS' POSITION THAT THE DISCLOSURE STATEMENT DOES NOT CONSTITUTE, AND MAY NOT BE CONSTRUED AS, AN ADMISSION OF FACT, LIABILITY, STIPULATION OR WAIVER. RATHER, HOLDERS OF CLAIMS AND INTERESTS AND OTHER ENTITIES SHOULD CONSTRUE THE DISCLOSURE STATEMENT AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS RELATED TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER PENDING OR THREATENED LITIGATION OR ACTIONS.

NO RELIANCE SHOULD BE PLACED ON THE FACT THAT A PARTICULAR CAUSE OF ACTION, CLAIM OR PROJECTED OBJECTION TO A PARTICULAR CLAIM IS, OR IS

NOT, IDENTIFIED IN THE DISCLOSURE STATEMENT. THE DEBTORS AND THE LITIGATION TRUSTEE MAY SEEK TO INVESTIGATE, FILE AND PROSECUTE CLAIMS AND MAY OBJECT TO CLAIMS AFTER THE CONFIRMATION OR EFFECTIVE DATE OF THE PLAN IRRESPECTIVE OF WHETHER THE DISCLOSURE STATEMENT IDENTIFIES ANY SUCH CLAIMS OR OBJECTIONS TO CLAIMS. THE PLAN RESERVES FOR THE DEBTORS AND THE LITIGATION TRUSTEE THE RIGHT TO BRING CAUSES OF ACTION (DEFINED IN THE PLAN) AGAINST ANY ENTITY OR PARTY IN INTEREST EXCEPT THOSE SPECIFICALLY RELEASED.

THE DISCLOSURE STATEMENT CONTAINS, AMONG OTHER THINGS, SUMMARIES OF THE PLAN, CERTAIN STATUTORY PROVISIONS, CERTAIN EVENTS IN THE DEBTORS' CHAPTER 11 CASES AND CERTAIN DOCUMENTS RELATED TO THE PLAN THAT ARE ATTACHED HERETO AND INCORPORATED HEREIN BY REFERENCE. ALTHOUGH THE DEBTORS BELIEVE THAT THESE SUMMARIES ARE FAIR AND ACCURATE, THESE SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY TO THE EXTENT THAT THE SUMMARIES DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS OR EVERY DETAIL OF SUCH EVENTS. IN THE EVENT OF ANY INCONSISTENCY OR DISCREPANCY BETWEEN A DESCRIPTION IN THE DISCLOSURE STATEMENT AND THE TERMS AND PROVISIONS OF THE PLAN OR ANY OTHER DOCUMENTS INCORPORATED HEREIN BY REFERENCE, THE PLAN OR SUCH OTHER DOCUMENTS WILL GOVERN FOR ALL PURPOSES. FACTUAL INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTORS' MANAGEMENT EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE DEBTORS DO NOT REPRESENT OR WARRANT THAT THE INFORMATION CONTAINED HEREIN OR ATTACHED HERETO IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION.

THE DEBTORS' MANAGEMENT HAS REVIEWED THE FINANCIAL INFORMATION PROVIDED IN THE DISCLOSURE STATEMENT. ALTHOUGH THE DEBTORS HAVE USED REASONABLE BUSINESS JUDGMENT TO ENSURE THE ACCURACY OF THIS FINANCIAL INFORMATION, NO ENTITY HAS AUDITED THE FINANCIAL INFORMATION CONTAINED IN, OR INCORPORATED BY REFERENCE INTO, THE DISCLOSURE STATEMENT.

THE DEBTORS ARE MAKING THE STATEMENTS AND PROVIDING THE FINANCIAL INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT AS OF THE DATE HEREOF, UNLESS OTHERWISE SPECIFICALLY NOTED. ALTHOUGH THE DEBTORS MAY SUBSEQUENTLY UPDATE THE INFORMATION IN THE DISCLOSURE STATEMENT, THE DEBTORS HAVE NO AFFIRMATIVE DUTY TO DO SO. HOLDERS OF CLAIMS AND INTERESTS REVIEWING THE DISCLOSURE STATEMENT SHOULD NOT INFER THAT, AT THE TIME OF THEIR REVIEW, THE FACTS SET FORTH HEREIN HAVE NOT CHANGED SINCE THE DEBTORS FILED THE DISCLOSURE STATEMENT. HOLDERS OF CLAIMS AND INTERESTS ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN MUST RELY ON THEIR OWN EVALUATION OF THE DEBTORS AND THEIR OWN ANALYSIS OF THE TERMS OF THE PLAN, INCLUDING, WITHOUT LIMITATION,

ANY RISK FACTORS CITED HEREIN, IN DECIDING WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN.

THE DEBTORS HAVE NOT AUTHORIZED ANY ENTITY TO GIVE ANY INFORMATION ABOUT OR CONCERNING THE PLAN OTHER THAN THAT WHICH IS CONTAINED IN THE DISCLOSURE STATEMENT. THE DEBTORS HAVE NOT AUTHORIZED ANY REPRESENTATIONS CONCERNING THE DEBTORS OR THE VALUE OF THEIR PROPERTY OTHER THAN AS SET FORTH IN THE DISCLOSURE STATEMENT.

PRIOR TO DECIDING WHETHER AND HOW TO VOTE ON THE PLAN, EACH HOLDER OF A CLAIM IN A VOTING CLASS SHOULD CONSIDER CAREFULLY ALL OF THE INFORMATION IN THE DISCLOSURE STATEMENT, INCLUDING THE RISK FACTORS DESCRIBED IN GREATER DETAIL HEREIN.

ALL CAPITALIZED TERMS IN THE DISCLOSURE STATEMENT NOT OTHERWISE DEFINED HEREIN HAVE THE MEANINGS GIVEN TO THEM IN THE PLAN, ATTACHED TO THE DISCLOSURE STATEMENT AS EXHIBIT A.

THE DEBTORS URGE ALL HOLDERS OF CLAIMS WHOSE VOTES ARE BEING SOLICITED TO ACCEPT THE PLAN. THE DEBTORS BELIEVE THAT THE PLAN PROVIDES THE HIGHEST AND BEST RECOVERY FOR THE DEBTORS' CREDITORS.

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS SUPPORTS CONFIRMATION OF THE PLAN AND URGES ALL HOLDERS OF CLAIMS WHOSE VOTES ARE BEING SOLICITED TO ACCEPT THE PLAN.

MENGNU SUPPORTS CONFIRMATION OF THE PLAN AND URGES ALL HOLDERS OF CLAIMS WHOSE VOTES ARE BEING SOLICITED TO ACCEPT THE PLAN.

IRS CIRCULAR 230 NOTICE: TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, HOLDERS OF CLAIMS AND INTERESTS ARE **HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THE DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY HOLDERS OF CLAIMS OR INTERESTS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION RO MARKETING BY THE DEBTORS OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS OF CLAIMS AND INTERESTS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

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ARTICLE I

SUMMARY

Section 1.01. General.

Jennifer Convertibles, Inc. and its affiliated debtors and debtors in possession hereby transmit the Disclosure Statement (as may be amended, supplemented or otherwise modified from time to time, the "Disclosure Statement") pursuant to section 1125 of title 11 of the United States Code, 11 U.S.C. §§ 101- 1532, as amended (the "Bankruptcy Code"), in connection with the Debtors' solicitation of votes (the "Solicitation") to confirm the Joint Chapter 11 Plan of Reorganization for Jennifer Convertibles, Inc. and its Affiliated Debtors dated as of November 18, 2010, a copy of which is attached to the Disclosure Statement as Exhibit A (as may be amended, the "Plan").

The purpose of the Disclosure Statement is to set forth information concerning: (i) the history of the Debtors and their businesses; (ii) the Chapter 11 Cases; and (iii) the Plan and alternatives to the Plan. The Disclosure Statement also provides advice to Holders of Claims and Interests of their rights under the Plan, and assistance to Holders of Claims entitled to vote on the Plan, so they may make an informed judgment regarding whether they should vote to accept or reject the Plan.

Following careful consideration of all alternatives, the Debtors determined that the commencement of the Chapter 11 Cases was a prudent and necessary step to maximize the going concern value of the Debtors' business. Through the commencement of these Chapter 11 Cases, the Debtors intended to restructure their debt obligations while continuing normal operations. Importantly, the proposed debt restructuring pursuant to the proposed Plan will enhance the Debtors' liquidity and reduce their leverage.

The Debtors' commenced their Chapter 11 Cases after extensive discussions among the Debtors and the Debtors' key supplier Mengnu, which discussions resulted in the Debtors and Mengnu entering into the Plan Support Agreement dated as of July 18, 2010. Pursuant to the terms of the Plan Support Agreement, Mengnu had agreed to support the restructuring transactions contemplated by the Plan, and to vote to accept the Plan. Since the Petition Date, the Debtors and Mengnu have engaged in arms-length negotiations with the Creditors' Committee, which resulted in an agreed upon term sheet memorializing the terms of the Plan. In that regard, Mengnu and the Creditors' Committee have agreed to support and vote to accept the Plan.

The Plan described in the Disclosure Statement provides for the Debtors' emergence from the Chapter 11 Cases, which the Debtors anticipate will occur in February, 2011.

On December __, 2010, after notice and a hearing, the Bankruptcy Court entered an order: (i) approving the Disclosure Statement (the "Disclosure Statement Order") as containing "adequate information" to enable a hypothetical, reasonable investor typical of holders of Claims against or Interests in the Debtors to make an informed judgment as to whether to accept or reject the Plan; and (ii) authorizing the Debtors to use the Disclosure Statement in connection with the solicitation of votes to accept or reject the Plan. **The Disclosure Statement Order establishes**

[DATE], 2011 at 4:00 p.m. (prevailing Eastern Time) as the deadline for the return of Ballots accepting or rejecting the Plan (the "Voting Deadline"). APPROVAL OF THE DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.

The Disclosure Statement Order sets forth in detail the deadlines, procedures and instructions for voting to accept or reject the Plan, and for filing objections to confirmation of the Plan, the record date for voting purposes and the applicable standards for tabulating Ballots. In addition, detailed voting instructions accompany each Ballot. Each holder of a Claim entitled to vote on the Plan should read the Disclosure Statement and the Exhibits hereto, including the Plan and the Disclosure Statement Order, as well as the instructions accompanying the Ballot in their entirety before voting on the Plan. These documents contain important information concerning the classification of Claims and Interests for voting purposes and the tabulation of votes. No solicitation of votes may be made except pursuant to the Disclosure Statement and section 1125 of the Bankruptcy Code. In voting on the Plan, Holders of Claims entitled to vote should not rely on any information relating to the Debtors and their businesses other than the information contained in the Disclosure Statement, the Plan and all Exhibits hereto and thereto.

THE DISCLOSURE STATEMENT IS NOT INTENDED TO REPLACE A CAREFUL AND DETAILED REVIEW AND ANALYSIS OF THE PLAN. THE DISCLOSURE STATEMENT IS INTENDED TO AID AND SUPPLEMENT THAT REVIEW. THE DESCRIPTION OF THE PLAN HEREIN IS ONLY A SUMMARY. HOLDERS OF CLAIMS AND INTERESTS AND OTHER PARTIES-IN-INTEREST ARE CAUTIONED TO REVIEW THE PLAN AND ANY RELATED EXHIBITS AND ATTACHMENTS FOR A FULL UNDERSTANDING OF THE PLAN'S PROVISIONS. THE DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN.

Additional copies of the Disclosure Statement (including the Exhibits hereto) are available upon request made to the office of the Debtors' counsel, Olshan Grundman Frome Rosenzweig & Wolosky LLP, Park Avenue Tower, 65 East 55th Street, New York NY 10022, Attention: Michael S. Fox, Esq. and Jordanna L. Nadritch, Esq., (212) 451-2300 (phone) or (212) 451-2222 (facsimile). Additional copies of the Disclosure Statement (including the Exhibits hereto) can also be accessed free of charge from the following website: http://www.bmcgroup.com/jenniferconvertibles.

In addition, a Ballot for voting to accept or reject the Plan is enclosed with the Disclosure Statement for the Holders of Claims that are entitled to vote to accept or reject the Plan. If you are a Holder of a Claim entitled to vote on the Plan and did not receive a Ballot, received a damaged Ballot or lost your Ballot, or if you have any questions concerning the procedures for voting on the Plan, please contact the Claims Agent: BMC Group, Inc., at (888) 909-0100, or send your written inquiry to:

BMC Group, Inc.
Attention: Jennifer Convertibles Claims Processing

PO Box 3020
Chanhassen, MN 55317-3020

Each Holder of a Claim entitled to vote on the Plan should read the Disclosure Statement, the Plan, the other Exhibits attached hereto and the instructions accompanying the Ballots in their entirety before voting on the Plan. These documents contain important information concerning the classification of Claims and Interests for voting purposes and the tabulation of votes.

The Plan organizes the Debtors' creditor and equity constituencies into groups called "Classes." For each Class, the Plan describes (a) the underlying "Claim" or "Interest," (b) the recovery available to the Holders of Claims or Interests in that Class under the Plan, (c) whether the Class is "Impaired" under the Plan, meaning that each holder will receive less than the full value on account of its Claim or Interest or that the rights of Holders under law will be altered in some way (such as receiving stock instead of holding a Claim) and (d) the form of consideration (*e.g.*, cash, stock or a combination thereof), if any, that such Holders will receive on account of their respective Claims or Interests.

The table below provides a summary of the classification, treatment and estimated recoveries of Claims and Interests under the Plan. This information is provided in summary form below for illustrative purposes only, is subject to material change based on contingencies related to the claims reconciliation process, and is qualified in its entirety by reference to the provisions of the Plan.

THE ESTIMATED PROJECTED RECOVERIES SET FORTH IN THE TABLE BELOW ARE ESTIMATES ONLY AND ARE THEREFORE SUBJECT TO CHANGE.

SUMMARY OF TREATMENT OF CLAIMS AND EQUITY INTERESTS AND ESTIMATED RECOVERIES

Class	Treatment of Claims and Interests	Estimated Aggregate Claims	Estimated Percent Recovery	
			Plan	Liquidation
Class 1: Priority Non-Tax Claims	Each Holder of an Allowed Priority Non-Tax Claim will be paid, in full and complete satisfaction, settlement, and release of and in exchange for such Allowed Priority Non-Tax Claim, the Allowed Amount of such Allowed Priority Non-Tax Claim in full in Cash on later of the Effective Date and the first Distribution Date subsequent to the date such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim.	Approximately $166,000	100%	100%
Class 2: Mengnu Unsecured Claim	Mengnu, on account of the Allowed Mengnu Unsecured Claim will receive, in full and complete satisfaction, settlement and release of and in exchange for such Allowed Mengnu Unsecured Claim (i) 90.1% of the New Common Stock on the Effective Date, or as soon thereafter as practicable, (ii) the Tranche D Note, and (iii) 30% of the Litigation Trust Proceeds.	$14,878,760.45	~~93~~87.7%[2]	8%
Class 3: General Unsecured Claims	Each Holder of an Allowed General Unsecured Claim shall receive, in full and complete satisfaction, settlement and release of and in exchange for such Allowed General Unsecured Claim, its Pro Rata Share of (i) the proceeds of the Tranche A Note~~,~~ (ii) the proceeds of the Tranche C Note, (iii) 9.9% of the New Common Stock, and (iv) 70% of the Litigation Trust Proceeds.	Approximately $15.8 million	~~18~~22.7%	8%

[2] Approximately 86% of the total estimated recovery value of 87.7% to be realized for Mengnu on account of the Mengnu Unsecured Claim is associated with their 90.1% equity ownership. Thus, such amounts can only be fully realized upon prior satisfaction of the Tranche A Note, Tranche B Note, Tranche C Note, Tranche D Note and Tranche E Note (collectively, the "Notes"). The Notes are described in detail in the table below.

Class 4: Existing Preferred Stock Interests	The Holders of Existing Preferred Stock Interests in the Debtors will not receive or retain any interest in the Debtors, the Reorganized Debtors, the Estates or any other property or interest in property of the Debtors or the Reorganized Debtors on account of such Existing Preferred Stock Interests in the Debtors, and will not be entitled to any Distribution under the Plan on account of the Existing Preferred Stock Interests.	____	0%	0%
Class 5: Existing Common Stock Interests	The Holders of Existing Common Stock Interests in the Debtors will not receive or retain any interest in the Debtors, the Reorganized Debtors, the Estates or any other property or interest in property of the Debtors or the Reorganized Debtors on account of such Existing Common Stock Interests in the Debtors, and will not be entitled to any Distribution under the Plan on account of the Existing Common Stock Interests.	____	0%	0%

Set forth below, for purposes of clarification, is a summary description of the notes to be distributed on account of the Mengnu 503(b)(9) Claim, the Mengnu Unsecured Claim and the General Unsecured Claims:

Note	Recipient	Priority	Payment Terms
Tranche A Note	General Unsecured Claim Holders	First priority lien on the JCI Inventory (secured ratably with the Tranche C Note)	$1.4 million, one (1) year note, at 3% interest per annum
Tranche B Note	Mengnu 503(b)(9) Claim Holder	(i) First priority lien on all Non-JCI Inventory; and (ii) Junior lien on all JCI Inventory, subordinated to the liens granted in connection with the Tranche A Note and Tranche C Note.	$2,638,284.09, two (2) year note, at 4% interest per annum
Tranche C Note	General Unsecured Claim Holders	First priority lien on all JCI Inventory (secured ratably with the Tranche A Note)	$950,000, three (3) year note, at 5% interest per annum
Tranche D Note	Mengnu Unsecured Claim Holder	Subordinated as to repayment of principal to the Tranche A Note, the Tranche B Note, and the Tranche C Note	$1,878,760.45, four (4) year unsecured note, at 6% interest per annum

The Debtors believe that the Plan provides the best recoveries possible for Holders of Allowed Claims and Interests and strongly recommend that, if such Holders are entitled to vote, they vote to accept the Plan.

Section 1.02. Classification of Claims and Interests

The following table designates the Classes of Claims against and Interests in the Debtors, and specifies which Classes are (a) Impaired or Unimpaired by the Plan, (b) entitled to vote to accept or reject the Plan in accordance with section 1126 of the Bankruptcy Code, or (c) deemed to accept or reject the Plan.

Class	Designation	Impairment	Entitled to Vote
Class 1	Priority Non-Tax Claims	No	No (Deemed to accept)
Class 2	Mengnu Unsecured Claim	Yes	Yes
Class 3	General Unsecured Claims	Yes	Yes
Class 4	Existing Preferred Stock Interests	Yes	No (Deemed to reject)
Class 5	Existing Common Stock Interests	Yes	No (Deemed to reject)

Section 1.03. Voting; Holders of Claims Entitled to Vote

Pursuant to the provisions of the Bankruptcy Code, only holders of allowed claims or equity interests in classes of claims or equity interests that are impaired and that are not deemed to have rejected a plan of reorganization are entitled to vote to accept or reject such proposed plan. Generally, a claim or interest is impaired under a plan if the holder's legal, equitable or contractual rights are altered under such plan. Classes of claims or equity interests under a chapter 11 plan in which the holders of claims or equity interests are unimpaired are deemed to have accepted such plan and are not entitled to vote to accept or reject the proposed plan. In addition, classes of claims or equity interests in which the holders of claims or equity interests will not receive or retain any property on account of their claims or equity interests are deemed to have rejected the plan and are not entitled to vote to accept or reject the plan.

In connection with the Plan:

- Claims in Classes 2 and 3 are Impaired and the Holders of such Claims will receive distributions under the Plan. As a result, holders of Claims in Classes 2 and 3 are entitled to vote to accept or reject the Plan;
- Claims in Class 1 are Unimpaired. As a result, Holders of Claims in Class 1 are deemed to have accepted the Plan and are not entitled to vote to accept or reject the Plan;
- Claims and Interests in Classes 4 and 5 are Impaired and the Holders of such Claims and Interests will not receive any distribution on account of such Claims and Interests. As a result, the Holders of Claims and Interests in Classes 4 and 5

are deemed to have rejected the Plan and are not entitled to vote to accept or reject the Plan.

The Bankruptcy Code defines "acceptance" of a plan by a class of claims as acceptance by creditors in that class that hold at least two-thirds in dollar amount and more than one-half in number of the claims that cast ballots for acceptance or rejection of the plan. **Your vote on the Plan is important**. The Bankruptcy Code requires as a condition to confirmation of a plan of reorganization that each class that is impaired and entitled to vote under a plan vote to accept such plan, unless the provisions of section 1129(b) of the Bankruptcy Code are met.

If a Class of Claims entitled to vote on the Plan rejects the Plan, the Debtors reserve the right to amend the Plan and/or to request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code. Section 1129(b) of the Bankruptcy Code permits the confirmation of a plan of reorganization notwithstanding the non-acceptance of a plan by one or more impaired classes of claims or equity interests, so long as at least one impaired class of claims or interests votes to accept the plan. Under that section, a plan may be confirmed by a bankruptcy court if it does not "discriminate unfairly" and is "fair and equitable" with respect to each non-accepting class.

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose of voting on the Plan. The Disclosure Statement, the Exhibits attached hereto, the Plan and the related documents are the only materials the Debtors are providing to creditors for their use in determining whether to vote to accept or reject the Plan, and such materials may not be relied upon or used for any purpose other than to vote to accept or reject the Plan.

Please complete, execute and return your Ballot(s) to the Debtors' Claims Agent at the address below:

BMC Group, Inc.
Attention: Jennifer Convertibles Claims Processing
PO Box 3020
Chanhassen, MN 55317-3020
Tel. (888) 909-0100

TO BE COUNTED, YOUR ORIGINAL BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE ACTUALLY RECEIVED BY THE CLAIMS AGENT NO LATER THAN **4:00 P.M., PREVAILING EASTERN TIME, ON [DATE], 2011.** UNLESS EXTENDED BY THE DEBTORS. YOUR BALLOT MAY BE SENT VIA MAIL, OVERNIGHT COURIER OR MESSENGER. ALL BALLOTS MUST BE SIGNED.

The Ballots have been specifically designed for the purpose of soliciting votes on the Plan from the Classes entitled to vote with respect thereto. Accordingly, in voting on the Plan, please use only the Ballots sent to you with the Disclosure Statement or provided by the Debtors' Claims Agent.

The Debtors have fixed **4:00 p.m. (prevailing Eastern Time) on [DATE], 2011** (the "Voting Record Date"), as the time and date for the determination of Persons who are entitled to receive a

copy of the Disclosure Statement and all of the related materials and to vote whether to accept or reject the Plan. Accordingly, only Holders of record of Claims as of the Voting Record Date that are entitled to vote on the Plan, will receive a Ballot and may vote on the Plan.

All properly completed Ballots received prior to the Voting Deadline will be counted for purposes of determining whether a voting Class of impaired Claims has accepted the Plan. The Claims Agent will prepare and file with the Bankruptcy Court a certification of the results of the balloting with respect to the Class entitled to vote.

THE DEBTORS, THE PLAN SPONSOR, AND THE CREDITORS' COMMITTEE BELIEVE THAT CONFIRMATION OF THE PLAN IS IN THE BEST INTERESTS OF ALL HOLDERS OF CLAIMS AND RECOMMEND THAT ALL HOLDERS OF CLAIMS ENTITLED TO VOTE ON THE PLAN VOTE TO ACCEPT THE PLAN.

The Debtors' legal advisor is Olshan Grundman Frome Rosenzweig & Wolosky LLP, and their financial advisor is TM Capital Corp. They can be contacted at:

Olshan Grundman Frome
Rosenzweig &Wolosky LLP
65 East 55th Street
New York, NY 10022
Attention: Michael S. Fox

TM Capital Corp.
641 Lexington Avenue, 30th Floor
New York, NY 10022
Attention: Robert C. Grien

The Creditors' Committee's legal advisor is Kelley Drye & Warren LLP, and their financial advisor is Deloitte Financial Advisory Services LLP. They can be contacted at:

Kelley Drye & Warren LLP
101 Park Avenue
New York, NY 10178
Attention: James Carr

Deloitte Financial Advisory Services LLP
555 Twelfth Street, Suite 500
Washington DC 20004
Attention: Narendra Ganti

The Plan Sponsor's legal advisor is Neiger LLP, and their financial advisor is Sperry Advisors, LLP. They can be contacted at:

Neiger LLP
317 Madison Avenue, 21st Floor
New York, NY 10017
Attention: Edward E. Neiger

Sperry Advisors, LLP
210 Riverside Drive
New York, NY 10025
Attention: L. Thomas Sperry

Section 1.04. Solicitation Process

The following documents and materials will constitute the Debtors' Solicitation Package:

- Plan;

- Disclosure Statement;
- Order approving the Disclosure Statement and related Solicitation Procedures ("Disclosure Statement Order");
- Notice of the hearing at which confirmation of the Plan will be considered ("Confirmation Hearing Notice");
- Appropriate ballot and voting instructions; and
- Pre-addressed, postage prepaid return envelope.

The Debtors intend to distribute the Solicitation Packages no fewer than twenty-eight (28) calendar days before the Voting Deadline or on such other schedule as is approved by the Bankruptcy Court. The Debtors submit that distribution of the Solicitation Packages at least twenty-eight (28) calendar days prior to the Voting Deadline or on such other schedule as is approved by the Bankruptcy Court will provide the requisite materials to Holders of Claims entitled to vote on the Plan in compliance with Bankruptcy Rules 3017(d) and 2002(b).

The Solicitation Package will be distributed to Holders of Claims in Classes 2 and 3 as of the Voting Record Date and in accordance with the Solicitation Procedures. The Solicitation Package (except the Ballots) may also be obtained by writing (sent via first class mail) to BMC Group, Inc., Attention: Jennifer Convertibles Claims Processing, PO Box 3020, Chanhassen, MN 55317-3020.

Other parties entitled to receive the Solicitation Packages, including the IRS and the Securities and Exchange Commission, will be served paper copies of the order approving the Disclosure Statement, the Disclosure Statement and all exhibits to the Disclosure Statement, including the Plan, the Confirmation Hearing Notice and the Committee Letter in Support of the Plan.

Section 1.05. Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of the Plan. Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may object to confirmation of the Plan.

The Confirmation Hearing will commence on [January 25], 2011 at [11:00 a.m.] prevailing Eastern Time, before The Honorable Allan L. Gropper, United States Bankruptcy Judge, in the United States Bankruptcy Court for the Southern District of New York. The Confirmation Hearing may be adjourned from time to time without further notice except for an announcement of the adjourned date made at the Confirmation Hearing or any adjournment thereof.

The Plan Objection Deadline is 4:00 p.m. prevailing Eastern Time on [DATE], 2011. All objections to the Plan must be filed with the Bankruptcy Court and served on the Debtors and certain other parties in accordance with the Disclosure Statement Order on or before the Plan

Objection Deadline. In accordance with the Confirmation Hearing Notice filed with the Bankruptcy Court, objections to the Plan or requests for modifications to the Plan, if any, must:

- Be in writing;
- Conform to the Bankruptcy Rules and the Local Bankruptcy Rules;
- State the name and address of the objecting Creditor and the amount and nature of the Claim or Interest of such Creditor;
- State with particularity the basis and nature of the objection to the Plan and, if practicable, a proposed modification to the Plan that would resolve such objection; and
- Be filed, contemporaneously with proof of service, with the Bankruptcy Court and served so that it is **actually received** by the notice parties identified in the Confirmation Hearing Notice on or prior to the Plan Objection Deadline.

THE BANKRUPTCY COURT MAY NOT CONSIDER OBJECTIONS TO THE PLAN UNLESS THEY ARE TIMELY SERVED AND FILED IN COMPLIANCE WITH THE PROCEDURES SET FORTH IN THE DISCLOSURE STATEMENT ORDER.

Section 1.06. Important Matters

The Disclosure Statement contains projected financial information and certain other forward-looking statements, all of which are based on various estimates and assumptions and will not be updated to reflect events occurring after the date hereof. Such information and statements are subject to inherent uncertainties and to a wide variety of significant business, economic and competitive risks, including, among others, those described herein. Consequently, actual events, circumstances, effects and results may vary significantly from those included in or contemplated by such projected financial information and such other forward-looking statements. The projected financial information contained herein and in the Exhibits annexed hereto is, therefore, not necessarily indicative of the future financial condition or results of operations of the Debtors, which in each case may vary significantly from those set forth in such projected financial information. Consequently, the projected financial information and other forward-looking statements contained herein should not be regarded as representations by any of the Debtors, the Reorganized Debtors, their advisors, or any other Person that the projected financial conditions or results of operations can or will be achieved.

ARTICLE II

BACKGROUND TO THIS CHAPTER 11 CASE

Section 2.01. The Debtors' Business

1. Debtor's Operations

On July 18, 2010, the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code with the stated intent of restructuring the Debtors and their outstanding indebtedness. The Debtors have eleven (11) subsidiaries that have concurrently filed for bankruptcy under Chapter 11.

Jennifer Convertibles, Inc. was organized as a Delaware corporation in 1986, and is currently the owner of (i) the largest group of sofabed specialty retail stores and leather specialty retail stores in the United States, and (ii) six big box, full-line furniture stores operated under the Ashley Furniture HomeStore brand ("Ashley") under a license from Ashley Furniture Industries, Inc. The Debtors are currently headquartered in Woodbury, New York.

In order to generate sales, the Debtors rely on aggressive pricing, the attractive image of its stores, extensive advertising and prompt delivery. Operations are classified into two operating segments organized by retail concept: Jennifer and Ashley. The Jennifer segment operates the sofabed specialty retail store concept. The Ashley segment is the big box, full line home furniture retail store concept. There are no inter-company sales between segments. The Ashley segment is highly profitable due to its unique sourcing model, whereby once most sales are executed, Ashley's supplier manages the supply chain process. Under the Ashley sourcing model, the Debtors' need for warehouse inventory is reduced, thereby limiting working capital needs and infrastructure requirements: this is a more optimal model compared to traditional full line furniture retailers. The Debtors' two operating segments enable the Debtors to more effectively offer diverse home furnishings and accessories and expand to a broader consumer base.

2. Employees

As of the Petition Date, the Debtors employed 497 people; 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. As of the date hereof, the Debtors employ 404 people; 248 people in the Jennifer segment (including warehouse personnel), 115 people in the Ashley segment, and 41 corporate employees.

3. Directors and Officers

As of the date hereof, the Debtors have thirteen individuals comprising the Debtors' senior management. These individuals are (i) Harley J. Greenfield, Chairman of the Board and Chief Executive Officer; (ii) Rami Abada, Chief Financial Officer and Chief Operating Officer; (iii) Edward B. Seidner, Executive Vice President; (iv) Kevin Mattler, Senior Vice President - Store Operations; (v) Leslie Falchook, Senior Vice President - Administration; (vi) Joe Schillero,

Controller; (vii) John Duncan, Senior Vice President of National Sales; (viii) Dave Sakol, Vice President of Store Operations; (ix) David Borgen, Vice President of Advertising; (x) Steve Finnigan, Senior Vice President of Warehousing; (xi) Marty Ehrlich, Vice President of Customer Service; (xii) George Marr, IT Director; and (xiii) Sandi Bass, Flow Buyer.

4. Corporate Structure

The organizational chart, as set forth in the Plan Supplement, provides a general overview of the corporate structure of the Debtors. Jennifer Convertibles, Inc. is the direct or indirect parent company of each of the other Debtors.

Section 2.02. Summary of Prepetition Indebtedness

Prior to the Petition Date, the Debtors did not have any secured debt. As a retailer of sofabeds and furniture, the Debtors purchased all of its inventory from merchandisers and manufacturers located both abroad and in the United States. The Debtors' key foreign supplier is located in the People's Republic of China.

Unsecured Debt: Mengnu. Mengnu is the Debtors' key supplier, and currently manufactures approximately 80% of what the Debtors historically ordered through the Debtors' previous supplier, Caye Upholstery LLC ("Caye"). Mengnu provided a letter agreement in November 2008 to the effect that if Caye stopped supplying the Debtors prior to November 12, 2009, it would supply the Debtors goods under an arrangement substantially the same as the prior arrangement with Caye except that under the agreement with Mengnu the amount payable by the Debtors could not exceed $10,000,000. On April 13, 2009, Mengnu and the Debtors amended and restated the terms of the letter agreement to provide, that effective August 1, 2009, the Debtors would have up to 150 days to pay for the goods without interest or penalty. On December 10, 2009, Mengnu further amended the terms of the letter agreement extending the terms from 150 days to 180 days. Any amounts due that were not paid within the additional 30 day grace period, would be charged interest at a per annum rate of 2% until payment is made. During May 2010, the Debtors exceeded the 180 day terms. As of the Petition Date, the Debtors owed Mengnu $2,638,284.09 on account of the Mengnu 503(b)(9) Claims, and $14,878,760.45 on account of the Mengnu Unsecured Claim.

Unsecured Debt: Ashley. During fiscal 2007, the Debtors began their relationship with Ashley, and opened their first of the Ashley stores. As of the Petition Date, the Debtors operated seven Ashley stores under seven separate license agreements, referred to as Trademark Usage Agreements. The Ashley segment is a big box, full line home furniture retail store concept, and is highly profitable due to its unique sourcing model, whereby once most sales are executed, Ashley's supplier manages the supply chain process. Ashley is a sole source supplier for the Ashley product line. Typically, the Ashley customer provides the Debtors with a deposit of 100% of the purchase price when the sale order is given. Prior to the Petition Date, the Debtors had credit with Ashley of 30 day terms for the goods purchased. The Debtors currently have credit with Ashley of cash on delivery terms. As of the Petition Date, the Debtors owed Ashley approximately $1,200,000.

Unsecured Debt: Trade Creditors. The Debtors owe their other general unsecured creditors approximately $15.8 million.

Section 2.03. The Debtors' Existing Equity Structure

Preferred Stock. In December 1997, Klaussner Furniture Industries, Inc. ("Klaussner") purchased $5,000,000 of the Debtors' convertible preferred stock. The 6,490 outstanding shares of Series A convertible preferred stock ("Series A Stock"), which are owned by Klaussner, are non-voting, have a liquidation preference of $3,245, do not pay dividends (except if declared on the common stock) and are convertible into 924,500 shares of the Debtors' common stock. In addition, as long as Klaussner owns at least 10% of the Debtors' outstanding common stock, assuming conversion, it has the right of first refusal to purchase any common stock or equivalents sold by the Debtors at less than $3.51 per share.

In connection therewith, and as a result of the Debtors' granting options to employees to purchase shares of common stock at $2.00 per share, on January 18, 2001, the Debtors granted Klaussner an option to purchase 18,730 shares of common stock at an exercise price of $2.00 per share. The option expires in January 2011. During May 2006, Klaussner voluntarily converted 3,510 shares of Series A Preferred Stock into 500,000 shares of the Debtors' common stock. The remaining 6,490 shares of Series A Preferred Stock are convertible into 924,500 shares of the Debtors' common stock.

In addition, the Debtors issued 88,880 shares of Series B convertible preferred stock ("Series B Stock") having a value of $370. Each share of Series B Stock is convertible, at the option of the holder, into seven-tenths of a share of the Debtors' common stock. In addition, holders of the Series B Stock are entitled to receive, upon surrender of their stock certificates, $0.10 in cash for each pre-conversion share of the Debtors' Series B Stock held by such holder. The Series B shares are non-voting, have a liquidation preference of $5.00 per share and accrue dividends at the rate of $.35 per share per annum. The Series B Stock is convertible at the option of the Debtors at any time after the common stock trades at a price of at least $7.00 per share.

On May 15, 2007, certain holders of Series B Stock elected to convert 40,891 shares into 28,523 shares of the Debtors' common stock. Fractional shares of the Debtors' common stock were not issued as a result of the conversion. Instead, holders of the Series B Stock who otherwise would have been entitled to receive a fractional share received an amount in cash equal to $5.00 per post conversion share (calculated on a pro rata basis) for such fractional shares. Dividends earned on the Debtors' Series B Stock tendered for conversion up until and including May 15, 2007 were paid. During May 2007, the Debtors paid an aggregate of $4 for each pre-conversion share of the Debtors' Series B Stock held by such holders and $1 for fractional shares of common stock. In addition, accumulated unpaid dividends for the period October 30, 2005 through May 15, 2007 in the amount of $48 were paid to all holders of Series B Stock. All such amounts were charged to additional paid in capital. Accumulated unpaid dividends for the period May 16, 2007 through August 29, 2009 amounted to $39.

Common Stock. As of the Petition Date, 7,073,466 shares of the Debtors' common stock, par value $.01 per share, were outstanding. There were approximately 265 holders of record. The

Debtors have never declared or paid any cash dividends on the common stock, as any earnings have been retained for use in the operation and expansion of business.

The Debtors' common stock was previously traded on the NYSE Amex under the symbol JEN. On February 19, 2010, the Debtors received notice from the staff of the NYSE Amex, LLC (the "Exchange") that the Exchange intended to strike the Debtors' common stock from the Exchange by filing a delisting application with the Securities and Exchange Commission. The Debtors' common stock ceased trading on the Exchange effective as of March 8, 2010, and began trading on the Over-The-Counter Bulletin Board under the symbol JENN.OB.

Section 2.04. Recent Financial Results.

On a consolidated basis, the Debtors' revenues from continuing operations decreased from approximately $120,131,000 in the year ended August 30, 2008 to approximately $94,177,000 in the year ended August 29, 2009. For the thirty-nine weeks ended May 29, 2010, revenues from continuing operations were approximately $70,036,000.

For the thirteen week period ended May 29, 2010, net loss was $4,775,000, compared to net loss of $1,532,000 for the thirteen-week period ended May 30, 2009. In addition, as of May 29, 2010, the Debtors had a working capital deficiency of $23,321,000 compared to a deficiency of $5,322,000 at August 29, 2009, and had available cash and cash equivalents of $4,361,000 compared to $5,609,000 at August 29, 2009.

Section 2.05. Key Suppliers.

1. Mengnu.

Founded in July, 1993, Mengnu, situated in Haining City of Zhejiang Province, the center of China's leather and home textiles industry, is a diversified manufacturer and supplier to furniture retailers throughout the world. Mengnu's business integrates sofa, sofa cover, leather and leather clothes manufacturing. Mengnu's products are popular in more than twenty provinces, cities and autonomous regions of China and are exported to more than twenty European and American countries and regions such as the Americas, Britain, France and Italy.

Prior to its relationship with Mengnu, the Debtors purchased merchandise for their Jennifer segment of the business from Caye. In January 2009, the Debtors began to transition its product sourcing from Caye to Mengnu. Since that time, Mengnu has supplied approximately 80% of the Debtors' sofa beds, leather products and related products for the Jennifer segment of the Debtors' business.

The products manufactured for the Debtors by Mengnu are made according to specifications provided by the Debtors that 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.

2. Ashley.

The Debtors opened their first Ashley Store in 2007 and, as of the Petition Date, operated seven Ashley Stores in accordance with the Trademark Usage Agreements. The Ashley segment of the Debtors' business is a big box, full line home furniture retail store concept, featuring one of the most complete home furnishing lines available, including furniture and accessories for the living/family room, bedroom, dining room (both casual and formal), home theatre and home office. The Debtors' Carle Place, New York location also has an Ashley Sleep Center which offers a complete line of Sealy mattresses. The Ashley segment of the Debtors' business generates additional revenue by selling fabric protection to Ashley store customers, which is provided by a third-party.

The Ashley segment of the Debtors' business is highly profitable due to its unique sourcing model. Under a Trademark Usage Agreement, Ashley is the exclusive supplier of product to the Ashley segment of the Debtors' business, except for accessories and mattresses. At the Ashley Stores, the Debtors may only sell Ashley products, other than accessories and mattresses, which products may only be purchased directly from Ashley.

During the term of the Trademark Usage Agreements, Hartsdale Convertibles, Inc. ("Hartsdale") is required use its best efforts to solicit sales of Ashley products and accessories at the authorized location, and in consultation with Ashley, develop annual sales goals and marketing objectives reasonably designed to assure maximum sales and market penetration of the Ashley products and accessories in the licensed territory. Jennifer Convertibles, Inc. has guaranteed the obligations of Hartsdale under the Trademark Usage Agreements.

Given the sole source nature of the Ashley relationship, preservation of such business relationship is crucial to the Debtors' ability to reorganize.

ARTICLE III

EVENTS LEADING TO THIS CHAPTER 11 CASE

Section 3.01. Prepetition Events

The Debtors' financial difficulties are attributable to a number of different factors, each of which is discussed below.

a. Liquidity.

Prior to the Petition Date, the Debtors' liquidity needs were met through cash generated from sales. The Debtors incurred a net loss and have both working capital and stockholders' deficiencies for the years ended August 29, 2009 and August 30, 2008. In an effort to address their liquidity needs, the Debtors implemented cost cutting programs, including store closings, termination of personnel, salary reductions for certain executive officers and renegotiations of lease agreements. Additionally, the credit agreement with Caye was terminated in July 2009, and, in connection therewith, Caye released its security interest in the Debtors' assets. Further, the Debtors and Mengnu who replaced Caye, amended and restated the terms of

their letter agreement to provide the Debtors up to 180 days to pay for goods without interest or penalty effective August 1, 2009 through September 30, 2010. As of August 2009, based on the then level of store operations and available cash, and after giving effect to cost cutting programs that had been implemented and the extended credit terms received from Mengnu, management anticipated that the Debtors would have sufficient available cash to operate for the next 12 months.

However, further deterioration of the current economy, the depressed housing market and sourcing of products from China had a material adverse effect on the Debtors' liquidity. In the first instance, during the first half of 2010, the Debtors experienced a delay in the receipt of merchandise from China, which negatively impacted the Debtors' revenues. This delay, coupled with severe congestion at the ports in China with respect to shipments, negatively affected delivery time to the Debtors' consumers. In addition, during such period and thereafter, the Debtors' credit card processor increased the hold back of certain payments due the Debtors (as discussed below). As a consequence of such events, amounts payable by the Debtors to its suppliers, landlords and advertisers were not paid, even by their extended due dates. In addition, the loss of the Debtors' private label financing card adversely impacted the Debtors' sales (as discussed more fully in Section 3.01g). Moreover, as settlement negotiations had progressed with respect to the Debtors' employment class litigation (also discussed below), it had become apparent that it would be required to make a cash payment as part of any such settlement. Finally, due to the current state of the credit markets, financing remains limited and the Debtors were unable to find appropriate financing to provide them with adequate capital to restructure its obligations outside of a chapter 11.

b. Inventory Backlog.

The Debtors pride themselves on a quick turnover of purchased goods to the customer. In previous years, a customer who purchased goods from the Debtors could expect to receive their purchased items in as quickly as one week's time. However, due to congestion at the ports in China - which delayed product from leaving China - and other problems associated with receiving new product, the Debtors experienced an inventory backlog and severe delays in their delivery of goods to customers. As a result, sales and cash receipts were severely impaired, and issues related to non-receipt of goods have continued to adversely impact the Debtors' liquidity.

c. Credit Card Companies.

The credit card companies had, for the past several years, paid the Debtors shortly after credit card purchases by customers. In this connection, the Debtors entered into an agreement with one of the credit card companies, Merrick Bank Corporation ("Merrick"), for the interim period ending December 17, 2008, pursuant to which Merrick agreed to process Visa and MasterCard transactions initiated by customers utilizing credit cards at the Debtors' store 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 (the "Sales Receipts") and remit such Sales Receipts on a daily basis, less applicable fees and other costs, to the Debtors). Approximately sixty percent (60%) of the Debtors' sales are

processed through Visa/MasterCard transactions. Pursuant to the initial agreement, known as a "Merchant Application and Agreement", Merrick established a $500,000 reserve as, in effect, a performance bond against delivery of the merchandise ordered by their credit card customers. During December 2008, the parties executed an agreement, which increased the amount of the reserve to approximately $800,000.

On or about January 13, 2010, the Debtors and Merrick signed a further Merchant Application and Agreement (the "Merrick Agreement"), which Merrick Agreement amended the prior agreements between the parties.

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 Merrick 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 Merrick is obligated to return the purchase price to the consumer. The Merrick Agreement provided that Merrick may establish and that the Debtors would fund a reserve to protect Merrick from chargeback risk in an amount demanded by Merrick, which may be increased by Merrick (the "Chargeback Reserve Account"). Such amount, as initially set forth in the Agreement, was $801,462.52. In light of economic and credit conditions and the Debtors' financial condition, a few months prior to the Petition Date, Merrick took it upon itself to reexamine its reserve and holdback policies.

First, Merrick increased the interest rate it was charging as a fee to process the credit card deposits. Then, beginning in April 2010, Merrick began to increase the Chargeback Reserve Account by withholding daily an additional portion of the Sales Receipts it otherwise would have remitted to the Debtors. By the end of April 2010, Merrick increased the Chargeback Reserve Account to approximately $1,300,000. Increasing the reserve amount on account of the funds owed to the Debtors from customers deposits and increasing the processing fee adversely affected the Debtors' cash flow, and significantly decreased the Debtors' liquidity. From April, 2010 through the Petition Date, Merrick had continued to hold back 25% of all customer deposits processed through Merrick. The Reserve totaled $3,975,595.25 as of the close of business on July 16, 2010, and reached a high of $4,294,266 as of July 28, 2010. This had a significant if not damaging impact on the Debtors' cash flow.

In addition, the Debtors' cash flow problems were compounded by American Express as processor of all American Express transactions. Until 2009, American Express funded the Debtors on account of transactions on a three (3) day lag. As a result of the Debtors' financial difficulty, American Express increased the days in which funds were turned over to the Debtors from three (3) days to fifteen (15) days, such that the Debtors' only received cash from American Express transactions twice a month.

d. Landlord Problems.

The Debtors' management, as a result of a rapid decline in retail sales, began to explore and analyze various strategic alternatives in order to identify available alternatives to meet their projected liquidity needs. Based on that analysis, the Debtors determined to exit

certain markets and reduce their national footprints in certain states and territories (the "Exiting Territories"). The Debtors further determined that closing stores in these non-profitable Exiting Territories would dramatically reduce the administrative costs associated with these underperforming stores, allow management to better manage fewer territories, and would provide the maximum value to the Debtors' estates. While the Debtors determined to close stores in the Exiting Territories as well as additional stores in the non Exiting Territories prior to the Petition Date, the Debtors had been unable to do so and, as a result, rent had continued to accrue which the Debtors were unable to pay. In addition, due to the Debtors' cash restraints, the Debtors were unable to pay rent to certain landlords at store locations in territories that the Debtors intend on maintaining. As a result, as of the Petition Date, the Debtors owed an estimated $6,980,000 to their landlords.

e. Pending Class Action Litigation.

On July 16, 2009, a putative class action, Ayisha Combs v. Jennifer Convertibles, Inc., was commenced in the United States District Court for the Northern District of California, Case No. 3:09-cv-03242-SI (the "Combs I Case"). On December 29, 2009, a second putative class action, Ayisha Combs v. Harley Greenfield and Rami Abada, was commenced, in the United States District Court for the Northern District of California, Case No. 3:09-cv-06042-SI (the "Combs II Case", and together with the Combs I Case, the "Combs Cases").

On February 26, 2010, the Combs I Case court denied class certification without prejudice. The plaintiffs in the Combs I Case did not obtain class certification prior to the Petition Date, and an order dismissing the case by reason of the bankruptcy filing was entered on July 28, 2010.

On May 11, 2010, the Combs II Case court dismissed the action for lack of personal jurisdiction. On June 9, 2010, the Combs II Case plaintiffs filed an appeal, which is currently pending before the Ninth Circuit Court of Appeals, Case No. 10-1638.

Prior to the bankruptcy filing, the parties commenced negotiations relating to a comprehensive settlement of the Combs Cases. Such negotiations failed to produce a final, fully executed settlement agreement for consideration by the District Court prior to the Petition Date.

f. Caye.

Prior to Mengnu, the Debtors' key supplier was Caye, a domestic furniture manufacturer, as well as importer of furniture from China. During the fiscal year ended August 29, 2009, the Debtors purchased approximately 40% of their merchandise from Caye, 33% from Mengnu and 16% from Ashley. In 2008, Caye began experiencing financial problems which negatively impacted its ability to manufacture and supply key products to the Debtors. Beginning in 2009, due to Caye's financial condition, Caye was unable to adequately supply the Debtors' with necessary product and, as a result, the Debtors' sales were negatively impacted. Because the Debtors heavily relied on Caye as it domestic supplier and since a large portion of the Debtors'

revenues were derived from sales of Caye, until alternative sources of supply with Mengnu were established, the loss of Caye ultimately had a material adverse impact on the Debtors.

g. Customer Financing.

From 1997 through February 2009, the Debtors offered a private label customer financing pursuant to which the Debtors' financed sales and sold financed receivables on a non-recourse basis to an independent finance company, CitiFinancial. This provided a financial benefit to the Debtors as it allowed customers to finance their purchases, thereby increasing sales and allowed the Debtors to increase its cash on hand. In the beginning of 2009, due to the downturn in the economy and related factors affecting the retail business, CitiFinancial requested that the Debtors provide a letter of credit in order to continue to maintain the private label financing. The Debtors were unable to provide such letter of credit and in January 2009, the finance company terminated its dealer agreement with the Debtors effective March 8, 2009. The Debtors believed that this termination had an impact on their net sales, and increased their transaction fees due to the fact that traditional credit card transactions have higher transaction fees. In addition, given the state of the US economy and financial difficulties facing the average consumer, the Debtors believed that the loss of customer financing was a significant contributing factor to the loss of sales, even more so as credit card companies have reduced consumer credit lines.

h. Related Company Transaction.

Up until December 31, 2009, 20 stores were licensed by the Debtors, 17 of which were located in New York City and surrounding areas and were on a royalty-free basis, were owned and operated by a related company (the "Related Company"). As of December 31, 2009, after the Related Company defaulted on its payment obligations to the Debtors, the Debtors, in order to protect their brand and customers, entered into an agreement (the "Related Company Agreement") with the Related Company, effective January 1, 2010.

Pursuant to the Related Company Agreement, the Related Company ceased operations at the 19 owned stores (plus one store which it operated but did not own) and the Debtors began operating these stores solely for its own benefit and account. The Debtors agreed to purchase the inventory in the stores' showrooms for $635,000, payable over five months and subject to offset under certain circumstances. The Related Company Agreement allowed the Debtors to evaluate each store location and negotiate with the landlords at such locations for entry into new leases and endeavor to cancel or defer the rent arrearages, which the Related Company advised aggregated approximately $300,000 as of January 1, 2010. The Debtors agreed to pay no more than $300,000 to settle the arrearages at all 20 stores and if the arrearages exceed $300,000 the Related Company agreed to reimburse the Debtors for such excess or such excess would be used to offset the amount the Debtors owe the Related Company for the purchase of the inventory. In addition to the rent arrearages, the Debtors assumed other liabilities of the Related Company, such as delivery expenses and fabric protection of approximately $3 million and also wrote-off merchandise. The Debtors also agreed to offer to employ all store employees previously employed by the Related Company but agreed not to be responsible for any commissions, salary, health or other benefits or other compensation owed them prior to January

1, 2010. The Debtors agreed to be responsible for the costs of operating the stores on and after January 1, 2010, except with respect to stores vacated by the Debtors.

As of the Petition Date, the Debtors had entered into new leases for 19 of the 20 Related Company stores, and had not vacated any of the stores.

i. Cyclical Nature of the Furniture Industry and Competition.

The furniture industry has been historically cyclical, fluctuating with general economic cycles and uncertainty in future economic prospects. During economic downturns, the furniture industry tends to experience longer periods of recession and greater declines than the general economy. The slowdown in the U.S. economy and other national, regional or global economic conditions affecting disposable consumer income, such as the depressed housing market, employment levels, inflation, business conditions, fuel and energy costs, consumer debt levels, lack of available consumer or commercial credit, uncertainty in future economic prospects, interest rates, and tax rates, may adversely affect the Debtors' business by reducing overall consumer spending or by causing customers to shift their spending to products other than those sold by the Debtors or to products sold by the Debtors that are less profitable than other product choices. The Debtors believe these factors impacted consumer demand and spending and negatively affected their business. If current economic and credit conditions prevail they could have a material adverse effect on demand for the Debtors' products and financial condition and operating results.

In addition, the retail specialty furniture business is highly competitive and includes competition from traditional furniture retailers and department stores as well as numerous discount furniture outlets. The Debtors' stores may face sharp price-cutting, as well as imitation and other forms of competition, and the Debtors cannot prevent or restrain others from utilizing a similar marketing format. Although the Debtors are the largest sofabed specialty retail dealer and specialty leather retailer in the United States, many of their competitors have considerably greater financial resources.

Section 3.02. Prepetition Restructuring Initiatives

Prior to the Petition Date, the Debtors implemented cost cutting initiatives, which focused on streamlining its operations, including, among other things, closing certain underperforming Jennifer stores, reducing corporate administrative expenses, salary reductions for certain executive officers, renegotiations of lease agreements and work-force reductions, resulting in termination of personnel.

In addition, the Debtors explored numerous out of court restructuring alternatives, including extensive efforts to market their assets to potential acquirers and/or investors. Such marketing efforts drew expressions of interest, but no buyer or investor committed to purchase or invest in the Debtors' businesses. As such, the Debtors examined whether reorganizing around a profitable core of Jennifer and Ashley stores would yield a greater value to the Debtors' estates, creditors, and equity holders. In determining that a structured reorganization would be a viable alternative, the Debtors engaged in arms' length negotiations with Mengnu and explored the possibility of

Mengnu converting its prepetition debt into equity. Negotiations with Mengnu took place over the course of several months prior to the Petition Date and culminated in the execution of the Plan Support Agreement. The Plan Support Agreement was intended to provide temporary public support as well as a financial and legal framework for completing the restructuring.

Section 3.03. Events Leading to the Formulation of the Plan

As noted in section 3.02 above, prior to the Petition Date, the Debtors and Mengnu entered into the Plan Support Agreement on or about July 18, 2010. Pursuant to the terms of the Plan Support Agreement, and subject to the conditions therein, Mengnu agreed, among other things, to support the restructuring and, to the extent applicable, vote to accept a plan of reorganization consistent with the terms of the term sheet.

Since the Petition Date, due to the evolving circumstances of the Chapter 11 Cases, the Debtors, Mengnu and the Creditors' Committee have engaged in arms-length negotiations to modify the terms contained in the Plan Support Agreement. The negotiations culminated in an agreement in principle with respect to the terms of the Plan. Accordingly, Mengnu and the Creditors' Committee support confirmation and consummation of the current version of the Plan. If consummated, the restructuring transactions contemplated in the Plan will substantially de-lever the Debtors and provide cost savings, operational efficiency and additional needed liquidity.

ARTICLE IV

ADMINISTRATION OF THE CHAPTER 11 CASE

Section 4.01. Overview of Chapter 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11, a debtor is authorized to reorganize its business for the benefit of itself, its creditors and its equity interest holders. In addition to permitting the rehabilitation of a debtor, another goal of chapter 11 is to promote equality of treatment for similarly situated creditors and similarly situated equity interest holders with respect to the distribution of a debtor's assets.

The commencement of a chapter 11 case creates an estate that is comprised of all of the legal and equitable interests of the debtor as of the Commencement Date. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor in possession."

The consummation of a plan of reorganization is the principal objective of a chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying claims against and interests in a debtor. Confirmation of a plan of reorganization by the bankruptcy court makes the plan binding upon the debtor, any issuer of securities under the plan, any person acquiring property under the plan and any creditor or equity interest holder of a debtor. Subject to certain limited exceptions, the order approving confirmation of a plan discharges a debtor from any debt that arose prior to the date of confirmation of the plan and substitutes the obligations specified under the confirmed plan.

In general, a chapter 11 plan of reorganization (a) divides claims and equity interests into separate classes, (b) specifies the property, if any, that each class is to receive under the plan, and (c) contains other provisions necessary to the reorganization of the debtor and that are required or permitted by the Bankruptcy Code.

Pursuant to section 1125 of the Bankruptcy Code, acceptance or rejection of a plan may not be solicited after the commencement of the Chapter 11 Cases until such time as the court has approved the Disclosure Statement as containing adequate information. Pursuant to section 1125(a) of the Bankruptcy Code, "adequate information" is information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding the plan. To satisfy applicable disclosure requirements, the Debtors submit the Disclosure Statement to holders of Claims that are impaired and not deemed to have rejected the Plan.

Section 4.02. Relevant Case Background

On July 18, 2010, each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. On July 22, 2010, the Bankruptcy Court entered an order (Docket No. 51) authorizing the joint administration of the Chapter 11 Cases, for procedural purposes only, under Case No. 10-13779. The Honorable Allan L. Gropper is presiding over the Chapter 11 Cases. The Debtors continue to operate their businesses and manage their properties as debtors and debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. As of the date hereof, no request has been made for the appointment of a trustee or examiner in these cases.

The following is a brief description of certain significant events that have occurred during the pendency of the Chapter 11 Cases.

1. Retention of Professionals.

To assist them in carrying out their duties as debtors in possession, and to otherwise represent their interests in the Chapter 11 Cases, the Debtors, on July 19, 2010, filed with the Bankruptcy Court applications seeking entry of orders authorizing the Debtors to retain Olshan Grundman Frome Rosenzweig & Wolosky LLP as their counsel (Docket No. 5). On August 10, 2010, the Bankruptcy Court entered orders (Docket No. 156) approving the application.

On July 19, 2010, the Debtors filed with the Bankruptcy Court an application seeking entry of an order authorizing the Debtors to retain TM Capital as financial advisors to the Debtors (Docket No. 18). On August 10, 2010, the Bankruptcy Court entered an order (Docket No. 157) approving the application and also authorizing the Debtors to retain TM Capital as the Debtors' financial advisors.

On July 19, 2010, the Debtors filed with the Bankruptcy Court an application seeking entry of an order authorizing the Debtors to retain BMC Group, Inc. as the Debtors' claims, noticing and balloting agent (Docket No. 19). The Bankruptcy Court entered an order (Docket No. 54) approving the application on July 22, 2010.

On July 22, 2010, the Debtors filed with the Bankruptcy Court an application seeking entry of an order authorizing the Debtors to retain KPMG CF Realty LLC ("KPMG") as the Debtors' special real estate advisors (Docket No. 67). The Bankruptcy Court entered an order (Docket No. 162) approving the application on August 10, 2010.

On August 13, 2010, the Debtors filed with the Bankruptcy Court an application seeking entry of an order authorizing the Debtors to retain EisnerAmper LLP as the Debtors' auditors (Docket No. 166). The Bankruptcy Court entered an order (Docket No. 248) approving the application on September 16, 2010.

On October 19, 2010, the Debtors filed with the Bankruptcy Court an application seeking entry of an order authorizing the Debtors to retain KGS LLP as the Debtors' tax professionals (Docket No. 294). The Bankruptcy Court entered an order (Docket No. 326) approving the application on November 9, 2010.

In accordance with Bankruptcy Rule 1007(b), the Debtors disclosed the compensation received by certain of the Professionals within the year prior to the Petition Date on the Jennifer Convertibles, Inc. Statement of Financial Affairs (Docket No. 217).

2. Employment Obligations.

The Debtors believe they have a valuable asset in their workforce, and that the efforts of the Debtors' employees are critical to a successful reorganization. On July 19, 2010, the Debtors filed with the Bankruptcy Court a motion for an order authorizing the Debtors to pay certain prepetition employee wage and benefit obligations (Docket No. 9). On July 22, 2010, the Bankruptcy Court entered an order (Docket No. 52) approving the motion.

3. Customer Relations.

On July 19, 2010, the Debtors filed with the Bankruptcy Court a motion seeking entry of an order authorizing the Debtors to continue certain prepetition customer programs, and satisfy, in the ordinary course of business, certain prepetition claims arising from such programs (Docket No. 15). On August 4, 2010, the Bankruptcy Court entered an order (Docket No. 124) approving the motion.

4. Cash Management

The Debtors believe it would be disruptive to their operations if they were forced to change significantly their cash management system upon the commencement of the Chapter 11 Cases. Accordingly, on July 19, 2010, the Debtors filed with the Bankruptcy Court a motion seeking entry of an order authorizing the Debtors to maintain their current cash management system (Docket No. 12). On August 4, 2010, entered an order (Docket No. 123) approving the motion on a final basis.

5. Utilities.

On July 19, 2010, the Debtors filed with the Bankruptcy Court a motion for interim and final orders: (i) prohibiting utilities from altering or discontinuing services; (ii) establishing procedures for providing deposits to requesting utilities; (iii) deeming utility companies to have adequate assurance of payment; and (iv) establishing procedures for resolving requests for additional assurance of payment (Docket No. 14). On August 10, 2010, the Bankruptcy Court entered a final order (Docket No. 154) approving the motion.

6. Sale to Great American

On July 20, 2010, the Debtors filed with the Bankruptcy Court a motion for an order approving a sale process including sale to the highest bidders and to (a) approve bid procedures and protections; (b) schedule a sale hearing; (c) approve the form and manner of notice related thereto; (d) authorize sale free and clear of all liens, claims, encumbrances and interests; and (e) grant related relief (Docket No. 22). On July 26, 2010, the Bankruptcy court entered a final order (Docket No. 80), approving the sale to Great American Furniture Services, LLC ("GAFS"). Pursuant to the court order, inventory in thirty-two of the Debtors' stores (the "Closing Stores") was sold to GAFS, who in turn conducted store closing sales at each of the Closing Store locations. The Closing Store sales were completed on or before September 28, 2010, and all counterparties to the leases received due notice of the store closings.

7. Continuing Suppliers

a. Mengnu

The Debtors believe that maintaining good relationships with their vendors, suppliers and customers is necessary to the continuity of the Debtors' business operations during the Chapter 11 Cases. On July 19, 2010, the Debtors filed with the Bankruptcy Court a motion seeking entry of an order authorizing the Debtors to pay, in the ordinary course of business, prepetition claims of Mengnu as the Debtors' priority vendor and critical vendor of goods and services (the "Critical Vendor Motion") (Docket No. 4).

After discussions amongst the parties, the Debtors agreed to adjourn the Critical Vendor Motion *sine die*. Instead, Mengnu and the Debtors agreed to operate with cash-on-delivery terms, and on July 27, 2010, the Bankruptcy Court entered an order (Docket No. 81) granting administrative expense status to the Debtors' obligations to Mengnu arising from the post-petition delivery of goods, and authorizing the Debtors to pay those obligations cash-on-delivery, whereby Debtors were to pay the landed cost of inventory in immediately available funds following their receipt of the inventory.

After further negotiations between the parties, Mengnu requested that the Debtors modify terms from cash-on-delivery to cash-in-advance, and on August 31, 2010, the Bankruptcy Court entered an order authorizing the Debtors to enter into a further stipulation with Mengnu setting forth the revised terms (the "CIA Stipulation") (Docket No. 202). In accordance with the CIA Stipulation, the Debtors agreed to set aside 75% of the landed cost of each shipment into an

escrow account (the "Escrow Account"), at which point Mengnu would be obligated to ship the Debtors' inventory. The Debtors agreed to pay the 25% balance due on the landed costs within two business days of receipt of the inventory. In addition, with respect to new orders placed with Mengnu for inventory, at the time a new order is placed the Debtors agreed to place 25% of the purchase price into the Escrow Account. Upon shipment of the new orders, the Debtors place an additional 50% of the landed cost of the shipment into the Escrow Account and pay the 25% balance due on the landed cost within two business days of receipt of the new inventory.

After the Effective Date, Mengnu has agreed to release any funds remaining in the Escrow Account to the Reorganized Debtors, and to modify payment terms to ninety (90) day receipt-of-goods.

b. Ashley

Prior to the Petition Date, Ashley was delivering goods to the Debtors on payment terms of thirty (30) days from receipt of goods for goods shipped domestically, and forty-five (45) days for products shipped from Ashley's Asian factories. During the course of the Chapter 11 Cases, Ashley has modified payment terms to cash-on-delivery.

8. Merrick

As discussed in Section 3.01(c) above, as of the Petition Date, Merrick held $3,975,595.25 in the Chargeback Reserve Account. In an effort to continue the credit card processing arrangement during the course of the bankruptcy, and allowing the parties time to negotiate toward modifying the Merrick Agreement, the Debtors and Merrick entered into a stipulation which provided significant additional cash both immediately and during the course of the Chapter 11 Cases. Accordingly, on August 3, 2010, the Debtors filed with the Bankruptcy Court an interim stipulation and order regarding chargeback reserve account with Merrick Bank (Docket No. 128). Pursuant to the terms of the stipulation and order, Merrick remitted $1,000,000 held in reserve (the "Reserve") to the Debtors.

Thereafter, on August 23, 2010, Merrick and the Debtors (collectively, the "Parties") entered a second interim stipulation (Docket No. 155), pursuant to which Merrick remitted to the Debtors $350,000 then being held in the Reserve. Thereafter, on September 1, 2010, the Parties entered into a third interim stipulation (Docket No. 212), pursuant to which the Parties agreed to maintain the status quo. Thereafter, on September 17, 2010, the Parties entered into a fourth interim stipulation (Docket No. 259), pursuant to which the Parties agreed to establish a ratio of 80% between the funds held in the Reserve and the amount of Visa/Mastercard deposits (the "80% Metric"). Thereafter, on September 29, 2010, the Parties entered into a fifth interim stipulation (Docket No. 272), pursuant to which Merrick agreed to remit to the Debtors $147,962 in order to maintain the 80% Metric. Thereafter, the Debtors and Merrick entered into two further stipulations that maintained the status quo of the 80% Metric.

The Debtors and Merrick continue to operate under the 80% Metric. Without Merrick'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.

9. Schedules, Statements and Bar Date.

a. Schedules and Statements.

On September 3, 2010, the Debtors filed with the Bankruptcy Court the Schedules and Statement of Financial Affairs (collectively, the "Schedules"). The Schedules are available electronically free of charge at http://www.bmcgroup.com/jenniferconvertibles.

b. Bar Date.

On September 16, 2010, the Bankruptcy Court entered the Claims Bar Date Order (Docket No. 247), which set forth the following dates by which proofs of claims must be Filed:

- General Bar Date (including claims pursuant to section 503(b)(9) of the Bankruptcy Code): October 25, 2010 at 5:00 p.m. prevailing Eastern Time; and

- Governmental Bar Date: January 18, 2011 at 5:00 p.m. prevailing Eastern Time.

In accordance with the Bar Date Order, written notice of the Bar Dates and the Proof of Claim Form were mailed to, among others, all known claimants holding actual or potential Claims and other parties listed in the Bar Date Order within five business days after the date of entry of the Bar Date Order. Pursuant to the Bar Date Order, any person or entity that is required to file a proof of claim in this case but fails to do so by the applicable Bar Date shall not be treated as a creditor with respect to such claim for the purposes of voting and distribution.

In accordance with the Bar Date Order, on September 27, 2010, a notice regarding the Bar Dates (the "Bar Date Notice") was published in *USA Today*. In addition, on September 20, 2010, a proof of claim form and the Bar Date Notice were mailed to, among others, all creditors listed on the Debtors' Schedules.

Approximately 300 Proofs of Claim against the Debtors were filed in the Chapter 11 Cases, with General Unsecured Claims in the amount of approximately $54.2 million. The Debtors have commenced the process of reconciling such Proofs of Claim with their books and records, and they anticipate filing Objections to certain Claims prior to seeking confirmation of the Plan. In their efforts to maximize the value of the Estates, consistent with their fiduciary duties, the Debtors will continue to diligently pursue the Claims reconciliation process and object to Claims, as appropriate, until the Effective Date, after which Objections to General Unsecured Claims shall be transferred to the Litigation Trust in accordance with Article XII of the Disclosure Statement. The Debtors estimate that the aggregate amount of scheduled, filed and likely to be asserted General Unsecured Claims in the Chapter 11 Cases will be approximately $15.8 million based upon their preliminary review and analysis of the Proofs of Claim filed.

10. Appointment of a Creditors' Committee.

Pursuant to section 1102(a)(1) of the Bankruptcy Code, on July 23, 2010, the United State Trustee for the Southern District of New York (the "U.S. Trustee") appointed the Creditors' Committee. The current members of the Creditors' Committee are set forth below:

Ayisha Combs
c/o Harris & Ruble
6424 Santa Monica Boulevard
Los Angeles, California 90038
Attn: Alan Harris, Esq.

Klaussner Furniture Industries, Inc.
P.O. Drawer 220
Asheboro, North Carolina 27205
Attn: Kim Cockerham

Caye Home Furnishings LLC
1201 West Bankhead St.
New Albany, Mississippi 38652
Attn: R. Wayne Stewart

Brent Associates, Inc.
931 B. Conklin Street
Farmingdale, New York 11735
Attn: Claudia Cositore

PIC Management Group d/b/a PIC Media Group
16130 Ventura Boulevard, #250
Encino, California 91436
Attn: David Hansfield

PS Promotions, Inc.
10798 E. Las Posas Rd.
Santa Rosa Valley, California 93012
Attn: Dan Greene

Fata Equities, LLC
360 West 125th Street, Suite 10
New York, New York 10027
Attn: Gene Fata

301 East 66 LLC
c/o Ossa Properties, Inc.
301 East 66th Street

New York, New York 10065
Attn: Anthony Barrett

Creative Television Marketing
2550 N. Hollywood Way, #100
Burbank, California 91505
Attn: Richard Storrs

On September 14, 2010, the Bankruptcy Court approved the Creditors' Committee's retention of Kelley Drye & Warren LLP as its counsel (Docket No. 239). On September 22, 2010, the Bankruptcy Court approved the Creditors' Committee's retention of Deloitte Financial Advisory Services LLP as its financial advisors (Docket No. 262).

11. Exclusivity

Section 1121 of the Bankruptcy Code grants a debtor the exclusive right to propose a plan of reorganization during the first one hundred twenty (120) days after the commencement of its chapter 11 case. In addition, a debtor also has the exclusive right to solicit votes for the acceptance of any proposed plan during the first 180 days after the commencement of its chapter 11 cases. On October 18, 2010, the Debtors filed a motion to extend their exclusive period to file a chapter 11 plan and solicit acceptances thereof (Docket No. 291). On November 9, 2010, the Bankruptcy Court entered an order granting an extension of the Debtors' exclusivity to propose a chapter 11 plan and solicit acceptances thereof to January 4, 2011 and March 15, 2011, respectively (Docket No. 324).

12. Assumption/Rejection of Executory Contracts and Unexpired Leases

Section 365 of the Bankruptcy Code grants the Debtors the power, subject to the approval of the Bankruptcy Court, to assume or reject Executory Contracts and unexpired leases. If an Executory Contract or unexpired lease is rejected, the counterparty to the agreement may file a claim for damages incurred by reason of the rejection. In the case of rejection of leases of real property, such damage claims are subject to certain limitations imposed by the Bankruptcy Code.

Under section 365 of the Bankruptcy Code, if a debtor does not assume an unexpired lease of nonresidential property within 120 days of the petition date, such lease will be deemed rejected. However, section 365 of the Bankruptcy Code also provides that the Bankruptcy Court may extend this period for 90 days. On October 18, 2010, the Debtors filed a motion to extend the deadline to assume or reject unexpired leases of nonresidential real property (Docket No. 292). On November 9, 2010, the Bankruptcy Court entered an order granting an extension of the Debtors' deadline to assume or reject unexpired leases of nonresidential real property to February 14, 2011 (Docket No. 323).

13. Section 341 Meeting

On September 1, 2010, the U. S. Trustee convened a meeting of creditors pursuant to section 341(a) of the Bankruptcy Code.

14. The Debtors' Leases

Throughout these Chapter 11 Cases, the Debtors, in conjunction with KPMG, have renegotiated with landlords the terms of the leases for their go forward store locations. This resulted in modification agreements for approximately sixty store locations (the "Modified Leases"). The lease modifications have brought significant benefits to the Debtors' estates, in that (i) prepetition amounts owed have been significantly reduced; (ii) rental obligations for the Reorganized Debtors have been reduced; and (iii) overhead expenses have been reduced. The terms of the Modified Leases go into effect at time of execution and the Debtors have agreed to assume the Modified Leases upon the Effective Date.

In addition, after an extensive analysis of the Debtors' lease portfolio and each of the corresponding store locations, the Debtors have determined that the closure of approximately sixteen (16) of their store locations, in addition to the Closing Stores sold to GAFS, would be in their best interests. Should the Debtors be unable to renegotiate and modify lease terms for certain other store locations, additional store closures may result.

15. Class Action Litigation

On June 18, 2010, the Combs II Case was submitted to mediation and on August 16, 2010, the parties informed the mediator that the parties were engaged in settlement discussions and requested that the mediation briefing schedule be adjourned to allow the parties to concentrate on settlement discussions. On September 16, 2010, the parties notified the mediator of a potential new settlement in principle between the parties and again requested that the mediation briefing schedule be adjourned to allow this Court to consider the new settlement agreement.

On October 25, 2010, Ayisha Combs, as representative of an employee class, filed a priority unsecured proof of claim against Jennifer Convertibles, Inc. in the amount of $7,632,100 for unpaid wages and damages (the "Combs Claim").

16. Postpetition Financing

a. LC DIP Financing

As discussed in Section 4.02(8), Merrick requires a reserve of cash to protect Merrick from chargeback risk. Merrick is currently holding the Debtors' cash in the Chargeback Reserve Account in an amount that complies with the 80% Metric. In order to provide the Debtors with the necessary liquidity and remit cash back into the estates from the Chargeback Reserve Account, Mengnu has agreed to provide a $3 million letter of credit facility in favor of Merrick, which letter of credit is used exclusively for the purpose of providing Merrick with necessary security against the chargeback risk (the "LC DIP Financing"), and requires Merrick to (i) release all monies from the Chargeback Reserve Account to the Debtors, and (ii) limit the amount of reserves that Merrick may withhold at any time to a maximum amount equaling the 80% Metric minus $3 million.

b. CIA DIP Financing

Towards the conclusion of the Chapter 11 Cases, the Debtors needed cash in order to fund their operating expenses. In that respect, and in addition to the LC DIP Financing above, Mengnu offered to make funds immediately available to the Debtors (the "CIA DIP Financing"). As discussed in Section 4.02(7), the Debtors agreed to set aside 75% of the landed cost of each shipment from Mengnu into the Escrow Account, at which point Mengnu would be obligated to ship the Debtors' inventory. The 75% landed cost held in the Escrow Account becomes payable to Mengnu upon the delivery of the goods to the Debtors (the "Vested Mengnu Funds"). In furtherance of their efforts to provide much needed cash to the Debtors, Mengnu proposed the CIA DIP Financing terms, whereby Mengnu, in its discretion, would loan the Debtors some or all of the Vested Mengnu Funds upon request from the Debtors.

c. Motion for LC and CIA DIP Financing

On November 19, 2010 the Debtors filed a motion with the Bankruptcy Court seeking authorization to enter into the CIA DIP Financing and LC DIP Financing terms with Mengnu, pursuant to an interim and final order. On [DATE], 2010, the Bankruptcy Court entered an interim order approving the terms of the CIA DIP Financing. On [DATE], 2010, the Bankruptcy Court entered a final order approving the terms of the CIA DIP Financing and LC DIP Financing.

d. Exit LC Facility

On the Effective Date, the Reorganized Debtors and Mengnu shall enter into and receive the proceeds of the Exit LC Facility. The Plan Sponsor will provide, subject to the fulfillment of the Plan Sponsor's conditions precedent in connection therewith, financing support for the Debtors in the form of guaranteeing or backstopping the Exit LC Facility. The proceeds of the Exit LC Facility will be used to, among other things, provide financing for the Reorganized Debtors' credit card processors. The obligations under the Exit LC Facility will be secured by duly perfected (a) first liens on substantially all of the Reorganized Debtors' assets, except for the JCI Inventory, and (b) second liens on the JCI Inventory, shared ratably with the Exit Funding Facility and the Tranche B Note. The principal terms and conditions of the Exit LC Facility will be set forth in the Plan Supplement:

The Reorganized Debtors may execute all documents and enter into all agreements as may be necessary and appropriate in connection with the Exit LC Facility.

e. Exit Funding Facility

On the Effective Date, Mengnu, subject to the fulfillment of its conditions precedent, shall provide the Debtors with the Exit Funding Facility. The Exit Funding Facility is the product of funds borrowed and unpaid pursuant to the CIA DIP Financing, for which the Plan Sponsor is entitled to be repaid (including fees, costs and interest, all as set forth more fully in the DIP Agreement) in cash on the Effective Date unless otherwise agreed to by the Plan Sponsor. The proceeds of the Exit Funding Facility will be used to, among other things, provide financing for repayment of the CIA DIP Financing and payment of Administrative Claims and working capital

for the Reorganized Debtors business operations. The obligations under the Exit Funding Facility will be secured by duly perfected (a) first liens on substantially all of the Reorganized Debtors' assets except for JCI Inventory, and (b) second liens on the JCI Inventory shared ratably with the Exit LC Facility and the Tranche B Note. The principal terms and conditions of the Exit Funding Facility are set forth in the Plan Supplement.

The Reorganized Debtors may execute all documents and enter into all agreements as may be necessary and appropriate in connection with the Exit Funding Facility.

17. Assumption of Ashley Trademark Usage Agreements

Upon the Effective Date of the Plan, the Debtors will be assuming the six remaining Trademark Usage Agreements with Ashley. In connection with assumption of these agreements, the Debtors will cure any monetary defaults under the Trademark Usage Agreements.

Section 4.03. No Distributions to Equity Interests.

No Plan Distributions shall be made on account of any Interests in any Debtor regardless of whether such Interests are held by a Person which is not a Debtor; provided, however, that any Debtor that owns Interests in another Debtor shall retain such Interests

ARTICLE V

SUMMARY OF THE PLAN

Section 5.01. Summary

THE FOLLOWING IS A SUMMARY OF SOME OF THE SIGNIFICANT ELEMENTS OF THE PLAN. THE DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MORE DETAILED INFORMATION SET FORTH IN THE PLAN AND THE EXHIBITS AND SCHEDULES THERETO.

The Plan classifies Claims and Interests separately in accordance with the Bankruptcy Code and provides different treatment for different Classes of Claims and Interests. Claims and Interests shall be included in a particular Class only to the extent such Claims or Interests qualify for inclusion within such Class. The Plan separates the various Claims (other than those that do not need to be classified) into five (5) separate Classes. These Classes take into account the differing nature and priority of Claims against, and Interests in, the Debtors. Unless otherwise indicated, the characteristics and amounts of the Claims or Interests in the following Classes are based on the books and records of the Debtors.

The Plan is intended to enable the Debtors to continue present operations without the likelihood of a subsequent liquidation or the need for further financial reorganization. The Debtors believe that they will be able to perform their obligations under the Plan and meet their expenses after the Effective Date without further financial reorganization. Also, the Debtors believe that the Plan permits fair and equitable recoveries, while expediting the reorganization of the Debtors.

The Confirmation Date will be the date that the Confirmation Order is entered by the Clerk of the Bankruptcy Court. The Effective Date will be the first Business Day on or after the Confirmation Date on which all of the conditions to the Effective Date specified in Section 14.04 have been satisfied or waived and the parties have consummated the transactions contemplated by the Plan.

The Debtors anticipate that the Effective Date will occur in February, 2011. Resolution of any challenges to the Plan may take time and, therefore, the actual Effective Date cannot be predicted with certainty.

Other than as specifically provided in the Plan, the treatment under the Plan of each Claim and Interest will be in full satisfaction, settlement, release and discharge of all Claims or Interests. The Reorganized Debtors will make all payments and other distributions to be made under the Plan unless otherwise specified.

All Claims and Interests, except Administrative Expense Claims, Fee Claims, Mengnu DIP Claims, Mengnu 503(b)(9) Claims, United States Trustee Fees and Priority Tax Claims, are placed in the Classes set forth in Article III of the Plan. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims, Fee Claims, U. S. Trustee Fees and Priority Tax Claims have not been classified, and the holders thereof are not entitled to vote on the Plan. A Claim or Interest is placed in a particular Class only to the extent that the Claim or Interest falls within the description of that Class and is classified in other Classes to the extent that any portion of the Claim or Interest falls within the description of such other Classes.

Section 5.02. Provisions for Treatment of Unclassified Claims

1. Administrative Claims.

Except to the extent that a Holder of an Allowed Administrative Claim agrees to less favorable treatment, or as otherwise provided for in the Plan, the Debtors shall pay to each Holder of an Allowed Administrative Claim Cash in an amount equal to the amount of such Allowed Administrative Claim on, or as soon thereafter as is reasonably practicable, the later of (i) the Effective Date, and (ii) the first Business Day after the date that is thirty (30) calendar days after the date an Administrative Claim becomes an Allowed Administrative Claim, or as soon thereafter as is reasonably practicable; *provided, however*, that Allowed Ordinary Course Administrative Claims may be paid by the Debtors in the ordinary course of business of the Reorganized Debtors consistent with past practice and in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to such transactions.

The Confirmation Order will establish the Administrative Claims Bar Date for filing applications for the allowance of Administrative Claims (except for Fee Claims, claims pursuant to section 503(b)(9) of the Bankruptcy Code, Ordinary Course Administrative Claims, and any fees or charges assessed against the Estates under Section 1930 of title 28 of the United States Code and any applicable interest thereon). A notice setting forth the Administrative Claim Bar Date shall be (i) filed on the Bankruptcy Court's docket, and (ii) posted on the Debtors' case information website at http://www.bmcgroup.com/jenniferconvertibles. Further notice of the Administrative

Claims Bar Date shall be provided as may be directed by the Bankruptcy Court. All requests for payment of an Administrative Claim that accrued on or before the Effective Date (except for Administrative Claims that have been paid, Fee Claims, Ordinary Course Administrative Claims, claims pursuant to section 503(b)(9) of the Bankruptcy Code, and any fees or charges assessed against the Estates under Section 1930 of title 28 of the United States Code) must be filed with the Claim Agent and served on counsel for the Debtors by the Administrative Claim Bar Date. Any requests for payment of an Administrative Claim that are not properly filed and served by the Administrative Claim Bar Date shall be disallowed automatically without the need for any objection from the Debtors or the Reorganized Debtors or any action by the Bankruptcy Court. The Reorganized Debtors shall have until 120 days after the Administrative Claims Bar Date (or such longer period as may be allowed by order of the Bankruptcy Court) to review and object to all applications for the allowance of Administrative Claims. Unless the Debtors or the Reorganized Debtors object to a timely-filed and properly served Administrative Claim, such Administrative Claim shall be deemed Allowed in the amount requested.

2. Mengnu DIP Claims

On the Effective Date, the Mengnu DIP Claims will be indefeasibly paid and satisfied, in full, in Cash or other consideration, by the Debtors or the Reorganized Debtors, and after the Mengnu DIP Claims are satisfied, all liens granted to Mengnu in connection with the DIP Credit Agreement shall be terminated without further action by the Debtors or the Reorganized Debtors or further order of the Bankruptcy Court.

3. Mengnu 503(b)(9) Claim

On the Effective Date, the Mengnu 503(b)(9) Claim shall be deemed Allowed in the aggregate amount of $2,638,284.09. On the Effective Date, in full and complete satisfaction, settlement and release of the Mengnu 503(b)(9) Claim, the Debtors shall provide Mengnu, on account of the Mengnu 503(b)(9) Claim, with the Tranche B Note.

4. Fee Claims.

Any entity seeking an award by the Bankruptcy Court of compensation or reimbursement of Fee Claims pursuant to sections 327, 328, 330, 331, 503 or 1103 of the Bankruptcy Code for services rendered prior to the Effective Date file and serve on the Reorganized Debtors and their counsel, the United States Trustee, counsel to the Creditors' Committee, and such other entities who are designated by the Bankruptcy Rules, the Confirmation Order or any other order(s) of the Court, its final application for allowance of such compensation and/or reimbursement by no later than sixty (60) days after the Effective Date or such other date as may be fixed by the Bankruptcy Court. Holders of Fee Claims that are required to file and serve applications for final allowance of their Fee Claims and that do not file and serve such applications by the required deadline shall be forever barred from asserting such Fee Claims against the Debtors, the Reorganized Debtors or their respective properties, and such Fee Claims shall be deemed discharged as of the Effective Date. Objections to any Fee Claims must be filed and served on the Reorganized Debtors and their counsel and the requesting party no later than thirty (30) days (or such longer period as may be allowed by order of the

Bankruptcy Court) after the date on which an application for final allowance of such Fee Claims was filed and served.

The Reorganized Debtors shall pay each Holder of an Allowed Fee Claim Cash in an amount equal to the amount of such Allowed Fee Claim on the date such Fee Claim becomes an Allowed Fee Claim or as soon thereafter as is reasonably practicable.

5. United States Trustee Fees

On the Effective Date or as soon as practicable thereafter, the Debtors or Reorganized Debtors shall pay all United States Trustee Fees.

6. Priority Tax Claims.

Except to the extent that a Holder of an Allowed Priority Tax Claim agrees to a different treatment, or the Bankruptcy Court has previously ordered otherwise, each Holder of an Allowed Priority Tax Claim shall receive, in full and complete satisfaction, settlement, and release of, and in exchange for such Allowed Priority Tax Claim, at the sole option of the Reorganized Debtors, (a) on, or as soon thereafter as is reasonably practicable, the later of the Effective Date and the first Business Day after the date that is thirty (30) calendar days after the date a Priority Tax Claim becomes an Allowed Claim, Cash in an amount equal to such Allowed Priority Tax Claim, or (b) deferred Cash payments following the Effective Date, over a period ending not later than five (5) years after the Petition Date, in an aggregate amount equal to the Allowed amount of such Priority Tax Claim (with any interest to which the holder of such Priority Tax Claim may be entitled to be calculated in accordance with section 511 of the Bankruptcy Code). All Allowed Priority Tax Claims which are not due and payable on or before the Effective Date shall be paid in the ordinary course of business. The Reorganized Debtors shall retain the right to pay any Allowed Priority Tax Claim, or any remaining balance of such claim, in full at any time without premium or penalty.

Section 5.03. Provisions for Treatment of Classified Claims

1. Class 1 – Priority Non-Tax Claims.

A. Treatment. The legal, equitable and contractual rights of the holders of Class 1 Claims are unaltered by the Plan. Except to the extent a Holder of a Priority Non-Tax Claim agrees to different treatment, each Holder of an Allowed Priority Non-Tax Claim will be paid, in full and complete satisfaction, settlement, and release of and in exchange for such Allowed Priority Non-Tax Claim, the Allowed Amount of such Allowed Priority Non-Tax Claim in full in Cash on later of the Effective Date and the first Distribution Date subsequent to the date such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim.

B. Voting. In accordance with section 1126(f) of the Bankruptcy Code, the holders of Allowed Priority Non-Tax Claims are conclusively presumed to accept the Plan and the votes of such holders will not be solicited with respect to such Allowed Priority Non-Tax Claims.

2. Class 2 –Mengnu Unsecured Claim.

A. Allowance. On the Effective Date, the Mengnu Unsecured Claim shall be deemed Allowed in the aggregate amount of $14,878,760.45.

B. Treatment. Mengnu, on account of the Allowed Mengnu Unsecured Claim will receive, in full and complete satisfaction, settlement and release of and in exchange for such Allowed Mengnu Unsecured Claim (i) 90.1% of the New Common Stock on the Effective Date, or as soon thereafter as practicable, (ii) the Tranche D Note, and (iii) 30% of the Litigation Trust Proceeds.

C. Voting. The Mengnu Unsecured Claim is an Impaired Claim, and the Holder of such Claim is entitled to vote to accept or reject the Plan.

3. Class 3 – General Unsecured Claims.

A. Treatment. Except to the extent that a Holder of an Allowed General Unsecured Claim agrees to different treatment, each Holder of an Allowed General Unsecured Claim shall receive, in full and complete satisfaction, settlement and release of and in exchange for such Allowed General Unsecured Claim, its Pro Rata Share of (i) the proceeds of the Tranche A Note; (ii) the proceeds of the Tranche C Note, (iii) 9.9% of the New Common Stock, and (iv) 70% of the Litigation Trust Proceeds.

B. Voting. The General Unsecured Claims are Impaired Claims, and holders of such Claims are entitled to vote to accept or reject the Plan.

4. Class 4 –Existing Preferred Stock Interests.

A. Treatment. The Holders of Existing Preferred Stock Interests in the Debtors will not receive or retain any interest in the Debtors, the Reorganized Debtors, the Estates or any other property or interest in property of the Debtors or the Reorganized Debtors on account of such Existing Preferred Stock Interests in the Debtors, and will not be entitled to any Distribution under the Plan on account of the Existing Preferred Stock Interests.

B. Voting. In accordance with section 1126(g) of the Bankruptcy Code, the holders of Existing Preferred Stock Interests are conclusively presumed to reject the Plan and are not entitled to vote to accept or reject the Plan.

5. Class 5 – Existing Common Stock Interests.

A. Treatment. The Holders of Existing Common Stock Interests in the Debtors will not receive or retain any interest in the Debtors, the Reorganized Debtors, the Estates or any other property or interest in property of the Debtors or the Reorganized Debtors on account of such Existing Common Stock Interests in the Debtors, and will not be entitled to any Distribution under the Plan on account of the Existing Common Stock Interests.

B. Voting. In accordance with section 1126(g) of the Bankruptcy Code, the holders of Existing Common Stock Interests are conclusively presumed to reject the Plan and are not entitled to vote to accept or reject the Plan.

Section 5.04. Substantive Consolidation of Debtors for Purposes of Voting, Confirmation and Distribution.

The Plan provides for substantive consolidation of the Debtors' Estates, but solely for purposes of voting, confirmation, and making distributions to the holders of Allowed Claims under the Plan. On the Effective Date, and solely for purposes of voting, confirmation, and making distributions to the Holders of Allowed Claims under the Plan: (a) all guarantees of any Debtor of the payment, performance or collection of another Debtor with respect to Claims against such Debtor shall be eliminated and cancelled; (b) any single obligation of multiple Debtors shall be treated as a single obligation in the consolidated Chapter 11 Cases; and (c) all guarantees by a Debtor with respect to Claims against one or more of the other Debtors shall be treated as a single obligation in the consolidated Chapter 11 Cases. On the Effective Date, and in accordance with the terms of the Plan and the consolidation of the assets and liabilities of the Debtors, all Claims based upon guarantees of collection, payment, or performance made by a Debtor as to the obligation of another Debtor shall be released and of no further force and effect. Except as set forth in this Section, such substantive consolidation shall not affect (a) the legal and corporate structure of the Reorganized Debtors, or (b) any obligations under any leases or contracts assumed in the Plan or otherwise after the Petition Date.

Notwithstanding anything to the contrary herein, on or after the Effective Date, any and all Intercompany Claims will be adjusted (including by contribution, distribution in exchange for new debt or equity, or otherwise), paid, continued, or discharged to the extent reasonably determined appropriate by the Reorganized Debtors. Any such transaction may be effected on or subsequent to the Effective Date without any further action by the Bankruptcy Court or by the stockholders of any of the Reorganized Debtors.

Notwithstanding the substantive consolidation of the Estates for the purposes set forth herein, each Reorganized Debtor shall pay all United States Trustee Fee Claims on all disbursements, including Plan Distributions and disbursements in and outside of the ordinary course of business, until the entry of a final decree in its Chapter 11 Case, dismissal of its Chapter 11 Case, or conversion of its Chapter 11 Case to a case under chapter 7 of the Bankruptcy Code.

The Debtors believe that no creditor will receive a recovery inferior to that which it would receive if they proposed a plan that was completely separate as to each entity. If any party in interest challenges the proposed substantive consolidation, the Debtors reserve the right to establish at the Confirmation Hearing the ability to confirm that Plan on an entity-by-entity basis.

(a) The Effect of Substantive Consolidation.

Pursuant to Article II of the Plan, the Debtors will be deemed consolidated solely for the purposes of voting, confirmation and making distributions to the holders of Allowed Claims under the Plan. Substantive consolidation is an equitable remedy that a bankruptcy court may

apply in the chapter 11 cases of affiliated debtors, among other instances. Substantive consolidation of the estates of multiple debtors in a bankruptcy case effectively combines the assets and liabilities of multiple debtors for certain purposes under a plan. The effect of substantive consolidation is the pooling of the assets of, and claims against, consolidated debtors, satisfying liabilities from a common fund and combining the creditors of consolidated debtors for purposes of voting on the reorganization plan. In the absence of substantive consolidation, the creditors of an individual debtor could only look to the assets of that debtor to fully or partially satisfy such creditor's claim.

(b) The Basis for Substantive Consolidation in the Chapter 11 Cases.

Substantive consolidation of the Debtors is an important element of the Debtors' successful implementation of a plan of reorganization. The Debtors submit that the proposed substantive consolidation structure is supported by the applicable legal standards, practical considerations and the Debtors' prepetition operations and financial affairs. Substantive consolidation will avoid the onerous costs and substantial delay that would result from attempting to confirm 12 separate plans of reorganization ("Separate Entity Plans"). Separate Entity Plans will inevitably rest on certain assumptions; for instance, as the Debtors are not managed operationally on an individual entity basis, it may be difficult or impossible to allocate value and operational costs and benefits on a legal entity basis. In addition, the Debtors filed consolidated Schedules in these Chapter 11 Cases.

The Debtors are not seeking to substantively consolidate offensively (i.e., with a primary purpose of disadvantaging tactically a group of creditors in the plan process or altering creditors' rights). To the contrary, as set forth above, substantive consolidation as set forth in Section 2.01 of the Plan benefits general unsecured creditors.

Section 5.05. Acceptance or Rejection of the Plan

1. Each Impaired Class Entitled to Vote Separately

Each Impaired Class of Claims that is to receive a Distribution under the Plan will be entitled to vote separately to accept or reject the Plan. Except as provided herein, each Person that, as of the Voting Record Date, holds a Claim in an Impaired Class will receive a ballot that will be used to cast its vote to accept or reject the Plan. In the event of a controversy as to whether any Class of Claims or Interests is Impaired under the Plan, the Bankruptcy Court shall, after notice and a hearing, determine such controversy.

2. Acceptance by a Class of Claims

An Impaired Class of Claims will be deemed to accept the Plan if the Plan is accepted by the Holders of Claims in such Class that hold at least two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of the Allowed Claims of such Class that have voted to accept or reject the Plan.

3. Unimpaired Classes of Claims.

The following Classes of Claims are unimpaired and, therefore, deemed to have accepted the Plan and are not entitled to vote on the Plan under section 1126(f) of the Bankruptcy Code.

Class 1: Class 1 consists of all Priority Non-Tax Claims.

4. Impaired Classes of Claims and Interests.

The following Classes of Claims are impaired and entitled to vote on the Plan:

Class 2: Class 2 consists of the Mengnu Unsecured Claim.

Class 3: Class 3 consists of all other General Unsecured Claims.

The following Classes of Claims and Interests are impaired and deemed to have rejected the Plan and, therefore, are not entitled to vote on the Plan under section 1126(g) of the Bankruptcy Code:

Class 4: Class 4 consists of all Existing Preferred Stock Interests.

Class 5: Class 5 consists of all Existing Common Stock Interests.

5. Confirmation Pursuant to Section 1129(b) of the Bankruptcy Code or "Cramdown"

Because certain Classes are deemed to have rejected the Plan, the Debtors may request confirmation of the Plan, as it may be modified from time to time, under section 1129(b) of the Bankruptcy Code. The Debtors reserve the right to alter, amend, modify, revoke or withdraw the Plan or any Plan Document in order to satisfy the requirements of section 1129(b) of the Bankruptcy Code, if necessary.

ARTICLE VI

MEANS OF PLAN IMPLEMENTATION

Section 6.01. Corporate Action Non-Voting Securities.

On and after the Effective Date, the Reorganized Debtors shall have full authority and are authorized to take such actions and execute such documents as may be necessary to effectuate the transactions provided for in the Plan. The Reorganized Debtors' post-Effective Date authority shall include the right to operate their business as a going concern; to purchase and/or sell assets; to commence and prosecute actions and proceedings; to open, maintain and close bank accounts and/or other investments on behalf of the Estates; to make and File Objections to, or otherwise contest the amount, validity and/or priority of, all Claims other than General Unsecured Claims; to calculate and make Distributions consistent with the Plan; to prosecute and resolve Objections

regarding all Claims other than General Unsecured Claims; to engage in arbitration or mediation; to engage or retain Professionals and to pay the fees and disbursements thereof; to file tax information and returns as required and, in connection therewith, to make such determinations of tax liability, challenge assessments, make tax elections, pay taxes and take other, related actions; to hold and dispose of any unclaimed Distributions; and to close the case and any related proceedings. Subsequent to the Effective Date, the Debtors' charter shall be amended to prohibit the issuance of non-voting securities and to otherwise comply with the terms and conditions of section 1123(a)(6) of the Bankruptcy Code.

On and after the Effective Date, the members of the Board of Directors of the Reorganized Debtors are authorized to, and may direct an officer to, issue, execute, deliver, file, or record such contracts, securities, instruments, releases, and other agreements or documents and take such action as may be necessary or appropriate to effectuate, implement, and further evidence the terms and conditions of the Plan and the securities issued pursuant to the Plan in the name of, and on behalf of the Reorganized Debtors, without the need for any approvals, authorizations, or consents except for those required pursuant to the Plan.

The adoption of the Amended Certificate and Bylaws, the selection of directors and officers of Reorganized Debtors, and all other actions contemplated by the Plan shall be authorized and approved in all respects (subject to the provisions of the Plan) by the Confirmation Order. All matters provided for in the Plan involving the corporate structure of the Debtors or the Reorganized Debtors, and any corporate action required by the Debtors of the Reorganized Debtors in connection with the Plan, shall be deemed to have timely occurred in accordance with applicable law and shall be in effect, without any requirements or further action by the security holders, directors, or managers of the Debtors or Reorganized Debtors. On the Effective Date, as applicable, the appropriate officers of the Debtors and /or Reorganized Debtors and members of the boards of directors or managers of the Debtors and/or Reorganized Debtors are authorized and directed to issue, execute and deliver, and cause the Reorganized Debtors to perform, the agreements, documents, securities and instruments contemplated by the Plan in the name of and on behalf of the Debtors and/or Reorganized Debtors.

Section 6.02. Effective Date Transactions

1. Litigation Trust Arrangements

On the Effective Date, the Reorganized Debtors will enter into the Litigation Trust Agreement with the Litigation Trustee pursuant to which the Litigation Trust Cash will be indefeasibly transferred to the Litigation Trust.

2. Issuance of Debt and New Common Stock

On the Effective Date or as soon as reasonably practicable thereafter, the Reorganized Debtors shall authorize one (1) million shares of New Common Stock. The issuance of the New Common Stock is authorized without the need for any further corporate action or without any further action by any Holder of Claims or Interests. The New Common Stock issued under the Plan shall be subject to dilution based upon any other shares of New Common Stock issued after

the consummation of the Plan; *provided, however*, that, for a period of two years following the issuance of the New Common Stock, the Reorganized Debtors shall not issue, sell, distribute or grant any right to subscribe for or purchase shares of New Common Stock to the Plan Sponsor unless the per share consideration paid or to be paid for such shares is not less than fair market value.

All of the shares of New Common Stock issued pursuant to the Plan shall be duly authorized, validly issued and, if applicable, fully paid and non-assessable. Each Distribution and issuance referred to in Article VIII hereof shall be governed by the terms and conditions set forth herein applicable to such Distribution or issuance and by the terms and conditions of the instruments evidencing or relating to such Distribution or issuance, which terms and conditions shall bind each entity receiving such Distribution or issuance.

3. Effective Date Funding

a. Exit LC Facility

On the Effective Date, the Reorganized Debtors and Mengnu shall enter into and receive the proceeds of the Exit LC Facility. The Plan Sponsor will provide, subject to the fulfillment of the Plan Sponsor's conditions precedent in connection therewith, financing support for the Debtors in the form of guaranteeing or backstopping the Exit LC Facility. The proceeds of the Exit LC Facility will be used to, among other things, provide financing for the Reorganized Debtors' credit card processors. The obligations under the Exit LC Facility will be secured by duly perfected (a) first liens on substantially all of the Reorganized Debtors' assets, except for the JCI Inventory, and (b) second liens on the JCI Inventory, shared ratably with the Exit Funding Facility and the Tranche B Note. The principal terms and conditions of the Exit LC Facility will be set forth in the Plan Supplement:

The Reorganized Debtors may execute all documents and enter into all agreements as may be necessary and appropriate in connection with the Exit LC Facility.

b. Exit Funding Facility

On the Effective Date, Mengnu, subject to the fulfillment of its conditions precedent, shall provide the Debtors with the Exit Funding Facility. The Exit Funding Facility is the product of funds borrowed and unpaid pursuant to the CIA DIP Financing, for which the Plan Sponsor is entitled to be repaid (including fees, costs and interest, all as set forth more fully in the DIP Agreement) in cash on the Effective Date unless otherwise agreed to by the Plan Sponsor. The proceeds of the Exit Funding Facility will be used to, among other things, provide financing for repayment of the CIA DIP Financing and payment of Administrative Claims and working capital for the Reorganized Debtors business operations. The obligations under the Exit Funding Facility will be secured by duly perfected (a) first liens on substantially all of the Reorganized Debtors' assets except for JCI Inventory, and (b) second liens on the JCI Inventory shared ratably with the Exit LC Facility and the Tranche B Note. The principal terms and conditions of the Exit Funding Facility are set forth in the Plan Supplement.

The Reorganized Debtors may execute all documents and enter into all agreements as may be necessary and appropriate in connection with the Exit Funding Facility.

Section 6.03. Management Agreements

On the Effective Date, the Reorganized Debtors shall execute the Management Agreements, the substantially final forms of which are set forth in the Plan Supplement.

Section 6.04. Securities Registration Exemption

The securities to be issued pursuant to the Plan are to be issued without registration under the Securities Act or any similar federal, state or local law in reliance upon the exemptions set forth in section 1145 of the Bankruptcy Code. To the extent section 1145 of the Bankruptcy Code is inapplicable, these issuances are exempt from registration under the Securities Act or any similar federal, state or local law in reliance on the exemption set forth in section 4(2) of the Securities Act or Regulation D promulgated thereunder.

Section 6.05. Vesting of Assets in the Reorganized Debtors and the Litigation Trust

Except as otherwise provided in the Plan or any agreement, instrument, or other document incorporated therein, on the Effective Date, all property in each of the Debtors' Estates, all Causes of Action (including Litigation Trust Causes of Action), and any property acquired by any of the Debtors pursuant to the Plan shall vest in each respective Reorganized Debtor or the Litigation Trust, as the case may be, free and clear of all Liens, Claims, charges, or other encumbrances. On and after the Effective Date, except as otherwise provided in the Plan, each Reorganized Debtor may operate its business and may use, acquire, or dispose of property and compromise or settle any Retained Causes of Action without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules.

Section 6.06. Corporate Governance

(a) On the Effective Date, the Boards of Directors of the Reorganized Debtors shall consist of those individuals set forth in the Plan Supplement. The members of the Board of Directors of each Debtor prior to the Effective Date, in their capacities as such, shall have no continuing obligations to the Reorganized Debtors on or after the Effective Date. Following the occurrence of the Effective Date, the Board of Directors of each Reorganized Debtor may be replaced by such individuals as are selected in accordance with the organizational documents of such Reorganized Debtor.

(b) On the Effective Date, the officers of the Reorganized Debtors shall consist of those individuals identified in the Plan Supplement. The compensation arrangement for any insider of the Debtors that shall be an officer of a Reorganized Debtor are also included in the Plan Supplement.

Section 6.07. Cancellation of Existing Securities and Agreements

On the Effective Date, the Interests in Jennifer Convertibles, Inc. shall be deemed, and shall be, cancelled and shall be of no further force and effect, whether surrendered for cancellation or otherwise. Similarly, on the Effective Date, except (a) as otherwise specifically provided for in the Plan, (b) with respect to Executory Contracts or unexpired leases that have been assumed by the Debtors, (c) for purposes of evidencing a right to Distributions under the Plan, or (d) with respect to any Claim that is Allowed under the Plan, on the Effective Date, any instruments or documents evidencing any Claims or Interests shall be deemed automatically canceled and deemed surrendered without further act or action under any applicable agreement, law, regulation, order, or rule and the obligations of the Debtors under the agreements, instruments, and other documents, indentures, and certificates of designations governing such Claims and Interests, as the case may be, shall be discharged; *provided, however*, that such instruments or documents shall continue in effect solely for the purpose of (x) allowing the Holders of such Claims to receive their Distributions under the Plan, and (y) allowing the Disbursing Agent to make such Distributions to made on account of such Allowed Claims; *provided, further, however*, that the preceding provisions shall not affect the discharge of Claims or Interests pursuant to the Bankruptcy Code, the Confirmation Order, or the Plan, or result in any expense or liability to the Reorganized Debtors.

Section 6.08. Obligations Incurred After the Effective Date

Payment obligations incurred after the Effective Date, including, without limitation, the professional fees of the Debtors, will not be subject to application or proof of claim and may be paid by the Reorganized Debtors in the ordinary course of business and without further Bankruptcy Court approval.

Section 6.09. Post-Confirmation Operating Reports and United States Trustee Fees.

The Reorganized Debtors shall be responsible for the preparation and filing of operating reports until entry of a final decree in this case. Quarterly fees payable to the United States Trustee pursuant to 28 U.S.C. § 1930 and any applicable interest thereon shall be paid by the Reorganized Debtors until entry of a final decree in this case.

In addition and in accordance with the Rule 3021-1(c) of the Local Bankruptcy Rules for the Southern District of New York, post-confirmation status reports will be filed first, within forty-five (45) days after the entry of the Confirmation Order, and then quarterly every January 15th, April 15th, July 15th and October 15th until the Final Order closing the bankruptcy case is entered.

Section 6.10. Establishment of a D&O Cash Reserve.

On the Effective Date, the Debtors shall fund the D&O Cash Reserve in such amounts as determined by the Debtors, in consultation with the Creditors' Committee and the Plan Sponsor, to be necessary to make the required future retention payments under the D&O Liability Insurance Policies.

Section 6.11. Officers and Boards of Directors

On the Effective Date, the Boards of Directors of the Reorganized Debtors shall consist of those individuals that will be identified on an Exhibit to the Plan Supplement. The members of the Board of Directors of each Debtor prior to the Effective Date, in their capacities as such, shall have no continuing obligations to the Reorganized Debtors on or after the Effective Date. Following the occurrence of the Effective Date, the Board of Directors of each Reorganized Debtor may be replaced by such individuals as are selected in accordance with the organizational documents of such Reorganized Debtor.

ARTICLE VII

PRESERVATION AND PROSECUTION OF CAUSES OF ACTION HELD BY THE DEBTORS

Section 7.01. Preservation and Prosecution of Causes of Action.

In accordance with section 1123(b) of the Bankruptcy Code, all claims and causes of action of the Reorganized Debtors are retained and preserved. The Reorganized Debtors shall retain and may enforce all rights to commence and pursue, as appropriate, any and all Retained Causes of Action. The Reorganized Debtors' right to commence, prosecute, settle, or abandon their Retained Causes of Action shall be preserved, notwithstanding the occurrence of the Effective Date. The Litigation Trust may enforce all rights to commence and pursue, as appropriate, any and all Litigation Trust Causes of Action. No entity may rely on the absence of a specific reference in the Plan or the Disclosure Statement to any Cause of Action against them as any indication that the Debtors or the Litigation Trust, as applicable, will not pursue any and all available Causes of Action against them. Unless any Causes of Action against an entity are expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Bankruptcy Court order, the Debtors or the Litigation Trust, as the case may be, expressly reserve all Causes of Action, for later adjudication, and, therefore, no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable, or otherwise), or laches, shall apply to such Causes of Action upon, after, or as a consequence of the Confirmation Order. In accordance with section 1123(b)(3) of the Bankruptcy Code, any Causes of Action against any entity shall vest in the Reorganized Debtors or the Litigation Trustee, as the case may be. On the Effective Date, the Reorganized Debtors shall be deemed to have assigned and shall assign the Litigation Trust Causes of Action to the Litigation Trust pursuant to the Litigation Trust Agreement.

ARTICLE VIII

PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS

Section 8.01. Objections to Claims.

As of the Effective Date, the Debtors shall be deemed to have assigned and shall assign to the Litigation Trust, the right to object to the allowance of, General Unsecured Claims on all

available grounds, together with all defenses of the Debtors and their estates, including, without limitation, the defense of setoff. On such assignment from the Debtors, the Litigation Trust shall have the exclusive right to object to the allowance of any General Unsecured Claim on any ground. The Reorganized Debtors shall have the right to object to the allowance of any other Claims or Interests with respect to which they dispute liability, priority, and/or amount; *provided, however,* that the foregoing shall not in any way limit the ability or the right of the Litigation Trust to assert, commence, or prosecute any Litigation Trust Causes of Action against any Holder of such Claim. All objections, affirmative defenses, and counterclaims shall be litigated to Final Order; *provided, however,* that the Reorganized Debtors or the Litigation Trust, as the case may be, shall have authority to file, settle, compromise or withdraw any objections to Claims. Any Objections to Claims that have been filed on or before the Confirmation Date, shall be served and filed as soon as practicable, but, in each instance, no later than: (a) 180 days after the Effective Date; or (b) such other date as may be fixed by the Bankruptcy Court, whether fixed before or after the date specified in clause (a) hereof. The Filing of a motion to extend such objection deadline shall automatically extend such deadline until a Final Order is entered on such motion. In the event that such a motion to extend the objection deadline is denied by the Bankruptcy Court, or approved by the Bankruptcy Court and reversed on appeal, such objection deadline shall be the later of the current deadline (as previously extended, as applicable) or 30 days after entry of a Final Order denying the motion to extend the objection deadline. Any Claims filed after the applicable Bar Date shall be deemed disallowed and expunged in their entirety without further order of the Bankruptcy Court or any action being required on the part of the Debtors or the Reorganized Debtors, unless the Person or entity wishing to file such untimely Claim has received prior Bankruptcy Court authority to do so. Notwithstanding any authority to the contrary, an objection to a Claim shall be deemed properly served on the claimant if the objecting party effects service in any of the following manners: (a) in accordance with Federal Rule of Civil Procedure 4, as modified and made applicable by Bankruptcy Rule 7004; (b) by first class mail, postage prepaid, on the signatory on the proof of claim as well as all other representatives identified in the proof of claim or any attachment thereto; or (c) by first class mail, postage prepaid, on any counsel that has appeared on the claimant's behalf in the Chapter 11 Cases (so long as such appearance has not been subsequently withdrawn).

Section 8.02. No Payment or Distribution Pending Allowance.

Notwithstanding any other provision in the Plan, if any portion of a Claim is a Disputed Claim, no payment or Distribution of Property provided for hereunder shall be made on account of such Claim unless and until the Disputed Claim becomes an Allowed Claim. To the extent a Disputed Claim is Disallowed in whole or in part, the Holder of such Claim will not receive any Distribution on account of the portion of such Claim (including the whole, if applicable) that is Disallowed.

Section 8.03. Disputed Distributions.

If any dispute arises as to the identity of a Holder of an Allowed Claim who is to receive any Distribution, in lieu of making a distribution to such Person, the Disbursing Agent or the Litigation Trust, as the case may be, may deposit the Distribution at issue (or the disputed portion thereof, at the election of the Reorganized Debtors or the Litigation Trustee, as the case may be)

into a segregated account for Disputed Distributions until the disposition thereof is determined by a Final Order or by written agreement among the interested parties to such dispute.

Section 8.04. Estimation.

The Reorganized Debtors and the Litigation Trust, as the case may be, shall have the right, but not the obligation, at any time to seek an order of the Bankruptcy Court, after notice and a hearing (which notice may be limited to the Holder of a Disputed Claim and the United States Trustee, and which hearing may be held on an expedited basis), estimating for final Distribution purposes any contingent, unliquidated, or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code, regardless of whether the Debtors, the Reorganized Debtors or the Litigation Trustee, as the case may be, previously objected to such Claim. If the Bankruptcy Court estimates any contingent, Disputed or unliquidated Claim, the estimated amount shall constitute either the Allowed Amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court, including for purposes of the Disputed Claims Reserve; *provided, however*, that if the estimate constitutes the maximum limitation on such Claim, the Debtors, the Reorganized Debtors, or the Litigation Trust, as the case may be, may elect to pursue supplemental proceedings to object to any ultimate allowance of such Claim. On or after the Confirmation Date, Claims that have been estimated may be compromised, settled, withdrawn, or otherwise resolved subsequently, without further order of the Bankruptcy Court.

Section 8.05. Reserve Account for Disputed Claims

On or after the Effective Date, the Disbursing Agent and the Litigation Trust, as the case may be, shall hold in their respective Disputed Claims Reserves, Cash or other consideration in an aggregate amount sufficient to compensate each Holder of a Disputed Claim, which the Disbursing Agent or the Litigation Trust is ultimately responsible for disbursing, with (i) the amount that such Holder would have been entitled to receive under the Plan if such Claim had been an Allowed Claim on the Effective Date, (ii) to the extent the value of a Disputed Claim has been estimated in accordance with Section 8.04 above, the estimated value of such Disputed Claim, or (iii) such other amount as may be agreed upon by the Holder of such Disputed Claim and the Reorganized Debtor or the Litigation Trust, as the case may be. The Disbursing Agent and the Litigation Trust may pool funds in the Disputed Claims Reserves with other funds; *provided, however,* the Disbursing Agent and Litigation Trust shall treat all such funds as segregated accounts in their respective books and records.

Section 8.06. Release of Funds from Claims Reserves.

At such time as a Disputed Claim becomes, in whole or in part, an Allowed Claim, the Disbursing Agent or the Litigation Trust, as the case may be, shall distribute to the Holder thereof the distribution, if any, to which such Holder is then entitled under the Plan. To the extent a Disputed Claim is Disallowed or Allowed in a lesser amount than has been reserved for such Disputed Claim, the Cash reserved for such Disputed Claim or the difference between the amount reserved for such Disputed Claim and the lesser amount at which such Disputed Claim is ultimately Allowed, as applicable, shall (i) be included by the Litigation Trust in any reserve in which there may be a shortfall and, if no shortfall exists, in future calculations of amounts to be

distributed to Holders of Allowed General Unsecured Claims and/or the Allowed Mengnu Unsecured Claim, as applicable, if such Disputed Claim was a General Unsecured Claim or a Mengnu Unsecured Claim; or (ii) be returned from the Disputed Claims Reserve to the Reorganized Debtors.

ARTICLE IX

DISTRIBUTIONS UNDER THE PLAN

Section 9.01. Limitation to Full Recovery

Notwithstanding anything herein to the contrary, no Holder of any Claim will be entitled to a Distribution in excess of 100% of the Allowed amount of its Claims.

Section 9.02. Timing of Distributions.

Distributions under the Plan shall be made (i) as set forth in the Plan or as soon as reasonably practicable thereafter; or (ii) as agreed between the Debtors or the Reorganized Debtors, as applicable, and the particular Creditor, or as soon as reasonably practicable thereafter. If a Claim is not an Allowed Claim as of the Effective Date, Distributions will be made only if and when the Claim is Allowed and, to the extent a Disputed Claim is the subject of estimation in accordance with Section 8.04 of the Plan, in an amount no greater than the amount reserved in the Disputed Claims Reserve.

Section 9.03. Saturdays, Sundays, or Legal Holidays.

If any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on the next succeeding Business Day, and shall be deemed to have been completed as of the required date.

Section 9.04. Distribution Record Date.

Except as otherwise provided in a Final Order that is not subject to any stay, the transferees of Claims that are transferred pursuant to Bankruptcy Rule 3001 and Filed with the Bankruptcy Court on or prior to the Distribution Record Date will be treated as the Holders of such Claims for all purposes, notwithstanding that any period provided by Bankruptcy Rule 3001 for objecting to such transfer may not have expired by the Distribution Record Date. As of the close of business on the Distribution Record Date, any transfer ledgers, transfer books, registers and any other records will be closed and, for purposes of the Plan, there shall be no further changes in the record Holders of such Claims. The Debtors shall have no obligation to recognize the transfer of any Claim occurring after the Distribution Record Date, and will be entitled for all purposes to recognize and deal only with those Holders of Claims and Interests as of the close of business on the Distribution Record Date, as reflected on the ledgers, books, registers or records of the Debtors and the Bankruptcy Court.

Section 9.05. Delivery of Distributions.

Subject to the treatment of Disputed Distributions as set forth in Section 8.03 of the Plan, Distributions shall be made to Holders of Allowed Claims at the addresses set forth on the Debtors' books and records or the Proofs of Claim, if any, Filed by such Creditors or at the last known addresses of such Creditors or, in the case of transferred Claims, on the notice of transfer Filed with the Bankruptcy Court pursuant to Bankruptcy Rule 3001, each as of the Distribution Record Date. If any such Creditor's Distribution is returned as undeliverable, no further Distribution shall be made to such Creditor unless and until the Debtors are notified of such Creditor's then-current address, at which time any missed Distribution shall be made to such Creditor to the extent of available Cash; *provided* that in no event are the Debtors required to make Distributions to a Creditor whose Distribution is returned as undeliverable and becomes Unclaimed Property.

Section 9.06. Method of Cash Distributions.

The Disbursing Agent shall make all Distributions contemplated by the Plan. Any Cash payment to be made pursuant to the Plan shall be made by check drawn on a domestic bank or by wire transfer from a domestic bank, at the option of the Disbursing Agent. If a Creditor holds more than one Claim in any one Class, all Allowed Claims of the Creditor in that Class may, at the Debtors' option, be aggregated and one Distribution may be made with respect thereto.

Section 9.07. Unclaimed Property.

All Property distributed on account of Claims must be claimed within the later of ninety (90) days after (i) the Distribution Date and (ii) the date such Distribution is made to such Holder *provided, however*, in the case of a Distribution made in the form of a check, must be negotiated or a request for reissuance made directly to the Debtors by the Creditor that was originally issued such check and shall be made within ninety (90) days after the date the Distribution is made to the applicable Creditor. Nothing contained in the Plan shall require the Debtors to attempt to locate any Holder of an Allowed Claim, other than as provided herein. Pursuant to Bankruptcy Code sections 347(b) and 1143, all Claims in respect of Unclaimed Property shall be deemed Disallowed and the Holder of any Claim Disallowed is forever barred, expunged, estopped and enjoined from asserting such Claim in any manner against the Debtors or the Estates. Unclaimed Property of a particular Creditor shall be distributed to Holders of Allowed Claims in the same Class as such Creditor on the next applicable Distribution Date.

Section 9.08. Compliance with Tax Requirements.

In connection with each Distribution with respect to which the filing of an information return (such as an IRS Form 1099 or 1042) or withholding is required, the Debtors shall file such information return with the IRS and provide any required statements in connection therewith to the recipients of such Distribution or effect any such withholding and deposit all moneys so withheld as required by law. With respect to any Person from whom a tax identification number, certified tax identification number or other tax information required by law to avoid withholding has not been received by the Debtors within thirty (30) days from the date of any such request,

the Debtors may, at their option, withhold the amount required and distribute the balance to such Person or decline to make such Distribution until the information is received.

Section 9.09. Setoffs.

Except as otherwise provided in the Plan, the Confirmation Order, or in an agreement approved by a Final Order of the Bankruptcy Court, the Debtors or the Reorganized Debtors, as applicable, may, pursuant to applicable law (including section 553 of the Bankruptcy Code), setoff against any Distribution amounts related to any Claim before any Distribution is made on account of such Claim, any and all of the Claims, rights and causes of action of any nature that the Debtors, the Estates or the Reorganized Debtors may hold against the Holder of such Claim, *provided, however,* that neither the failure to effect such a setoff, the allowance of any Claim hereunder, any other act or omission of the Debtors or the Disbursing Agent, nor any provision of the Plan (other than Article X of the Plan) will constitute a waiver or release by the Debtors or the Reorganized Debtors of any such claims, rights or causes of action that the Debtors or the Reorganized Debtors may possess against such Holder. To the extent the Debtors or Reorganized Debtors fail to set off against a Holder and seeks to collect a claim from such Holder after a Distribution to such Holder has been made pursuant to the Plan, the Reorganized Debtors, if successful in asserting such claim, will be entitled to full recovery on the Claim against such Holder. Distribution made on account of the Mengnu 503(b)(9) Claims, Mengnu Unsecured Claim, Mengnu Administrative Claims, and Mengnu DIP Claims will not be subject to setoff or recoupment under any circumstances.

Section 9.10. Documentation Necessary to Release Lien.

Each Creditor who is a Holder of a Lien satisfied, discharged and released under the Plan and who is to receive a Distribution under the Plan shall not receive such Distribution until such Creditor executes and delivers any documents necessary to release all Liens arising under any applicable security agreement or non-bankruptcy law (in recordable form, if appropriate) in connection with such Claim and such other documents as the Debtors may reasonably request to document satisfaction of the Lien.

Section 9.11. Distributions Under Fifty Dollars

No Distribution of Cash in an amount less than fifty dollars ($50.00) will be made by the Disbursing Agent to any Holder of an Allowed Claim unless a request is made in writing to the Disbursing Agent. If no such request is made, all such Distributions will be treated as Unclaimed Property.

Section 9.12. Fractional New Common Stock

No fractional share of New Common Stock shall be issued. Fractional shares of New Common Stock shall be rounded to the next greater or next lower number of shares in accordance with the following: (a) fractions of one-half (1/2) or greater shall be rounded to the next higher whole number, and (b) fractions of less than one-half (1/2) shall be rounded to the next lower whole number. The total number of shares or interests of New Common Stock to be distributed

hereunder shall be adjusted as necessary to account for the rounding provided for in this Section 9.12.

ARTICLE X

EXECUTORY CONTRACTS AND UNEXPIRED LEASES; INDEMNIFICATION OBLIGATIONS

Section 10.01. General Treatment.

As of and subject to the occurrence of the Effective Date and the payment of any applicable Cure Amount, all Executory Contracts and unexpired leases to which any Debtor is a party shall be deemed assumed, except for any Executory Contracts or unexpired leases that: (a) previously have been assumed or rejected pursuant to a Final Order of the Bankruptcy Court; (b) are designated specifically or by category as a contract or lease to be rejected on the Schedule of Rejected Contracts and Leases, if any; or (c) are the subject of a separate motion to assume or reject under section 365 of the Bankruptcy Code pending on the Effective Date. As of and subject to the occurrence of the Effective Date, all contracts identified on the Schedule of Rejected Contracts and Leases shall be deemed rejected. Subject to the occurrence of the Effective Date, entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such assumptions and rejections pursuant to sections 365(a) and 1123 of the Bankruptcy Code. Unless otherwise specified in writing, each Executory Contract and unexpired lease to be assumed or rejected shall include modifications, amendments, supplements, restatements, or other agreements made directly or indirectly by any agreement, instrument, or other document that in any manner affects such Executory Contract and unexpired lease. Each Executory Contract and unexpired lease assumed pursuant to this Section 10.01 shall revest in and be fully enforceable by the applicable Reorganized Debtor in accordance with its terms, except as modified by the provisions of the Plan, or any order of the Bankruptcy Court authorizing and providing for its assumption or applicable federal law.

Section 10.02. Cure.

(a) Except to the extent that less favorable treatment has been agreed to by the non-Debtor party or parties to each such Executory Contract or unexpired lease, any monetary defaults arising under each Executory Contract and unexpired lease to be assumed pursuant to the Plan shall be satisfied, pursuant to section 365(b)(1) of the Bankruptcy Code, by payment of the appropriate amount (the "Cure Amount") in Cash on the later of thirty (30) days after (i) the Effective Date or (ii) the date on which the Cure Amount has been resolved (either consensually or through judicial decision).

(b) No later than five (5) days prior to the commencement of the Confirmation Hearing, the Debtors shall file a schedule (the "Cure Schedule") setting forth the Cure Amount, if any, for each Executory Contract or unexpired lease to be assumed pursuant to Section 10.01 of the Plan. Any party that fails to object to the applicable Cure Amount listed on the Cure Schedule within twenty (20) days of the filing thereof, shall be forever barred, estopped and enjoined from disputing the Cure Amount set forth on the Cure Schedule (including a Cure

Amount of $0.00) and/or from asserting any Claim against the applicable Debtor arising under section 365(b)(1) of the Bankruptcy Code except as set forth on the Cure Schedule.

(c) In the event of a dispute (each, a "Cure Dispute") regarding: (i) the Cure Amount; (ii) the ability of the applicable Reorganized Debtor to provide "adequate assurance of future performance" (within the meaning of section 365 of the Bankruptcy Code) under the contract or lease to be assumed; or (iii) any other matter pertaining to the proposed assumption, the cure payments required by section 365(b)(1) of the Bankruptcy Code shall be made following the entry of a Final Order resolving such Cure Dispute and approving the assumption. To the extent a Cure Dispute relates solely to the Cure Amount, the applicable Debtor may assume and/or assume and assign the applicable contract or lease prior to the resolution of the Cure Dispute provided that the Debtors reserve Cash in an amount sufficient to pay the full amount asserted as cure payment by the non-Debtor party to such contract or lease (or such smaller amount as may be fixed or estimated by the Bankruptcy Court).

Section 10.03. Assumption Conditioned upon Consummation of The Plan.

The Plan seeks to cause the applicable Debtors and Reorganized Debtors to assume the relevant contracts on the Effective Date to the extent, and only to the extent, that such contracts or leases constitute Executory Contracts or unexpired leases. Additionally, unless the assumption, or assumption and assignment, of an assumed contract is expressly approved by a Final Order of the Bankruptcy Court that provided otherwise, the assumption of each contract by the Debtors or Reorganized Debtors are each expressly conditioned upon the occurrence of the Effective Date. If the Effective Date does not occur, assumption of the contracts as provided in the Plan will not be effective, and the Debtors will retain all of their rights under section 365 of the Bankruptcy Code with respect to such contracts and leases.

Section 10.04. Bar Date for Filing Proofs of Claim Relating to Executory Contracts and Unexpired Leases Rejected Pursuant to the Plan

Claims arising out of the rejection of an Executory Contract or unexpired lease pursuant to Section 11.01 of the Plan must be filed with the Bankruptcy Court or the Claims Agent and served upon the Debtors (or, on and after the Effective Date, Reorganized Debtors) no later than thirty (30) days after the later of (i) notice of entry of an order approving the rejection of such Executory Contract or unexpired lease, and (ii) notice of entry of the Confirmation Order. All such Claims not filed within such time will be forever barred from assertion against the Debtors and their estates or the Reorganized Debtors and their Property.

Section 10.05. Treatment of Rejection Claims.

Any Allowed Claim arising out of the rejection of an Executory Contract or unexpired lease pursuant to the Plan (as opposed to a separate order of the Bankruptcy Court) shall, pursuant to section 502(g) of the Bankruptcy Code, be a General Unsecured Claim.

Section 10.06. Reinstatement and Continuation of Insurance Policies.

Unless otherwise assumed during the pendency of the Chapter 11 Cases, from and after the Effective Date, each of the Debtors' insurance policies in existence on and as of the Confirmation Date shall be reinstated and continued in accordance with its terms and, to the extent applicable, shall be deemed assumed by the Reorganized Debtors pursuant to section 365 of the Bankruptcy Code. Nothing contained in the Plan shall constitute or be deemed a waiver of any Cause of Action that the Debtors may hold against any entity, including, without limitation, the insurer under any of the Debtors' insurance policies.

The Debtors' discharge and release from all Claims and Interests, as provided herein, shall not diminish or impair the enforceability of any insurance policy that may cover Claims against the Debtors (including, without limitation, their officers and directors), the Reorganized Debtors (including, without limitation, their officers and directors) or any other person or entity. Notwithstanding any other provision of the Plan or the Confirmation Order, nothing in the Plan shall (i) impair (w) the right of any insurer to defend against any claim asserted against such insurer, (x) an insurer's status as a secured creditor to the extent applicable under the terms of the Plan, including the right to recover from any collateral (in accordance with the applicable insurance policy), (y) an insurer's right to draw on third-party letters of credit (in accordance with the terms of the applicable insurance policy and letter of credit) or (z) any insurer's right of setoff pursuant to section 553 of the Bankruptcy Code to the extent applicable and/or (ii) affect an insurer's right to seek arbitration of disputes between the Debtors and such insurer to the extent provided for under the terms of the applicable insurance agreement.

Section 10.07. Officers' and Directors' Indemnification Rights and Insurance.

1. Indemnification

For purposes of the Plan, and only to the extent set forth herein, all indemnification Claims of the officers and directors of the Debtors against the Debtors shall, for a period of not more than one (1) year following the Effective Date: (a) survive confirmation of the Plan and the Effective Date; (b) become obligations of the Reorganized Debtors; and (c) not be discharged in accordance with section 1141 of the Bankruptcy Code, irrespective of whether indemnification or reimbursement is owed in connection with an event occurring before, on, or after the Petition Date. Indemnification Claims against the Debtors of (i) all parties or persons other than the officers and directors of the Debtors, and (ii) the officers and directors of the Debtors in connection with (x) the Combs Cases, (y) any action arising from substantially similar allegations as those alleged in the Combs Cases, or (z) any threatened or pending action ("Threatened or Pending Action") against a director or officer of the Debtors with respect to which such director or officer is currently aware, unless such Threatened or Pending Action (1) has been disclosed to Mengnu by such director or officer of the Debtors, and (2) Mengnu has agreed that the Reorganized Debtors shall indemnify such officer or director with respect thereto, shall (a) not survive confirmation of the Plan or the Effective Date, (b) not become obligations of the Reorganized Debtors, and (c) be discharged in accordance with section 1141 of the Bankruptcy Code. Further, the indemnification Claims of the Debtors' officers and directors against the Debtors, shall, immediately after one (1) year following the Effective Date, (a) cease to be obligations of the

Reorganized Debtors, and (b) be discharged in accordance with section 1141 of the Bankruptcy Code. All persons with indemnification Claims against the Debtors not otherwise allowed in accordance with this section shall be forever barred and enjoined from bringing such indemnification Claims against the Reorganized Debtors.

2. Director and Officer Insurance Policies

Notwithstanding anything to the contrary contained in the Plan, confirmation of the Plan shall not discharge, impair or otherwise modify any indemnity obligations assumed by the assumption of the D&O Liability Insurance Policies, and each such indemnity obligation will be deemed and treated as an Executory Contract that has been assumed by the Debtors under the Plan as to which no Proof of Claim need be filed.

In addition, on or before the Effective Date, the Reorganized Debtors shall obtain reasonably sufficient tail coverage (i.e., D&O insurance coverage that extends beyond the end of the policy period) under a D&O Liability Insurance Policies for the current (as of July 18, 2010) directors, officers and managers for a period of six years, and placed with such insurers, the terms of which shall be set forth in the Plan Supplement. After the Effective Date, the Reorganized Debtors shall not terminate or otherwise reduce the coverage under any D&O Liability Insurance Policies (including any "tail policy") in effect on the Petition Date, with respect to conduct occurring prior thereto, and all directors and officers of the Debtors who served in such capacity at any time prior to the Effective Date shall be entitled to the full benefits of any such policy for the full term of such policy regardless of whether such directors and officers remain in such positions after the Effective Date; provided, however, that for the avoidance of doubt, nothing in the Plan, the Plan Supplement or any document related thereto shall in any way be construed to benefit, indemnify or release any individuals who were former directors or officers of the Debtors.

ARTICLE XI

EFFECT OF CONFIRMATION

Section 11.01. Binding Effect.

The Plan shall be binding and inure to the benefit of the Debtors, all Holders of Claims and Interests, and their respective successors and assigns.

Section 11.02. Continued Corporate Existence.

Except as otherwise provided in the Plan, each Debtor shall continue to exist after the Effective Date as a separate corporate entity, with all the powers of a corporation, pursuant to the jurisdiction in which each applicable Debtor is incorporated or formed and pursuant to the respective certificate of incorporation or bylaws (or other formation documents) in effect prior to the Effective Date, except to the extent such Amended Certificate and Bylaws (or other formation documents) are amended by the Plan or otherwise, and to the extent such documents are amended, such documents are deemed to be amended pursuant to the Plan and require no further action or approval.

Section 11.03. Vesting of Property.

On the Effective Date, pursuant to sections 1141(b) and (c) of the Bankruptcy Code, and except as otherwise provided in the Plan, the Property of each Estate shall vest in the applicable Reorganized Debtor, or the Litigation Trust, as the case may be, free and clear of all Claims, Liens, encumbrances, charges, and other Interests, except as provided herein or in the Confirmation Order. From and after the Effective Date, the Reorganized Debtors may operate their businesses and may use, acquire, and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules and in all respects as if there were no pending case under any chapter or provision of the Bankruptcy Code, except as provided herein.

Section 11.04. Discharge of Claims Against and Interests in the Debtors.

Upon the Effective Date and in consideration of the distributions to be made hereunder, except as otherwise provided herein or in the Confirmation Order, each Person that is a Holder (as well as any trustees and agents on behalf of such Person) of a Claim or Interest and any affiliate of such Holder shall be deemed to have forever waived, released, and discharged the Debtors, to the fullest extent permitted by section 1141 of the Bankruptcy Code, of and from any and all Claims, Interests, rights, and liabilities that arose prior to the Effective Date. Except as otherwise provided herein, upon the Effective Date, all such Holders of Claims and Interests and their affiliates shall be forever precluded and enjoined, pursuant to sections 105, 524, 1141 of the Bankruptcy Code, from prosecuting or asserting any such discharged Claim against or terminated Interest in any Debtor.

Section 11.05. Term of Pre-Confirmation Injunctions or Stays.

Unless otherwise provided herein, all injunctions or stays arising prior to the Confirmation Date in accordance with sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date.

Section 11.06. Injunction Against Interference With Plan.

Upon the entry of the Confirmation Order, all Holders of Claims and Interests and other parties in interest, along with their respective present or former affiliates, employees, agents, officers, directors, or principals, shall be enjoined from taking any actions to interfere with the implementation or consummation of the Plan.

Section 11.07. Injunction.

EXCEPT AS OTHERWISE PROVIDED IN THE PLAN, THE CONFIRMATION ORDER, OR SUCH OTHER ORDER OF THE BANKRUPTCY COURT THAT MAY BE APPLICABLE, AS OF THE EFFECTIVE DATE, ALL PERSONS WHO HAVE HELD, HOLD OR MAY HOLD CLAIMS AGAINST OR INTERESTS IN THE DEBTORS OR THEIR ESTATES THAT ARE DISCHARGED PURSUANT TO THE PLAN ARE, WITH RESPECT TO ANY SUCH CLAIMS OR INTERESTS, PERMANENTLY ENJOINED FROM AND AFTER THE EFFECTIVE DATE FROM: (I) COMMENCING, CONDUCTING OR CONTINUING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY SUIT, ACTION OR OTHER PROCEEDING

OF ANY KIND (INCLUDING, WITHOUT LIMITATION, ANY PROCEEDING IN A JUDICIAL, ARBITRAL, ADMINISTRATIVE OR OTHER FORUM) ON ANY SUCH CLAIM OR INTEREST AGAINST OR AFFECTING THE DEBTORS, THE REORGANIZED DEBTORS, THE ESTATES, THE LITIGATION TRUST, THE LITIGATION TRUSTEE OR ANY OF THEIR PROPERTY, OR ANY DIRECT OR INDIRECT TRANSFEREE OF ANY PROPERTY OF, OR DIRECT OR INDIRECT SUCCESSOR IN INTEREST TO, ANY OF THE FOREGOING PERSONS OR ANY PROPERTY OF ANY SUCH TRANSFEREE OR SUCCESSOR; (II) ENFORCING, LEVYING, ATTACHING (INCLUDING, WITHOUT LIMITATION, ANY PRE-JUDGMENT ATTACHMENT), COLLECTING OR OTHERWISE RECOVERING BY ANY MANNER OR MEANS, WHETHER DIRECTLY OR INDIRECTLY, ANY JUDGMENT, AWARD, DECREE OR ORDER AGAINST THE DEBTORS, THE REORGANIZED DEBTORS, THE ESTATES, THE LITIGATION TRUST, THE LITIGATION TRUSTEE OR ANY OF THE DEBTORS' PROPERTY, OR ANY DIRECT OR INDIRECT TRANSFEREE OF ANY PROPERTY OF, OR DIRECT OR INDIRECT SUCCESSOR IN INTEREST TO, ANY OF THE FOREGOING PERSONS, OR ANY PROPERTY OF ANY SUCH TRANSFEREE OR SUCCESSOR; (III) CREATING, PERFECTING OR OTHERWISE ENFORCING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY ENCUMBRANCE OF ANY KIND AGAINST THE DEBTORS, THE REORGANIZED DEBTORS, THE ESTATES, THE LITIGATION TRUST, THE LITIGATION TRUSTEE, OR ANY OF THEIR PROPERTY, OR ANY DIRECT OR INDIRECT TRANSFEREE OF ANY PROPERTY OF, OR SUCCESSOR IN INTEREST TO, ANY OF THE FOREGOING PERSONS; (IV) ACTING OR PROCEEDING IN ANY MANNER, IN ANY PLACE WHATSOEVER, THAT DOES NOT CONFORM TO OR COMPLY WITH THE PROVISIONS OF THE PLAN TO THE FULL EXTENT PERMITTED BY APPLICABLE LAW; AND (V) COMMENCING OR CONTINUING, IN ANY MANNER OR IN ANY PLACE, ANY ACTION THAT DOES NOT COMPLY WITH OR IS INCONSISTENT WITH THE PROVISIONS OF THE PLAN; PROVIDED, HOWEVER, THAT NOTHING CONTAINED HEREIN SHALL PRECLUDE SUCH PERSONS FROM EXERCISING THEIR RIGHTS, OR OBTAINING BENEFITS, PURSUANT TO AND CONSISTENT WITH THE TERMS OF THE PLAN. SUCH INJUNCTION SHALL EXTEND TO ALL SUCCESSORS OF THE DEBTORS AND DEBTORS IN POSSESSION, THE LITIGATION TRUST, THE LITIGATION TRUSTEE AND THE CREDITORS' COMMITTEE AND ITS RESPECTIVE MEMBERS AND THE PLAN SPONSOR; PROVIDED, HOWEVER, THAT SUCH INJUNCTION SHALL NOT EXTEND TO PROTECT THE MEMBERS OF THE CREDITORS' COMMITTEE AND THEIR RESPECTIVE PROPERTIES AND INTEREST IN PROPERTY FOR ACTIONS BASED UPON ACTS OUTSIDE THE SCOPE OF THEIR SERVICE ON THE CREDITORS' COMMITTEE, AND IS NOT INTENDED, NOR SHALL IT BE CONSTRUED, TO EXTEND TO THE ASSERTION, COMMENCEMENT, OR THE PROSECUTION OF ANY CLAIM OR CAUSE OF ACTION AGAINST ANY PRESENT OR FORMER MEMBER OF THE CREDITORS' COMMITTEE ARISING FROM OR RELATING TO SUCH MEMBER'S PRE-PETITION DATE ACTS OR OMISSIONS.

Section 11.08. Releases.

RELEASES BY THE DEBTORS. EXCEPT AS OTHERWISE PROVIDED IN THE PLAN OR THE CONFIRMATION ORDER, AS OF THE EFFECTIVE DATE,

EACH DEBTOR, IN ITS INDIVIDUAL CAPACITY AND AS A DEBTOR IN POSSESSION, SHALL BE DEEMED TO FOREVER RELEASE, WAIVE AND DISCHARGE ALL CLAIMS, OBLIGATIONS, SUITS, JUDGMENTS, DAMAGES, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION AND LIABILITIES (OTHER THAN THE RIGHTS OF THE DEBTORS TO ENFORCE THE PLAN AND THE CONTRACTS, INSTRUMENTS, RELEASES, INDENTURES AND OTHER AGREEMENTS OR DOCUMENTS DELIVERED THEREUNDER) WHETHER LIQUIDATED OR UNLIQUIDATED, FIXED OR CONTINGENT, MATURED OR UNMATURED, KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, THEN EXISTING OR THEREAFTER ARISING, IN LAW, EQUITY OR OTHERWISE THAT ARE BASED IN WHOLE OR IN PART ON ANY ACT, OMISSION, TRANSACTION, EVENT OR OTHER OCCURRENCE TAKING PLACE ON OR PRIOR TO THE EFFECTIVE DATE IN ANY WAY RELATING TO THE DEBTORS, THE PARTIES RELEASED PURSUANT TO THIS SECTION, THE CHAPTER 11 CASES, THE PLAN OR THE DISCLOSURE STATEMENT, AND THAT COULD HAVE BEEN ASSERTED BY OR ON BEHALF OF THE DEBTORS OR THEIR ESTATES, WHETHER DIRECTLY, INDIRECTLY, DERIVATIVELY OR IN ANY REPRESENTATIVE OR ANY OTHER CAPACITY, AGAINST THE PLAN SPONSOR OR ANY DEBTOR RELEASED PARTIES, EXCEPT AS OTHERWISE PROVIDED IN SECTION 11.08(b) BELOW.

(b) LIMITED RELEASE OF OFFICERS, DIRECTORS AND EMPLOYEES. NO CLAIMS OF THE DEBTORS' ESTATES AGAINST THE DEBTORS' DIRECTORS, OFFICERS AND EMPLOYEES ARISING FROM OR RELATING TO THE PERIOD PRIOR TO THE PETITION DATE ARE RELEASED BY THE PLAN. AS OF THE EFFECTIVE DATE, THE DEBTORS AND THE DEBTORS IN POSSESSION SHALL BE DEEMED TO HAVE WAIVED AND RELEASED THE DEBTOR RELEASED PARTIES FROM ANY AND ALL CLAIMS OF THE DEBTORS' ESTATES ARISING FROM OR RELATING TO THE PERIOD FROM AND AFTER THE PETITION DATE; PROVIDED, HOWEVER, THAT, EXCEPT AS OTHERWISE PROVIDED BY PRIOR OR SUBSEQUENT FINAL ORDER OF THE BANKRUPTCY COURT, NOTHING IN THIS SECTION 11.08(B) SHALL OPERATE AS A WAIVER OR RELEASE OF (I) ANY PERSON NAMED OR SUBSEQUENTLY NAMED AS A DEFENDANT IN ANY ACTION COMMENCED BY OR ON BEHALF OF THE DEBTORS IN POSSESSION, INCLUDING ANY ACTIONS PROSECUTED BY THE CREDITORS' COMMITTEE OR ANY LITIGATION TRUST CAUSE OF ACTION PROSECUTED BY THE LITIGATION TRUST (II) ANY DEBTOR'S CLAIMS, RIGHTS, OR CAUSES OF ACTION FOR MONEY BORROWER FROM OR OWED TO A DEBTOR OR ITS SUBSIDIARY BY ANY OF ITS DIRECTORS, OFFICERS OR FORMER EMPLOYEES AS SET FORTH IN SUCH DEBTOR'S OR SUBSIDIARY'S BOOKS AND RECORDS; (III) ANY CLAIMS AGAINST ANY PERSON TO THE EXTENT SUCH PERSON ASSERTS A CROSS-CLAIM, COUNTERCLAIM, AND/OR CLAIM FOR SETOFF WHICH SEEKS AFFIRMATIVE RELIEF AGAINST A DEBTOR OR ANY OF ITS OFFICERS, DIRECTORS OR REPRESENTATIVES; (IV) INDEMNIFICATION OBLIGATIONS AS SET FORTH IN SECTION 10.07; AND (V) IN NO EVENT SHALL ANYTHING IN THIS SECTION BE CONSTRUED AS A RELEASE

OF ANY PERSON'S FRAUD, GROSS NEGLIGENCE OR WILLFUL MISCONDUCT FOR MATTERS WITH RESPECT TO THE DEBTORS AND THEIR SUBSIDIARIES AND/OR AFFILIATES; AND PROVIDED, FURTHER, THAT THE FOREGOING IS NOT INTENDED, NOR SHALL IT BE CONSTRUED, TO RELEASE ANY OF THE DEBTORS' CLAIMS, WHETHER COMMENCED BY THE DEBTORS, THE REORGANIZED DEBTORS OR THE LITIGATION TRUST, THAT MAY EXIST AGAINST THE DEBTORS' D&O LIABILITY INSURANCE POLICIES; AND, PROVIDED, FURTHER, THAT THE CREDITORS' COMMITTEE AND THE LITIGATION TRUST HEREBY WAIVE THEIR RESPECTIVE RIGHTS OF COLLECTION FROM THE REORGANIZED DEBTORS, THE DEBTOR-RELEASED PARTIES, OR THE DEBTORS' DIRECTORS AND OFFICERS IN CONNECTION WITH ANY D&O ACTIONS.

(c) RELEASES BY HOLDERS OF CLAIMS AND INTERESTS. EXCEPT AS OTHERWISE PROVIDED IN THE PLAN OR THE CONFIRMATION ORDER, ON THE EFFECTIVE DATE, TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW, AS SUCH LAW MAY BE EXTENDED OR INTERPRETED SUBSEQUENT TO THE EFFECTIVE DATE, EACH HOLDER OF A CLAIM THAT DOES NOT VOTE TO REJECT THE PLAN AND ANY PERSON WHO RECEIVES A DISTRIBUTION UNDER THE PLAN, IN CONSIDERATION FOR THE OBLIGATIONS OF THE DEBTORS AND THE OTHER RELEASED PARTIES UNDER THE PLAN, THE PLAN DISTRIBUTIONS, THE NEW COMMON STOCK AND OTHER CONTRACTS, INSTRUMENTS, RELEASES, AGREEMENTS OR DOCUMENTS EXECUTED AND DELIVERED IN CONNECTION WITH THE PLAN, WILL BE DEEMED TO CONSENSUALLY FOREVER RELEASE, WAIVE AND DISCHARGE ALL CLAIMS, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION OR LIABILITIES (OTHER THAN THE RIGHT TO ENFORCE THE OBLIGATIONS OF ANY PARTY UNDER THE PLAN AND THE CONTRACTS, INSTRUMENTS, RELEASES, AGREEMENTS AND DOCUMENTS DELIVERED UNDER OR IN CONNECTION WITH THE PLAN), INCLUDING, WITHOUT LIMITATION, ANY CLAIMS FOR ANY SUCH LOSS SUCH HOLDER MAY SUFFER, HAVE SUFFERED OR BE ALLEGED TO SUFFER AS A RESULT OF THE DEBTORS COMMENCING THE CHAPTER 11 CASES OR AS A RESULT OF THE PLAN BEING CONSUMMATED, WHETHER LIQUIDATED OR UNLIQUIDATED, FIXED OR CONTINGENT, MATURED OR UNMATURED, KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, THEN EXISTING OR THEREAFTER ARISING, IN LAW, EQUITY OR OTHERWISE THAT ARE BASED IN WHOLE OR IN PART ON ANY ACT OR OMISSION, TRANSACTION, EVENT OR OTHER OCCURRENCE TAKING PLACE ON OR PRIOR TO THE EFFECTIVE DATE IN ANY WAY RELATING TO THE DEBTORS, THE CHAPTER 11 CASES, THE PLAN OR THE DISCLOSURE STATEMENT AGAINST ANY RELEASED PARTY (THE "THIRD PARTY RELEASE").

ENTRY OF THE CONFIRMATION ORDER WILL CONSTITUTE THE BANKRUPTCY COURT'S APPROVAL PURSUANT TO SECTION 363 OF THE BANKRUPTCY CODE AND BANKRUPTCY RULE 9019 OF THE THIRD PARTY

RELEASE, WHICH INCLUDES BY REFERENCE EACH OF THE RELATED PROVISIONS AND DEFINITIONS CONTAINED HEREIN, AND FURTHER, WILL CONSTITUTE THE BANKRUPTCY COURT'S FINDING THAT SUCH RELEASE IS (I) IN EXCHANGE FOR THE GOOD AND VALUABLE CONSIDERATION PROVIDED BY THE DEBTORS AND THE OTHER RELEASED PARTIES, REPRESENTING GOOD FAITH SETTLEMENT AND COMPROMISE OF THE CLAIMS RELEASED HEREIN; (II) IN THE BEST INTERESTS OF THE DEBTORS AND ALL HOLDERS OF CLAIMS; (III) FAIR, EQUITABLE, AND REASONABLE; (IV) APPROVED AFTER DUE NOTICE AND OPPORTUNITY FOR HEARING; AND (V) A BAR TO ANY RELEASED CLAIM AGAINST ANY OF THE DEBTORS AND THE RELEASED PARTIES OR THEIR RESPECTIVE PROPERTY

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, EXCEPT TO THE EXTENT PERMISSIBLE UNDER APPLICABLE LAW, AS SUCH LAW MAY BE EXTENDED OR INTERPRETED SUBSEQUENT TO THE EFFECTIVE DATE, NOTHING IN THE CONFIRMATION ORDER OR THE PLAN SHALL EFFECT A RELEASE OF ANY CLAIM BY THE UNITED STATES GOVERNMENT OR ANY OF ITS AGENCIES OR ANY STATE AND LOCAL AUTHORITY WHATSOEVER, INCLUDING WITHOUT LIMITATION ANY CLAIM ARISING UNDER ERISA, FEDERAL SECURITIES LAWS, THE INTERNAL REVENUE CODE, THE ENVIRONMENTAL LAWS OR ANY CRIMINAL LAWS OF THE UNITED STATES OR ANY STATE AND LOCAL AUTHORITY AGAINST ANY NON-DEBTOR RELEASED PARTY, NOR SHALL ANYTHING IN THE CONFIRMATION ORDER OR THE PLAN ENJOIN THE UNITED STATES OR ANY STATE OR LOCAL AUTHORITY FROM BRINGING ANY CLAIM, SUIT, ACTION OR OTHER PROCEEDINGS AGAINST ANY NON-DEBTOR RELEASED PARTY FOR ANY LIABILITY WHATEVER, INCLUDING WITHOUT LIMITATION ANY CLAIM, SUIT OR ACTION ARISING UNDER THE INTERNAL REVENUE CODE, THE ENVIRONMENTAL LAWS OR ANY CRIMINAL LAWS OF THE UNITED STATES OR ANY STATE OR LOCAL AUTHORITY, NOR SHALL ANYTHING IN THE CONFIRMATION ORDER OR THE PLAN EXCULPATE ANY PARTY FROM ANY LIABILITY TO THE UNITED STATES GOVERNMENT OR ANY OF ITS AGENCIES OR ANY STATE AND LOCAL AUTHORITY WHATSOEVER, INCLUDING ANY LIABILITIES ARISING UNDER ERISA, FEDERAL SECURITIES LAWS, THE INTERNAL REVENUE CODE, THE ENVIRONMENTAL LAWS OR ANY CRIMINAL LAWS OF THE UNITED STATES OR ANY STATE AND LOCAL AUTHORITY AGAINST ANY NON-DEBTOR RELEASED PARTY.

Section 11.09. Exculpation and Limitation of Liability.

NONE OF THE DEBTORS, THE REORGANIZED DEBTORS, THE CREDITORS' COMMITTEE AND ITS MEMBERS, THE PLAN SPONSOR, THE LITIGATION TRUST, THE LITIGATION TRUSTEE, THE DISBURSING AGENT AND ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, MEMBERS, ATTORNEYS, CONSULTANTS, ADVISORS, AND AGENTS (BUT SOLELY IN THEIR CAPACITIES AS SUCH) SHALL HAVE OR INCUR ANY LIABILITY TO ANY HOLDER OF ANY CLAIM

OR INTEREST FOR ANY ACT OR OMISSION IN CONNECTION WITH, RELATED TO, OR ARISING OUT OF THE DEBTORS' RESTRUCTURING AND THE CHAPTER 11 CASES, INCLUDING WITHOUT LIMITATION THE NEGOTIATION AND EXECUTION OF THE PLAN, THE CHAPTER 11 CASES, THE DISCLOSURE STATEMENT, THE SOLICITATION OF VOTES FOR AND THE PURSUIT OF THE PLAN, THE CONSUMMATION OF THE PLAN, OR THE ADMINISTRATION OF THE PLAN OR THE PROPERTY TO BE DISTRIBUTED UNDER THE PLAN, INCLUDING, WITHOUT LIMITATION, ALL DOCUMENTS ANCILLARY THERETO, ALL DECISIONS, ACTIONS, INACTIONS AND ALLEGED NEGLIGENCE OR MISCONDUCT RELATING THERETO AND ALL PREPETITION ACTIVITIES LEADING TO THE PROMULGATION AND CONFIRMATION OF THE PLAN EXCEPT FRAUD, GROSS NEGLIGENCE, OR WILLFUL MISCONDUCT AS DETERMINED BY A FINAL ORDER OF THE BANKRUPTCY COURT. ANY OF THE FOREGOING PARTIES SHALL BE ENTITLED TO RELY UPON THE ADVICE OF COUNSEL WITH RESPECT TO THEIR DUTIES AND RESPONSIBILITIES UNDER THE PLAN. PURSUANT TO RULE 1.8(h) OF THE NEW YORK RULES OF PROFESSIONAL CONDUCT, NOTHING IN THE PLAN SHALL LIMIT THE LIABILITY OF THE PROFESSIONALS TO THEIR RESPECTIVE CLIENTS.

Section 11.10. Injunction Related to Releases and Exculpation.

EXCEPT AS PROVIDED IN THE PLAN, THE CONFIRMATION ORDER SHALL PERMANENTLY ENJOIN THE COMMENCEMENT OR PROSECUTION BY ANY PERSON OR ENTITY, WHETHER DIRECTLY, DERIVATIVELY OR OTHERWISE, OF ANY CLAIMS, OBLIGATIONS, SUITS, JUDGMENTS, DAMAGES, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION OR LIABILITIES RELEASED PURSUANT TO THE PLAN, INCLUDING BUT NOT LIMITED TO THE CLAIMS, OBLIGATIONS, SUITS, JUDGMENTS, DAMAGES, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION OR LIABILITIES RELEASED IN ARTICLE XII OF THE PLAN.

Section 11.11. Retention of Causes of Action/Reservation of Rights.

(a) Except as explicitly provided in the Plan, nothing contained in the Plan or the Confirmation Order shall be deemed to be a waiver, release, or relinquishment of any rights, claims or causes of action, rights of setoff, or other legal or equitable defenses (including, for avoidance of doubt, any cause of action to avoid a transfer under sections 303(c), 544, 547, 548, or 553(b) of the Bankruptcy Code, of any similar state law) that the Debtors, the Reorganized Debtors, or the Litigation Trust may have, or which the Reorganized Debtors or the Litigation Trust may choose to assert on behalf of their respective estates under any provision of the Bankruptcy Code or any applicable non-bankruptcy law, including, without limitation, (i) any and all Claims against any Person or entity, to the extent such Person or entity asserts a cross-claim, counterclaim, and/or Claim for setoff which seeks affirmative relief against the Debtors or the Reorganized Debtors, (ii) the turnover of any property of the Debtors' Estates, and (iii) Causes of Action against current of former directors, officers, professionals, agents, financial advisors, underwriters, lenders or auditors relating to act or omissions occurring prior to the Petition Date, subject to the limitations set forth in the Plan.

(b) Except as explicitly provided in the Plan, nothing contained in the Plan or the Confirmation Order shall be deemed to be a waiver, release or relinquishment of any rights, claims or causes of action, rights of setoff, or other legal or equitable defenses (including, for avoidance of doubt, any cause of action to avoid a transfer under sections 303(c), 544, 547, 548, or 553(b) of the Bankruptcy Code, of any similar state law) that the Debtors had immediately prior to the Petition Date against or with respect to any Claim left Unimpaired. The Reorganized Debtors or the Litigation Trust, as the case may be, shall have, retain, reserve, and be entitled to assert all such Claims, Causes of Action, rights of setoff and other legal or equitable defenses which they had immediately prior to the Petition Date fully as if the Chapter 11 Cases had not been commenced or the Litigation Trust Fund has not been transferred to the Litigation Trust in accordance with the Plan.

Section 11.12. Administrative Claims Incurred After the Confirmation Date.

Administrative Claims incurred by the Reorganized Debtors after the Confirmation Date, including (without limitation) Claims for Professionals' fees and expenses incurred after such date, may be paid by the Reorganized Debtors in the ordinary course of business and without the need for approval of the Bankruptcy Court.

Section 11.13. Term of Injunctions or Stays.

Unless otherwise provided herein or in the Confirmation Order, all injunctions or stays provided for in the Chapter 11 Case under Sections 105(a) or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date and thereupon shall be deemed to have expired or been superseded by the Injunctions set forth in the Plan.

ARTICLE XII

THE LITIGATION TRUST

Section 12.01. Formation of the Litigation Trust

Upon the Effective Date, the Debtors or the Reorganized Debtors, as the case may be, on their own behalf and on behalf of the Holders of Allowed General Unsecured Claims and the Allowed Mengnu Unsecured Claim shall execute the Litigation Trust Agreement and shall take all other steps necessary to establish the Litigation Trust as a grantor trust in accordance with and pursuant to the terms of the Plan. Pursuant to the Litigation Trust Agreement, the Debtors or the Reorganized Debtors shall transfer to the Litigation Trust all of their right, title and interest in the Litigation Trust Fund, including any Litigation Trust Causes of Action previously assigned to the Creditors' Committee on behalf of the Debtors' Estates prior to the Effective Date. The Debtors or the Reorganized Debtors shall transfer the Litigation Trust Fund to the Litigation Trust free and clear of any Claims, Liens, and other rights of third parties, and the Litigation Trust Fund shall vest in the Litigation Trust free and clean of any such Claim, Liens and rights, unless otherwise provided in Article IX of the Plan. Any recoveries on account of the Litigation Trust Fund shall be Distributed to Holders of Allowed General Unsecured Claims and the Allowed

Mengnu Unsecured Claim in accordance with the Plan and the Litigation Trust Agreement. The Creditors' Committee shall share any discovery obtained prior to and after the Effective Date with the Litigation Trustee.

Section 12.02. Purpose of the Litigation Trust

The Litigation Trust shall be established for the sole purpose of liquidating and distributing the Litigation Trust Fund and pursuing, in the Litigation Trustee's discretion, all Objections to General Unsecured Claims, in accordance with Treasury Regulation Section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business.

Section 12.03. Funding Expenses of the Litigation Trust

In accordance with the Litigation Trust Agreement, upon the creation of the Litigation Trust, the Debtors or the Reorganized Debtors, as the case may be, shall transfer the Litigation Trust Cash to the Litigation Trust to fund the Litigation Trust, which amount shall not be repaid. After payment of the Litigation Trust Cash, any Cash received in respect of Litigation Trust Fund shall be first allocated to cover the expenses of the Litigation Trust and establish a reserve to help ensure the Litigation Trust will have sufficient funds to cover future expenses of the Litigation Trust.

Section 12.04. Transfer of Assets

(a) The transfer of the Litigation Trust Fund to the Litigation Trust shall be made, as provided herein, for the benefit of the holders of Allowed General Unsecured Claims and the Allowed Mengnu Unsecured Claim, as applicable. Upon such the transfer of the Litigation Trust Fund, the Debtors and the Reorganized Debtors shall have no interest in or with respect to the Litigation Trust Fund of the Litigation Trust, except for the Reorganized Debtor Reimbursement Obligations. Notwithstanding the foregoing, for purposes of section 553 of the Bankruptcy Code, the transfer of Litigation Trust Fund to the Litigation Trust shall not affect the mutuality of obligations which otherwise may have existed prior to the effectuation of such transfer. To the extent that any property to have been included in the Litigation Trust Fund cannot be transferred to the Litigation Trust because of a restriction on transferability under applicable non-bankruptcy law that is not superseded or preempted by section 1123 of the Bankruptcy Code or any other provision of the Bankruptcy Code, any such property deemed to have been retained by the Reorganized Debtors shall be deemed to have been retained by the Reorganized Debtors and the Litigation Trustee shall be deemed to have been designated as a representative of the Reorganized Debtors. Notwithstanding the foregoing, all net proceeds of such Litigation Trust Fund shall be transferred to the Litigation Trust to be distributed to the Holders of Allowed General Unsecured Claims and the Allowed Mengnu Unsecured Claim, as applicable, subject to and consistent with the terms of the Plan and the Litigation Trust Agreement.

(b) The Tranche A Note, the Tranche C Note, and 9.9% of the New Common Stock shall be issued and transferred to the Litigation Trust for the sole benefit of the Holders of Allowed General Unsecured Claims. Accordingly, the Holder of the Allowed Mengnu Unsecured Claim

shall have no right, title or interest in or to the Tranche A Note, the Tranche C Note, 9.9% of the New Common Stock, or the proceeds thereof.

(c) The Litigation Trust Causes of Action shall be transferred to the Litigation Trust for the benefit of the Holders of Allowed General Unsecured Claims and the Holder of the Allowed Mengnu Unsecured Claim. Except as set forth in Section 9.05(e) and (f) of the Plan, the Litigation Trust Proceeds shall be allocated as follows: (i) 70% to the Holders of Allowed General Unsecured Claims and (ii) 30% to the Holder of the Allowed Mengnu Unsecured Claim.

Section 12.05. Litigation; Responsibility of Litigation Trustee

(a) The Litigation Trustee shall, in an expeditious but orderly manner, liquidate, distribute, and convert to Cash the Litigation Trust Fund, make timely Distributions, and not unduly prolong the duration of the Litigation Trust. The liquidation of the Litigation Trust Fund may be accomplished either through prosecution, compromise and settlement, sale, release, abandonment, waiver or dismissal of any or all claims, rights, or Causes of Action, or otherwise. The Litigation Trustee shall have the absolute right, in its sole discretion, to pursue or not to pursue Litigation Trust Causes of Action as it determines is in the best interests of the beneficiaries of the Litigation Trust, and consistent with the purposes of the Litigation Trust. Notwithstanding any state or federal law to the contrary or anything herein, the Litigation Trust shall itself have the capacity to sue and be sued, and may alone be named party plaintiff or defendant in all adversary proceedings, contested matters, and other state and federal proceedings brought on its behalf or against it, and settle and compromise all such matters in its own name. The Litigation Trust shall have the authority and right to retain law firms to handle the prosecution of any Litigation Trust Causes of Actions and Objections to General Unsecured Claims and to assist in the administration of the Litigation Trust. Any such law firms may, at the direction of the Litigation Trustee, provide assistance to the Reorganized Debtors in connection with the Litigation Trust's litigation of Avoidance Actions. The Litigation Trust may incur any reasonable and necessary expenses in liquidating and converting the Litigation Trust Fund to Cash and making Distributions, and shall be reimbursed in accordance with the provisions of the Litigation Trust Agreement.

(b) No recourse will ever be had, directly or indirectly, against the Litigation Trustee or its employees, representatives, professionals, agents, successors or assigns, by legal or equitable proceedings or by virtue of statute or otherwise, or any deed of trust, mortgage, pledge or note, nor upon any promise, contract, instrument, obligation, covenant or agreement executed by the Litigation Trust, the Litigation Trustee, or its employees, representatives, agents, successors or assigns under the Plan or for any purposes authorized by the Plan. All such liabilities, covenants and agreements will be enforceable only against, and will be satisfied only out of, the assets of the Litigation Trust Fund or such part thereof as will, under the terms of any such agreement, be liable therefor, or will evidence only a right of payment out of the income and proceeds of the assets of the Litigation Trust, as the case may be. Every such undertaking, contract, covenant or agreement will provide expressly against the personal liability of the Litigation Trust and the Litigation Trustee. With the exception of a holding of gross negligence and willful misconduct in a final judgment of a court of competent jurisdiction (not subject to further appeal or review), the Litigation Trust, Litigation Trustee, and their employees,

representatives, professionals, agents, successors and assigns will not be liable for any acts they may do, or omit to do hereunder or under the Litigation Trust Agreement. The Litigation Trustee may consult with counsel and other professionals and shall be entitled to rely on their advice in acting or refraining from acting and shall not be liable for any act taken or not taken in accordance with their advice. In no circumstances shall the Litigation Trustee be liable for indirect, punitive, special, incidental or consequential damage or loss (including, but not limited to lost profits) whatsoever, even if the Litigation Trustee has been informed of the likelihood of such loss or damages and regardless of the form of the action. Any liability of the Litigation Trustee under the Plan or the Litigation Trust Agreement will be limited to the amount of fees paid to the Litigation Trustee as compensation under the Plan or the Litigation Trust Agreement.

The Litigation Trust shall indemnify and hold harmless the Litigation Trustee, in its capacity as Litigation Trustee of the Litigation Trust, and any director, officer, member, manager, employee, professional, agent, representative, successor, assign, or affiliate of the Litigation Trustee (each, an "Indemnified Party") from and against all liabilities, losses, damages, claims, costs, and expenses (collectively, the Indemnified Losses"), including, but not limited to, attorneys' fees, arising out of or due to their actions or omissions, or consequences of such actions or omissions, with respect to the Litigation Trust or the implementation or administration of the Plan or the Litigation Trust Agreement, other than Indemnified Losses that are held in a final judgment by a court of competent jurisdiction (not subject to further appeal or review) to have been primarily and directly caused by willful misconduct or gross negligence of the Indemnified Party seeking to be indemnified.

(c) No later than ten (10) pays prior to the Confirmation Hearing, the Litigation Trustee shall be selected by the Creditors' Committee and approved by the Confirmation Order, and have the power to (i) prosecute for the benefit of the Litigation Trust all Litigation Trust Causes of Action transferred to the Litigation Trust (whether such suits are brought in the name of the Litigation Trust or otherwise), and (ii) otherwise perform the functions and take the actions provided for or permitted herein or in any other agreement executed by the Litigation Trustee pursuant to the Plan. Any and all proceeds generated from the Litigation Trust Fund shall be the property of the Litigation Trust for the benefit of the Holders of Allowed General Unsecured Claims and the Allowed Mengnu Unsecured Claim, as applicable.

(d) The Reorganized Debtors will cooperate with the Litigation Trust and use reasonable efforts to provide the Litigation Trust with information and documentation in connection with the Litigation Trust's pursuit of Litigation Trust Causes of Action.

(e) If the Reorganized Debtors must incur costs or retain counsel in connection with any Avoidance Actions commenced by the Litigation Trust, the Reorganized Debtors will provide the Litigation Trustee advance notice. In the event that the Reorganized Debtors do incur such costs and have provided the Litigation Trustee with such advance notice, the Litigation Trust will reimburse the Reorganized Debtors for such reasonable and documented costs; *provided, however,* that any such reimbursement will only be paid (i) out of the proceeds received by the Litigation Trust in respect of any Avoidance Actions, and (ii) after payment of the Litigation Trust's fees and expenses incurred in connection with any Avoidance Actions, including the fees and expenses of any counsel to the Litigation Trustee. Distributions to Holders of Allowed

General Unsecured Claims and the Allowed Mengnu Unsecured Claim on account of any Avoidance Actions shall not be made until after (i) any reimbursement obligations to the Reorganized Debtors have been satisfied in full; and (ii) the Litigation Trust's fees and expenses have been satisfied in full.

(f) If the Reorganized Debtors must incur any out-of-pocket expenses in cooperating with, defending against, or reimbursing third parties in connection with their defense of, any D&O Actions, then the Litigation Trust will (i) reimburse the Reorganized Debtors for all such reasonable, documented and necessary expenses; and (ii) indemnify the Reorganized Debtors against any money damages or reasonable, documented costs incurred by the Reorganized Debtors, including any payments that the Reorganized Debtors are compelled to make to any parties arising out of any D&O Actions brought by the Litigation Trust; *provided, however,* that any such reimbursement or indemnification will only be paid (y) out of the proceeds received by the Litigation Trust in respect of any D&O Actions, and (ii) after payment of the Litigation Trust's fees and expenses incurred in connection with any D&O Actions, including the fees and expenses of any counsel to the Litigation Trust. Distributions to Holders of Allowed General Unsecured Claims and the Allowed Mengnu Unsecured Claim on account of any D&O Actions shall not be made until after (i) any reimbursement or indemnification obligations to the Reorganized Debtors have been satisfied in full; and (ii) the Litigation Trust's fees and expenses have been satisfied in full. The Litigation Trustee shall make commercially reasonable efforts to minimize adverse public relations and other negative impacts on the Reorganized Debtors in connection with any D&O Actions.

(g) If the Litigation Trust settles any D&O Action, the Litigation Trust will use commercially reasonable efforts to obtain a full release in favor of the Reorganized Debtors from any party with whom the Litigation Trustee settles. If the Litigation Trustee does not obtain such a release, then the Litigation Trustee will hold all proceeds of the settlement of such D&O Action, less the Litigation Trust's fees and expenses incurred in connection with any such D&O Action (including the fees and expenses of counsel to the Litigation Trustee), until the earlier of (i) the expiration, as determined by the Reorganized Debtors in their sole discretion, of all applicable statutes of limitation governing the time period during which any person or entity making a payment to the Litigation Trust on account of such settlement may bring an action against the Reorganized Debtors in connection with such payments, or (ii) the later of (y) three (3) years from the Effective Date, or (z) one (1) year from the receipt of such proceeds by the Litigation Trust.

(h) If the Litigation Trustee obtains a money judgment or award in any D&O Action, then the Litigation Trustee will hold all proceeds of the money judgment or award of such D&O Action, less the Litigation Trust's fees and expenses incurred in connection with any such D&O Action (including the fees and expenses of counsel to the Litigation Trustee), until the earlier of (i) the expiration, as determined by the Reorganized Debtors in their sole discretion, of all applicable statutes of limitation governing the time period during which any person or entity making a payment to the Litigation Trust on account of such settlement may bring an action against the Reorganized Debtors in connection with such payments, or (ii) the later of (y) three (3) years

from the Effective Date, or (z) one (1) year from the receipt of such proceeds by the Litigation Trust.

Section 12.06. Investment Powers

The right and power of the Litigation Trustee to invest Litigation Trust Fund, the proceeds therof, or any income earned by the Litigation Trust shall be limited to the right and power to invest such assets (pending periodic Distributions in accordance with Section 9.07 of the Plan) only in Cash and Government securities as defined in section 2(a)(16) of the Investment Company Act of 1940, as amended; *provided, however,* that (a) the scope of such permissible investments shall be further limited to include only those investments that a liquidating trust, within the meaning of Treasury Regulation Section 301.7701-4(d), may be permitted to hold, pursuant to the Treasury Regulations, or any modification in the IRS guidelines, whether set forth in IRS rulings, other IRS pronouncements, or otherwise, and (b) the Litigation Trustee may expend the assets of the Litigation Trust (i) as reasonably necessary to meet contingent liabilities and maintain the value of the assets of the Litigation Trust during liquidation, (ii) to pay reasonable administrative expenses (including, but not limited to, any taxes imposed on the Litigation Trust or reasonable fees and expenses in connection with litigation, and (iii) to satisfy other liabilities incurred or assumed by the Litigation Trust (or to which the assets are otherwise subject) in accordance with the Plan or the Litigation Trust Agreement.

Section 12.07. Annual Distribution; Withholding

The Litigation Trustee shall distribute at least semi-annually to the Holders of Allowed General Unsecured Claims and the Holder of the Allowed Mengnu Unsecured Claim, as applicable, all net Cash income plus all net Cash proceeds from the liquidation of the Litigation Trust Fund, except as otherwise provided in the Plan and the Litigation Trust Agreement; *provided, however,* that the Litigation Trust may retain such amounts (i) as are reasonably necessary to meet contingent liabilities and to maintain the value of the Litigation Trust Fund during liquidation, (ii) to pay reasonable administrative expenses (including any taxes imposed on the Litigation Trust or in respect of Litigation Trust Fund, (iii) to pay the Reorganized Debtors Reimbursement Obligations, (iv) to satisfy other liabilities incurred or assumed by the Litigation Trust (or to which the assets are otherwise subject) in accordance with the Plan or the Litigation Trust Agreement, and (v) as determined by the Litigation Trustee to fund the operations of the Litigation Trust. All such distributions to be made under the Litigation Trust Agreement shall be made to the Disbursing Agent who shall distribute them to the Holders of Allowed General Unsecured Claims and the Holder of the Allowed Mengnu Unsecured Claim subject to the terms of the Plan and the Litigation Trust Agreement. The Litigation Trustee may withhold from amounts distributable to any person any and all amounts, determined in the Litigation Trustee's reasonable sole discretion, to be required to be withheld by any law, regulation, rule, ruling, directive, or other governmental requirements.

Section 12.08. Reporting Duties

(a) Litigation Trust Fund Treated as Owned by Creditors. For all federal income tax reporting purposes, all parties (including, without limitation, the Debtors, the Reorganized Debtors, the

Litigation Trustee and the beneficiaries of the Litigation Trust) shall treat the transfer of the Litigation Trust Fund by the Debtors or the Reorganized Debtors to the Litigation Trust for the benefit of the beneficiaries of the Litigation Trust, whether their Claims are Allowed on or after the Effective Date, as (i) a transfer of the Litigation Trust Fund directly to those Holders of Allowed Claims who are beneficiaries of the Litigation Trust (other than to the extent allocable to Disputed Claims), followed by, (b) the transfer by such Persons to the Litigation Trust of the Litigation Trust Fund in exchange for the beneficial interests in the Litigation Trust (and in respect of the Litigation Trust Fund allocated to a Disputed Claim Reserve, as a transfer to the Disputed Claim Reserve). Accordingly, those Holders of Allowed Claims who are beneficiaries of the Litigation Trust shall be treated for federal income tax purposes as the grantors and owners of their respective rights in the Litigation Trust Fund. The foregoing treatment also shall apply, to the extent permitted by applicable law, for state and local income tax purposes.

(b) Tax Reporting. The Litigation Trustee shall endeavor to ensure the Litigation Trust files tax returns as a grantor trust pursuant to Treasury Regulation section 1.671-4(a) and shall comply with all requirements of any governmental unit in connection therewith. The Litigation Trustee shall be responsible for ensuring the Litigation Trust makes payments, out of the Litigation Trust Fund, of any taxes imposed on the Litigation Trust or its assets. The Litigation Trust may request an expedited determination of its taxes, including any refunds, under section 505(b) of the Bankruptcy Code for all returns filed for, or on behalf of, it for all taxable periods through its dissolution.

Section 12.09. Trust Implementation

On the Effective Date, the Litigation Trust shall be established as a grantor trust and become effective for the benefit of Holders of Allowed General Unsecured Claims and the Holder of the Allowed Mengnu Unsecured Claim. The Litigation Trust Agreement shall be included in the Plan Supplement and shall contain provisions similar to those contained in trust agreements utilized in comparable circumstances, including, but not limited to, any and all provisions necessary to ensure the continued treatment of the Litigation Trust as a grantor trust for federal income tax purposes. All parties (including the Debtors or the Reorganized Debtors, as the case may be, the Litigation Trust or Litigation Trustee, the Holders of Allowed General Unsecured Claim and the Holder of the Allowed Mengnu Unsecured Claim) shall execute any documents or other instruments as necessary to cause title to the applicable assets to be transferred to the Litigation Trust. In the event of any conflict between the terms of the Plan and the Litigation Trust Agreement, the terms of the Litigation Trust Agreement shall control.

The Litigation Trustee shall serve without bond. The Litigation Trust Agreement will require the Litigation Trustee to appoint a disinterested party to handle any matter where the Litigation Trustee has identified a conflict of interest or the Bankruptcy Court, on motion of a party in interest, determines one exists. The Litigation Trust Agreement shall also provide that in the event of the resignation or removal of the Litigation Trustee, the Litigation Trustee will appoint a successor trustee subject to Bankruptcy Court approval or, if the Litigation Trustee is unwilling or unable to do so, the Bankruptcy Court will do so.

Section 12.10. Dissolution of Litigation Trust

The Litigation Trust shall terminate upon completion of prosecution of the Litigation Trust Causes of Action, distribution of all Litigation Trust Proceeds to Mengnu and Holders of the General Unsecured Claims as applicable, and the winding down of the Litigation Trust. Upon such termination, all beneficial interests in the Litigation Trust will be extinguished and the legal existence of the Litigation Trust will terminate. The Litigation Trustee may take any action it deems necessary or desirable to reflect the transfer to the Disbursing Agent of all Litigation Trust Proceeds held by the Litigation Trust upon its termination.

Section 12.11. Establishment of a D&O Cash Reserve.

On the Effective Date, the Debtors shall fund the D&O Cash Reserve in such amounts as determined by the Debtors, in consultation with the Creditors' Committee and the Plan Sponsor, to be necessary to make the required future retention payments under the D&O Liability Insurance Policies.

ARTICLE XIII

RETENTION OF JURISDICTION

Section 13.01. Exclusive Jurisdiction of Bankruptcy Court.

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain exclusive jurisdiction of all matters arising out of, arising in or related to, the Chapter 11 Cases, the Plan and the Confirmation Order to the fullest extent permitted by applicable law, including, without limitation, jurisdiction to:

(i) Allow, disallow, determine, liquidate, classify, estimate or establish the priority or secured or unsecured status of any Claim (whether Filed before or after the Effective Date and whether or not contingent, Disputed or unliquidated), including the compromise, settlement and resolution of any request for payment of any Claim, the resolution of any Objections to the allowance or priority of any Claim and the resolution of any dispute as to the treatment necessary to reinstate a Claim pursuant to the Plan and to hear and determine any other issue presented hereby or arising hereunder, including during the pendency of any appeal relating to any Objection to such Claim;

(ii) Grant or deny any applications for allowance of compensation or reimbursement of expenses for Professionals authorized pursuant to the Bankruptcy Code or the Plan, for periods ending on or before the Effective Date;

(iii) Hear and determine motions, applications, adversary proceedings, contested matters and other litigated matters pending on, Filed on or commenced after the Effective Date, including proceedings with respect to the rights of the Estate to recover Property under sections 542 or 543 of the Bankruptcy Code;

(iv) Determine and resolve any matters related to the assumption, assumption and assignment or rejection of any Executory Contract or unexpired lease to which the Debtors are a party or with respect to which the Debtors may be liable, and to hear, determine and, if necessary, liquidate any Claims arising therefrom;

(v) Ensure that all payments due under the Plan and performance of the provisions of the Plan are accomplished as provided herein and resolve any issues relating to Distributions to Holders of Allowed Claims pursuant to the provisions of the Plan;

(vi) Following the Effective Date and consistent with section 1142 of the Bankruptcy Code, construe, take any action and issue such orders as may be necessary for the enforcement, implementation, execution and consummation of the Plan and all contracts, instruments, releases and other agreements or documents created in connection with the Plan and the Confirmation Order, for the maintenance of the integrity of the Plan and protection of the Estates following consummation in accordance with sections 524 and 1141 of the Bankruptcy Code;

(vii) Determine and resolve any case, controversy, suit or dispute that may arise in connection with the consummation, interpretation, implementation or enforcement of the Plan or the Confirmation Order, including the indemnification, release and injunction provisions set forth in the Plan, or any Person's rights arising under or obligations incurred in connection therewith;

(viii) Modify the Plan after the Effective Date pursuant to section 1127 of the Bankruptcy Code and the Plan or modify the Plan Summary, the Confirmation Order or any contract, instrument, release, or other agreement or document created in connection with the Plan, the Plan Summary or the Confirmation Order, or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, the Plan, the Plan Summary, the Confirmation Order;

(ix) Issue injunctions, enter and implement other orders or take such other actions as may be necessary or appropriate to restrain interference by any Person with consummation, implementation or enforcement of the Plan or the Confirmation Order;

(x) Enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked or vacated;

(xi) Determine any other matters that may arise in connection with or relating to the Plan, the Plan Summary, the Confirmation Order and the Bankruptcy Code;

(xii) Determine such other matters and for such other purposes as may be provided in the Confirmation Order;

(xiii) Continue to enforce the automatic stay through the Effective Date;

(xiv) Hear and determine disputes arising in connection with the interpretation, implementation or enforcement of the Plan, and issues presented or arising under the Plan, including but not limited to disputes among Holders or with the Reorganized Debtor and arising

under agreements, documents or instruments executed in connection with or governed by the Plan;

(xv) Hear and determine any other matter relating to the Plan, its interpretation or enforcement;

(xvi) Enforce the terms of the Litigation Trust Agreement and to decide any claims or disputes which may arise or result from, or be connected with, the Litigation Trust Agreement, any breach or default under the Litigation Trust Agreement, or the transactions contemplated by the Litigation Trust Agreement; and

(xvii) Enter a final decree and close the Chapter 11 Cases.

Section 13.02. Non-Exclusive Jurisdiction of Bankruptcy Court.

Following the Effective Date, the Bankruptcy Court shall retain non-exclusive jurisdiction of the Chapter 11 Cases to the fullest extent permitted by applicable law, including, without limitation, jurisdiction to:

(i) Recover all Property of the Estates, wherever located;

(ii) Hear and determine any motions or contested matters involving Taxes, Tax refunds, Tax attributes and Tax benefits and similar or related matters with respect to any of the Debtors, arising prior to the Confirmation Date or relating to the period of administration of the Chapter 11 Cases, including, without limitation, matters concerning federal, state and local taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code; and

(iii) Hear any other matter not inconsistent with the Bankruptcy Code.

Section 13.03. Failure of Bankruptcy Court to Exercise Jurisdiction.

If the Bankruptcy Court abstains from exercising or declines to exercise jurisdiction over any matter arising under, arising in or related to the Debtors or the Chapter 11 Cases, this Article shall not prohibit or limit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such subject matter.

ARTICLE XIV

CONFIRMATION AND EFFECTIVENESS OF THE PLAN

Section 14.01. Conditions Precedent to Confirmation, Generally.

Confirmation of a plan under section 1129(a) of the Bankruptcy Code requires, among other things, that:

- the plan complies with the applicable provisions of the Bankruptcy Code;

- the proponent of the plan has complied with the applicable provisions of the Bankruptcy Code;

- the plan has been proposed in good faith and not by any means forbidden by law;

- any plan payment made or to be made by the proponent under the plan for services or for costs and expenses in, or in connection with, the chapter 11 case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the Bankruptcy Court as reasonable;

- the proponent has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer, or voting trustee of the debtor, an affiliate of the debtor participating in the plan with the debtor, or a successor to the debtor under the plan. The appointment to, or continuance in, such office by such individual must be consistent with the interests of creditors and equity security holders and with public policy and the proponent must have disclosed the identity of any insider that the reorganized debtor will employ or retain, and the nature of any compensation for such insider;

- with respect to each impaired class of claims or interests, either each holder of a claim or interest of such class has accepted the plan, or will receive or retain under the plan, on account of such claim or interest, property of a value, as of the effective date of the plan, that is not less than the amount that such holder would receive or retain if the debtor were liquidated on such date under chapter 7 of the Bankruptcy Code;

- each class of claims or interests has either accepted the plan or is not impaired under the plan;

- except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that allowed administrative expenses and priority claims will be paid in full on the effective date (except that if a class of priority claims has voted to accept the plan, holders of such claims may receive deferred cash payments of a value, as of the effective date of the plan, equal to the allowed amounts of such claims and that holders of priority tax claims may receive on account of such claims deferred cash payments, over a period not exceeding five (5) years after the date of assessment of such claims, of a value, as of the effective date, equal to the allowed amount of such claims);

- if a class of claims is impaired, at least one (1) impaired class of claims has accepted the plan, determined without including any acceptance of the plan by any insider holding a claim in such class; and

- confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan.

Subject to satisfying the standard for any potential "cramdown" of Classes deemed to reject the Plan, the Debtors believe that:

- the Plan satisfies all of the statutory requirements of chapter 11 of the Bankruptcy Code;
- the Debtors have complied or will have complied with all of the requirements of chapter 11 of the Bankruptcy Code; and
- the Plan has been proposed in good faith.

Section 14.02. Conditions Precedent to Confirmation.

Confirmation of the Plan is subject to:

(a) the Disclosure Statement having been approved by the Bankruptcy Court as having adequate information in accordance with section 1125 of the Bankruptcy Code;

(b) entry of the Confirmation Order in form and substance reasonably satisfactory to the Debtors and the Plan Sponsor; and

(c) the Plan and related documents having been filed in substantially final form prior to the Confirmation Hearing.

Section 14.03. Statutory Confirmation Requirements

Set forth below is a summary of the relevant statutory confirmation requirements.

1. Best Interest Test

Each Holder of a Claim or Interest in an Impaired Class must either (i) accept the Plan or (ii) receive or retain under the Plan Cash or property of a value, as of the Effective Date of the Plan, that is not less than the value such Holder would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. The Bankruptcy Court will determine whether the Cash and property issued under the Plan to each Holder of a Claim or Interest equals or exceeds the value that would be allocated to such Holders in a liquidation under chapter 7 of the Bankruptcy Code (the "Best Interest Test"). The Debtors believe the Holders of Claims against and Interests in the Debtors will have an equal or greater recovery as a result of an orderly chapter 11 reorganization as discussed herein and under the Plan than could be realized in a chapter 7 liquidation for the following reasons:

To determine the value that a Holder of a Claim or Interest in an Impaired Class would receive if the Debtor was liquidated under chapter 7, the Bankruptcy Court must determine the aggregate dollar amount that would be generated from the liquidation of the Debtors' Property if the Debtors' Chapter 11 Cases had been converted to a chapter 7 liquidation case and the Debtors' Property were liquidated by a chapter 7 trustee (the "Liquidation Value"). The Liquidation Value would consist of the net proceeds from the disposition of the Debtors' Property, augmented by

Cash held by the Debtors and reduced by certain increased costs and Claims that arise in a chapter 7 liquidation case that do not arise in a chapter 11 reorganization case.

As explained below, the Liquidation Value available for satisfaction of Claims and Interests in the Debtors would be reduced by: (a) the costs, fees and expenses of the liquidation under chapter 7, which would include disposition expenses and the compensation of a trustee and his or her counsel and other professionals retained, (b) the fees of the chapter 7 trustee, and (c) certain other costs arising from conversion of the Chapter 11 Cases to chapter 7.

The Debtors believe that Creditors have benefited and will continue to clearly benefit from the reorganization of the Debtors under the terms of the Plan. If the Debtors' Property were liquidated by a chapter 7 trustee, the Debtors project that the maximum recovery would be substantially less.

Moreover, under the Plan the Debtors will avoid the increased costs and expenses of a chapter 7 liquidation, including the fees payable to a chapter 7 trustee and his or her professionals. The Cash to be distributed to Creditors would be reduced by the chapter 7 trustee's statutory fee, which is calculated on a sliding scale from which the maximum compensation is determined based on the total amount of moneys disbursed or turned over by the chapter 7 trustee. Bankruptcy Code § 326(a) permits reasonable compensation not to exceed 3% of the proceeds in excess of $1 million distributable to creditors.[23] The chapter 7 trustee's professionals, including legal counsel and accountants, would add substantial administrative expenses that would be entitled to be paid ahead of Allowed Claims and Interests against the Debtors. Moreover, these chapter 7 trustee fees would reduce the funds available for distribution to the Debtors' Creditors from additional recoveries such as preferential payments, expunged administrative claims and the proceeds of successful Estate litigation or settlement.

It is also anticipated that a chapter 7 liquidation would result in a significant delay in payments being made to Creditors. Bankruptcy Rule 3002(c) provides that conversion of a chapter 11 case to chapter 7 will trigger a new bar date for filing claims against the Debtors, and that the new bar date will be 90 days after the first date set for the meeting of creditors called under section 341 of the Bankruptcy Code. Not only would a chapter 7 liquidation delay distribution to Creditors, but it is possible that additional claims that were not asserted in the Chapter 11 Cases, or were late-filed, could be filed against the Debtors. Reopening the bar date in connection with conversion to chapter 7 would provide these and other claimants an additional opportunity to timely file claims against the Estates.

For the reasons set forth above, the Debtors believe that the Plan provides a superior recovery for Holders of Claims and Interests, and the Plan meets the requirements of the Best Interest Test.

[23] Bankruptcy Code § 326(a) permits a chapter 7 trustee to receive 25% of the first $5,000 distributed to creditors, 10% of additional amounts up to $50,000, 5% of additional distributions up to $1 million and reasonable compensation up to 3% of distributions in excess of $1 million.

2. Financial Feasibility Test

Even if the Plan is accepted by each Class of Claims and Interests voting on the Plan, and even if the Bankruptcy Court determines that the Plan satisfies the Best Interest Test, the Bankruptcy Code requires that, in order for the Plan to be confirmed by the Bankruptcy Court, it must be demonstrated that consummation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors.

As part of this analysis, the Debtors have prepared projections of the financial performance of the Reorganized Debtors for each of the three calendar years from 2011 through 2013 (the "Financial Projections"). The Financial Projections, and the assumptions on which they are based, are set forth in Exhibit B hereto, and discussed in Section 15.01 of the Disclosure Statement.

The Debtors believe that they will be able to make all payments required pursuant to the Plan while conducting ongoing business operations and, therefore, that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization.

The Financial Projections are based on the assumption that the Plan will be confirmed by the Bankruptcy Court and, for projection purposes, that the Effective Date under the Plan will occur in February, 2011.

3. Acceptance by Impaired Classes

Bankruptcy Code § 1129(b) provides that a plan can be confirmed even if it has not been accepted by all impaired classes as long as at least one impaired class of claims has accepted it. The process by which nonaccepting classes are forced to be bound by the terms of a plan is commonly referred to as "cramdown." The Bankruptcy Court may confirm the Plan at the request of the Debtors notwithstanding the Plan's rejection (or deemed rejection) by impaired classes as long as the Plan "does not discriminate unfairly" and is "fair and equitable" as to each impaired class that has not accepted it. A plan does not discriminate unfairly within the meaning of the Bankruptcy Code if a dissenting class is treated equally with respect to classes of equal rank.

A class of claims under a plan accepts the plan if the plan is accepted by creditors that hold at least two-thirds in amount and more than one-half in number of the allowed claims in the class that actually vote on the plan. A class of interests accepts the plan if the plan is accepted by holders of interests that hold at least two-thirds in amount of the allowed interests in the class that actually vote on a plan.

A class that is not "impaired" under a plan is conclusively presumed to have accepted the plan. Solicitation of acceptances from such a class is not required. A class is "impaired" unless (i) the legal, equitable and contractual rights to which a claim or interest in the class entitles the holder are not modified, or (ii) the effect of any default is cured and the original terms of the obligation are reinstated.

A plan is fair and equitable as to a class of secured claims that rejects the plan if the plan provides (i)(a) that the holders of claims included in the rejecting class retain the liens securing

those claims, whether the property subject to those liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims, and (b) that each holder of a claim of such class receives on account of that claim deferred cash payments totaling at least the allowed amount of that claim, of a value, as of the effective date of the plan, at least equal to the value of the holder's interest in the estate's interest in such property; (ii) for the sale, subject to Bankruptcy Code § 363(k), of any property that is subject to the liens securing the claims included in the rejecting class, free and clear of the liens, with the liens to attach to the proceeds of the sale, and the treatment of the liens on proceeds under clause (i) or (ii) of this paragraph; or (iii) for the realization of the indubitable equivalent of such claims.

A plan is fair and equitable as to a class of unsecured claims that rejects the plan if the plan provides (i) for each holder of a claim included in the rejecting class to receive or retain on account of that claim property that has a value, as of the effective date of the plan, equal to the allowed amount of such claim, or (ii) that the holder of any claim or interest that is junior to the claims of such rejecting class will not receive or retain on account of such junior claim or interest any property at all.

A plan is fair and equitable as to a class of equity interests that rejects a plan if the plan provides (i) that each holder of an interest included in the rejecting class receive or retain on account of that interest property that has a value, as of the effective date of the plan, equal to the greater of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such interest, or (ii) that the holder of any interest that is junior to the interest of such rejecting class will not receive or retain under the plan on account of such junior interest any property at all. The Debtors believe the Plan to be both fair and equitable.

Section 14.04. Conditions Precedent to the Effective Date.

The occurrence of the Effective Date is subject to:

(a) the Confirmation Order, in form and substance satisfactory to the Debtors, having become a Final Order;

(b) the Plan and related documents, in form and substance satisfactory to the Debtors, the Creditors' Committee, and the Plan Sponsor, being executed and delivered, and any conditions (other than the occurrence of the Effective Date or certification by the Debtors that the Effective Date has occurred) contained therein having been satisfied or waived in accordance therewith;

(c) repayment of the Mengnu DIP Claims and repayment of all Obligations (as defined in the DIP Agreement);

(d) the Debtors and Mengnu having executed all documents and entered into all agreements as may be necessary and appropriate in connection with the Exit LC Facility and Exit Funding Facility, the terms and conditions of which shall be reasonably acceptable to the Debtors, the Plan Sponsor, and the Creditors' Committee;

(e) all other actions and documents necessary to implement the Plan shall have been effected or executed and shall be reasonably acceptable to the Debtors, the Plan Sponsor, and the Creditors' Committee;

(f) the New Common Stock shall have been authorized in the amounts set forth in the Plan and on terms reasonably satisfactory to the Plan Sponsor and the Creditors' Committee;

(g) the Litigation Trust Agreement shall have been executed and all steps necessary to establish the Litigation Trust in accordance with and pursuant to the terms of the Plan shall have occurred in a manner reasonably satisfactory to the Creditors' Committee;

(h) no Material Adverse Change having occurred from the date of entry of the Confirmation Order; and

(i) all material governmental, regulatory and third party approvals, waivers and/or consents in connection with the Plan, if any, having been obtained and remaining in full force and effect, and there existing no claim, action, suit, investigation, litigation or proceeding, pending or threatened in any court or before any arbitrator or governmental instrumentality, which would prohibit the consummation of the Plan.

Section 14.05. Waiver of Conditions Precedent and Bankruptcy Rule 3020(e) Automatic Stay.

The Debtors, subject to receipt of consent from the Plan Sponsor and the Creditors' Committee, which consent shall not be unreasonably withheld, and to the extent not prohibited by applicable law, shall have the right to waive one or more of the conditions precedent set forth above at any time without leave of or notice to the Bankruptcy Court and without formal action other than proceeding with confirmation of the Plan.

If any condition precedent to the Effective Date is waived pursuant to this Section and the Effective Date occurs, the waiver of such condition shall benefit from the "mootness doctrine", and the act of consummation of the Plan shall foreclose any ability to challenge the Plan in any court.

Section 14.06. Effect of Failure of Conditions.

If all of the conditions to effectiveness and the occurrence of the Effective Date have not been satisfied or duly waived on or before the first Business Day that is more than 60 days after the Confirmation Date, or by such later date as set forth by the Debtors in a notice filed with the Bankruptcy Court prior to the expiration of such period, then the Debtors may file a motion to vacate the Confirmation Order before all of the conditions have been satisfied or duly waived. If the Confirmation Order is vacated pursuant to this Section, the Plan shall be null and void in all respects, and nothing contained in the Plan shall: (a) constitute a waiver or release of any Claims against or Interests in the Debtors; (b) prejudice in any manner the rights of the holder of any Claim against or Interest in the Debtors; or (c) constitute an admission, acknowledgment, offer or undertaking by any Debtor or any other entity with respect to any matter set forth in the Plan.

ARTICLE XV

FINANCIAL INFORMATION

Section 15.01. Feasibility; Financial Projections

The Bankruptcy Code permits a plan to be confirmed only if confirmation is not likely to be followed by liquidation or the need for further financial reorganization. For purposes of determining whether the Plan meets this requirement, the Debtors have analyzed their ability to meet their obligations under the Plan. As part of this analysis, the Debtors have prepared projections of the financial performance of the Reorganized Debtors for each of the three calendar years from 2011 through 2013 (the "Financial Projections").

The Financial Projections are based on the assumption that the Plan will be confirmed by the Bankruptcy Court and, for projection purposes, that the Effective Date under the Plan will occur in February 2011.

THE PROJECTIONS, INCLUDING THE UNDERLYING ASSUMPTIONS, SHOULD BE CAREFULLY REVIEWED IN EVALUATING THE PLAN. WHILE MANAGEMENT BELIEVES THE ASSUMPTIONS UNDERLYING THE PROJECTIONS, WHEN CONSIDERED ON AN OVERALL BASIS, WERE REASONABLE WHEN PREPARED IN LIGHT OF CURRENT CIRCUMSTANCES AND EXPECTATIONS, NO ASSURANCE CAN BE GIVEN THAT THE PROJECTIONS WILL BE REALIZED. THE DEBTORS MAKE NO REPRESENTATION OR WARRANTY AS TO THE ACCURACY OF THE PROJECTIONS.

The Debtors prepared these financial projections based upon certain assumptions that they believe to be reasonable under the circumstances. Those assumptions considered to be significant are described in Exhibit B. The financial projections have not been examined or compiled by independent accountants. The Debtors make no representation as to the accuracy of the projections or their ability to achieve the projected results. Many of the assumptions on which the projections are based are inherently subject to significant economic and competitive uncertainties and contingencies beyond the control of the Debtors and their management, and are subject to significant incremental uncertainty as a result of the scope and potential duration of the current economic recession underway both in the United States and abroad. Inevitably, some assumptions will not materialize and unanticipated events and circumstances may affect the actual financial results. Therefore, the actual results achieved throughout the three-year period of the Financial Projections may vary from the projected results and the variations may be material. All Holders of Claims that are entitled to vote to accept or reject the Plan are urged to examine carefully all of the assumptions on which the financial projections are based in connection with their evaluation of the Plan.

Section 15.02. Valuation of the Debtors.

THE VALUATION INFORMATION SET FORTH IN THIS SECTION REPRESENTS A HYPOTHETICAL VALUATION OF THE REORGANIZED DEBTORS, WHICH ASSUMES THAT SUCH REORGANIZED DEBTORS CONTINUE AS AN OPERATING BUSINESS.

THE ESTIMATED VALUE SET FORTH IN THIS SECTION DOES NOT PURPORT TO CONSTITUTE AN APPRAISAL OR NECESSARILY REFLECT THE ACTUAL MARKET VALUE THAT MIGHT BE REALIZED THROUGH A SALE OR LIQUIDATION OF THE REORGANIZED DEBTORS, THEIR SECURITIES OR THEIR ASSETS, WHICH VALUE MAY BE SIGNIFICANTLY HIGHER OR LOWER THAN THE ESTIMATE SET FORTH IN THIS SECTION. ACCORDINGLY, SUCH ESTIMATED VALUE IS NOT NECESSARILY INDICATIVE OF THE PRICES AT WHICH THE NEW COMMON STOCK OF THE REORGANIZED DEBTORS MAY TRADE AFTER GIVING EFFECT TO THE REORGANIZATION AND TRANSACTIONS SET FORTH IN THE PLAN, WHICH PRICES MAY BE SIGNIFICANTLY HIGHER OR LOWER THAN INDICATED BY THIS VALUATION.

1. Overview.

TM Capital has estimated the going concern value of the enterprise to be comprised of the Reorganized Debtors as of the date of the Disclosure Statement. TM Capital undertook this analysis to determine the value available for distribution to holders of Allowed Claims pursuant to the Plan and to analyze the relative recoveries to such Holders thereunder. The estimated total value available for distribution to Holders of Allowed Claims consists of the estimated value of the Reorganized Debtors' operations on a going concern basis (the "Enterprise Value"). The valuation analysis assumes that the Plan becomes effective in February, 2011 (the "Assumed Effective Date") and is based on the Financial Projections provided by the Debtors' management for the years 2011 through 2013 (the "Projection Period").

Based on the Financial Projections and solely for purposes of the Plan, TM Capital estimates that the Enterprise Value of the Reorganized Debtors falls within a range of approximately $18 - $24 million, with a midpoint estimate of approximately $21 million. For purposes of this valuation, TM Capital has assumed that no material changes that would affect value will occur between the date of the Disclosure Statement and the Assumed Effective Date. Based on an estimated net debt balance of approximately $9 million projected as of 1/1/2011 (debt of $11 million minus excess cash of approximately $2 million), this implies a range of value for the New Common Stock of the Reorganized Debtors from approximately $10 million to $15 million, with a point estimate of approximately $13 million. TM Capital's estimate of Enterprise Value does not constitute an opinion as to fairness from a financial point of view of the consideration to be received under the Plan or of the terms and provisions of the Plan.

THE ASSUMED ENTERPRISE VALUE RANGE, AS OF THE ASSUMED EFFECTIVE DATE, REFLECTS WORK PERFORMED BY TM CAPITAL ON THE BASIS OF INFORMATION AVAILABLE TO TM CAPITAL AS OF 11/18/10. ALTHOUGH SUBSEQUENT DEVELOPMENTS MAY AFFECT TM CAPITAL'S CONCLUSIONS, NEITHER TM CAPITAL, NOR THE DEBTORS HAVE ANY OBLIGATION TO UPDATE, REVISE OR REAFFIRM THE VALUATION.

TM Capital assumed that the Financial Projections prepared by the Debtors' management were reasonably prepared in good faith and on a basis reflecting the Debtors' most accurate currently available estimates and judgments as to the future operating and financial performance of the

Reorganized Debtors. If the business performs at levels below those set forth in the Financial Projections, such performance may have a materially negative impact on Enterprise Value.

In estimating the Enterprise Value and the value to New Common Stock of the Reorganized Debtors, TM Capital: (a) reviewed certain historical financial information of the Debtors for recent years and interim periods; (b) reviewed certain internal financial and operating data of the Debtors; (c) discussed the Debtors' operations and future prospects with the senior management team; (d) reviewed certain publicly available financial data for, and considered the market value of, public companies that TM Capital deemed generally comparable to the operating business of the Reorganized Debtors; (e) considered certain economic and industry information relevant to the operating business; and (f) conducted such other studies, analyses, inquiries and investigations as it deemed appropriate. Although TM Capital conducted a review and analysis of the Debtors' business, operating assets and liabilities and the Reorganized Debtors' business plan, it assumed and relied on the accuracy and completeness of all financial and other information furnished to it by the Debtors' management as well as publicly available information.

In addition, TM Capital did not independently verify the Financial Projections in connection with preparing estimates of Enterprise Value, and no independent valuations or appraisals of the Debtors were sought or obtained in connection herewith. Such estimates were developed solely for purposes of the formulation and negotiation of the Plan and the analysis of implied relative recoveries to holders of Allowed Claims thereunder.

TM Capital's estimated Enterprise Value of the Reorganized Debtors does not constitute a recommendation to any Holder of Allowed Claims as to how such person should vote or otherwise act with respect to the Plan. TM Capital has not been asked to and does not express any view as to what the trading value of the Reorganized Debtors' securities would be on issuance or at any other time. The estimated Enterprise Value of the Reorganized Debtors set forth herein does not constitute an opinion as to fairness from a financial point of view to any person of the consideration to be received by such person under the Plan or of the terms and provisions of the Plan.

TM Capital's estimate of Enterprise Value reflects the application of standard valuation techniques and does not purport to reflect or constitute appraisals, liquidation values or estimates of the actual market value that may be realized through the sale of any securities to be issued pursuant to the Plan, which may be significantly different than the amounts set forth herein. The value of an operating business is subject to numerous uncertainties and contingencies which are difficult to predict and will fluctuate with changes in factors affecting the financial condition and prospects of such a business. As a result, the estimated Enterprise Value range of the Reorganized Debtors set forth herein is not necessarily indicative of actual outcomes, which may be significantly more or less favorable than those set forth herein. Neither the Reorganized Debtors, TM Capital, nor any other person assumes responsibility for any differences between the Enterprise Value range and such actual outcomes. Actual market prices of securities of the Reorganized Debtors at issuance will depend upon, among other things, the operating performance of the Reorganized Debtors, prevailing interest rates, conditions in the financial markets, the anticipated holding period of securities received by prepetition creditors (some of

whom may prefer to liquidate their investment rather than hold it on a long-term basis), developments in the Reorganized Debtors' industry and economic conditions generally, and other factors which generally influence the prices of securities.

2. Valuation Methodology

The following is a brief summary of certain financial analyses performed by TM Capital to arrive at its range of estimated Enterprise Values for the Reorganized Debtors. In performing the financial analyses described below and certain other relevant procedures, TM Capital reviewed all significant assumptions with the management of the Debtors. TM Capital's valuation analysis must be considered as a whole. TM Capital's valuation analysis relies predominantly on the discounted cash flow analysis but also takes the comparable company analysis into consideration, as outlined in detail below.

a. Discounted Cash Flow Analysis

The discounted cash flow analysis ("DCF"), attached hereto as Exhibit C, is a forward-looking enterprise valuation methodology that estimates the value of an asset or business by calculating the present value of expected future cash flows to be generated by that asset or business. Under this methodology, projected future cash flows are discounted by the business' weighted average cost of capital (the "Discount Rate"). The Discount Rate reflects the estimated blended rate of return that would be required by debt and equity investors to invest in the business. In the case of the Reorganized Debtors, the enterprise value was determined by calculating the present value of the Reorganized Debtors' unlevered after-tax free cash flows based on the Financial Projections plus an estimate for the value of the firm beyond the Projection Period, known as the terminal value. The terminal value was derived by applying a multiple to the Reorganized Debtors' projected earnings before interest, taxes, depreciation and amortization ("EBITDA") in the final projected year of the Projection Period, discounted back to the assumed date of emergence by the Discount Rate.

To estimate the Discount Rate, TM Capital used the cost of equity and the after-tax cost of debt for the Reorganized Debtors, assuming a targeted long-term debt-to-total capitalization ratio which was based on an assumed range of the Reorganized Debtors' pro forma capitalization. TM Capital calculated the cost of equity based on the "Capital Asset Pricing Model," which assumes that the required equity return is a function of (i) the risk-free cost of capital and (ii) the correlation of a publicly traded stock's performance to the return on the broader market, also known as equity beta. To estimate the beta of the Debtors, TM Capital unlevered the equity betas of the Peer Group[34] according to their respective capital structures (current Debt/Equity Ratio (the "D/E Ratio")), and then re-levered the median unlevered equity beta according to the target capital structure for the Reorganized Debtors (target D/E Ratio), based on TM Capital's view of current capital markets conditions as well as an analysis of the Peer Group's capital structures. To estimate the cost of debt, TM Capital estimated what the Reorganized Debtors'

[34] The "Peer Group" consists of the following publicly traded companies which were selected by TM Capital based on general comparability to the Reorganized Debtors: (i) Bassett Furniture Industries Inc., (ii) Ethan Allen Interiors Inc., (iii) Furniture Brands International Inc., (iv) Flexsteel Industries Inc., (v) Haverty Furniture Companies Inc., (vi) Hooker Furniture Corp., (vii) Kirkland's Inc., (viii) La-Z-Boy Inc., (ix) Pier 1 Imports.

blended cost of debt would be based on current capital markets conditions. In determining the terminal multiple, TM Capital analyzed historical EBITDA multiples of the Peer Group, the Debtors' historical EBITDA multiple, the mean latest twelve months ("LTM") EBITDA multiple of the Peer Group, and the median LTM EBITDA multiple of the Peer Group. This analysis is shown in greater detail in the Comparable Company Analysis section below.

Although formulaic methods are used to derive the key estimates for the DCF methodology, their application and interpretation involve complex considerations and judgments concerning potential variances in the projected financial and operating characteristics of the Reorganized Debtors, which in turn affect its cost of capital and terminal multiples. TM Capital calculated its DCF valuation on a range of Discount Rates and terminal value EBITDA multiples as indicated below.

In applying the above methodology, TM Capital utilized management's detailed Financial Projections for the period beginning January 1, 2011 and ending December 31, 2018, to derive unlevered after-tax free cash flows. Free cash flows include sources and uses of cash not reflected in the income statement, such as changes in working capital and capital expenditures. For purposes of the DCF, the Reorganized Debtors are assumed to be full taxpayers at the applicable regional corporate income tax rates (the effective tax rate is assumed to be 35%). These cash flows, along with the terminal value, are discounted back to the Assumed Effective Date using the range of Discount Rates described above to arrive at a range of Enterprise Values. To account for the uncertainty surrounding the renewal of the Trademark Usage Agreements in 2018, TM Capital calculated its DCF valuation based on two scenarios: one that assumes the Trademark Usage Agreements are renewed and another that assumes the Trademark Usage Agreements are not renewed. TM Capital used the average Enterprise Value of these two scenarios and the range of discount rates and terminal multiples shown above to determine a range of Enterprise Values for the Reorganized Debtors.

b. Comparable Company Analysis

The comparable company valuation analysis looks at the enterprise values of the publicly traded companies that comprise the Peer Group, which have operating and financial characteristics similar to the Reorganized Debtors. Under this methodology, the enterprise value for each selected public company was determined by examining the trading prices for the equity securities of such company in the public markets and adding the aggregate amount of outstanding net debt for such company and minority interest less the book value of unconsolidated investments. Those enterprise values are commonly expressed as multiples of various measures of operating statistics, most commonly EBITDA and revenue. In addition, the selected public companies' operational performance and business trends were examined. Based on these analyses, financial multiples and ratios are calculated to apply to the Reorganized Debtors' actual and projected operational performance. TM Capital focused mainly on EBITDA multiples in using the market

valuations of the selected comparable companies to value the Reorganized Debtors, although TM Capital also considered revenue multiples.

A key factor to this approach is the selection of companies with relatively similar business and operational characteristics to the Reorganized Debtors. Common criteria for selecting comparable companies for the analysis include, among other relevant characteristics, similar line of business, business risks, growth prospects, maturity of business, location, market presence and size and scale of operations. The selection of appropriate comparable companies is often difficult, a matter of judgment, and subject to limitations due to sample size and the availability of meaningful market-based information.

TM Capital calculated market multiples for the Peer Group by dividing the enterprise value of each comparable company by the LTM EBITDA of each company. TM Capital then calculated the Mean and Median LTM EBITDA Multiples for the Peer Group, which are shown in the table below.

Reorganized Debtors Comparable Company Analysis	
Mean Peer Group LTM EBITDA Multiple[4][5][6]	Median Peer Group LTM EBITDA Multiple[5]
6.09x	6.12x

As a general matter, in determining the applicable EBITDA multiple range, one should consider a variety of factors, including both qualitative attributes and quantitative measures, such as historical EBITDA results, historical enterprise value/EBITDA trading multiples, financial distress impacting trading values, size, growth and similarity in business lines. In the case of the Reorganized Debtors, TM Capital considered the following additional factors: (i) the uncertainty over the renewal of the Trademark Usage Agreements, (ii) the Debtors' history of operating losses and bankruptcy, (iii) the Reorganized Debtors' limited geographic footprint, (iv) the Reorganized Debtors' reliance on Mengnu and Ashley as majority and sole suppliers for the Jennifer and Ashley segments, respectively, and (v) the fact that that Reorganized Debtors will be controlled by a key supplier post reorganization.

In addition to the factors described above, TM Capital also took into account the Debtors' historical performance as a publicly traded company.[6][7] The Debtors historically traded at a significantly lower EBITDA multiple than the Mean and Median Peer Group LTM EBITDA multiples shown in the table above. For this reason, as well as the others set forth above, TM

[4] ~~Outliers (the lowest multiple and the highest multiple) were removed when calculating the Mean LTM EBITDA Multiple.~~

[5] ~~As of November 15, 2010.~~ Outliers (the lowest multiple and the highest multiple) were removed when calculating the Mean LTM EBITDA Multiple.

[6] As of November 15, 2010.

[7] Historical performance was analyzed for the period from 2/25/06 – 5/23/08. This was the only recent period in which the Debtors had a meaningful EBITDA multiple (meaningful EBITDA multiple defined as greater than 0x and less than 20x).

Capital believes the appropriate EBITDA multiple for the Reorganized Debtors, based on the Peer Group, would be between 4.0x and 5.0x.

TM Capital applied this range of multiples to the Reorganized Debtors' 2011P EBITDA to determine a range of Implied Enterprise Values.[7][8][9] Additionally, TM Capital used this range of EBITDA multiples in the DCF when calculating the terminal value of the Reorganized Debtors.

THE SUMMARY SET FORTH ABOVE DOES NOT PURPORT TO BE A COMPLETE DESCRIPTION OF THE ANALYSIS PERFORMED BY TM CAPITAL. THE PREPARATION OF A VALUATION ESTIMATE INVOLVES VARIOUS DETERMINATIONS AS TO THE MOST APPROPRIATE AND RELEVANT METHODS OF FINANCIAL ANALYSIS AND THE APPLICATION OF THESE METHODS IN THE PARTICULAR CIRCUMSTANCES AND, THEREFORE, SUCH AN ESTIMATE IS NOT READILY SUITABLE TO SUMMARY DESCRIPTION. IN PERFORMING THESE ANALYSES, TM CAPITAL AND THE DEBTORS MADE NUMEROUS ASSUMPTIONS WITH RESPECT TO INDUSTRY PERFORMANCE, BUSINESS AND ECONOMIC CONDITIONS AND OTHER MATTERS. THE ANALYSES PERFORMED BY TM CAPITAL ARE NOT NECESSARILY INDICATIVE OF ACTUAL VALUES OR FUTURE RESULTS, WHICH MAY BE SIGNIFICANTLY MORE OR LESS FAVORABLE THAN SUGGESTED BY SUCH ANALYSES.

c. Best Interests Test

With respect to each Impaired Class of Claims and Interests, confirmation of the Plan requires that each Holder of a Claim or Interest either (i) accept the Plan or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. To determine what Holders of Claims in each Impaired Class would receive if the Debtors were liquidated under chapter 7, the Bankruptcy Court must determine the dollar amount that would be generated from the liquidation of the Debtors' assets and properties in the context of liquidation under chapter 7 of the Bankruptcy Code. The Cash amount that would be available for satisfaction of Claims and Interests would consist of the proceeds resulting from the disposition of assets and properties of the Debtors, augmented by the Cash held by the Debtors at the time of the commencement of the liquidation case. Such Cash amount would be (i) first, reduced by the amount of the Allowed secured lender Claims, if any, (ii) second, reduced by the amount of the 503(b)(9) Administrative Claims, (iii) third, reduced by the total amount of post-petition accounts payable and accrued expenses less all non-claims, (iv) fourth, reduced by the amount of any other priority Claims such as customer deposits, (v) fifth, reduced by the costs and expenses of liquidation and such additional Administrative Claims that might result from the termination of the Debtors' business and the use of chapter 7 for the purposes of liquidation, and (vi) sixth, reduced by the Debtors' costs of liquidation under chapter 7, including the fees payable to a

~~[7] 2011P EBITDA was chosen over 2010E EBITDA because 2010E EBITDA is not meaningful (meaningful defined as greater than 0).~~

[8] 2011P EBITDA was chosen over 2010E EBITDA because 2010E EBITDA is not meaningful (meaningful defined as greater than 0).

[9] All projections were based on the Calendar Year (CY), not the Debtors' Fiscal Year (FY).

trustee in bankruptcy, as well as those fees that might be payable to attorneys and other Professionals that such a trustee might engage. In addition, Claims would arise by reason of the breach or rejection of obligations incurred and leases and Executory Contracts assumed or entered into by the Debtors prior to the filing of the chapter 7 case.

To determine if the Plan is in the best interests of each Impaired Class, the present value of the distributions from the proceeds of a liquidation of the Debtors' assets and Property, after subtracting the amounts attributable to the foregoing claims, must be compared with the value of the property offered to such Classes of Claims under the Plan.

After considering the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in the Debtors' Chapter 11 Cases, the Debtors have determined that confirmation of the Plan will provide each Holder of an Allowed Claim with a recovery that is not less than such Holder would receive pursuant to the liquidation of the Debtors under chapter 7.

TM Capital, with the assistance of the Debtors, prepared a liquidation analysis which is annexed hereto as Exhibit D (the "Liquidation Analysis"). The information set forth in Exhibit D provides (a) a summary of the liquidation values of the Debtors' assets, assuming a chapter 7 liquidation in which a trustee appointed by the Bankruptcy Court would liquidate the assets of the Debtors' estates and (b) the expected recoveries of the Debtors' creditors under the Plan. The Liquidation Analysis indicates that general unsecured claimants would, after payment of liquidation costs and expenses, receive a midpoint recovery of approximately 8% on their Claims in a liquidation scenario. In contrast, general unsecured claimants would receive a midpoint recovery of approximately 18% under the Plan.

The Liquidation Analysis is based upon a number of estimates and assumptions that, although developed and considered reasonable by the Debtors' management, are inherently subject to significant economic and competitive uncertainties and contingencies beyond the control of the Debtors and their management. The Liquidation Analysis also is based on assumptions with regard to liquidation decisions that are subject to change and significant economic and competitive uncertainties and contingencies beyond the control of the Debtors and their management. Inevitably, some assumptions will not materialize and unanticipated events and circumstances may affect the results of a liquidation of the Debtors. Accordingly, the values reflected might not be realized if the Debtors were, in fact, to be liquidated. The chapter 7 liquidation period is assumed to last several months following the appointment of a chapter 7 trustee, allowing for, among other things, the discontinuation and wind-down of operations, the sale of the operations, the sale of assets and the collection of receivables. All Holders of Claims that are entitled to vote to accept or reject the Plan are urged to examine carefully all of the assumptions on which the Liquidation Analysis is based in connection with their evaluation of the Plan.

ARTICLE XVI

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

Section 16.01. Introduction.

The following discussion summarizes certain federal income tax consequences expected to result from the consummation of the Plan. This discussion is only for general information purposes and only describes the expected tax consequences to Holders entitled to vote on the Plan. It is not a complete analysis of all potential federal income tax consequences and does not address any tax consequences arising under any state, local or foreign tax laws or federal estate or gift tax laws. This discussion is based on the Internal Revenue Code of 1986, as amended, Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the IRS, all as in effect on the date of the Disclosure Statement. These authorities may change, possibly retroactively, resulting in federal income tax consequences different from those discussed below. No ruling has been or will be sought from the IRS, and no legal opinion of counsel will be rendered, with respect to the matters discussed below. There can be no assurance that the IRS will not take a contrary position regarding the federal income tax consequences resulting from the consummation of the Plan or that any contrary position would not be sustained by a court.

This discussion does not address all federal income tax considerations that may be relevant to a particular Holder in light of that Holder's particular circumstances or to Holders subject to special rules under the federal income tax laws, such as financial institutions, insurance companies, brokers, dealers or traders in securities, commodities or currencies, tax-exempt organizations, tax-qualified retirement plans, partnerships and other pass-through entities, foreign corporations, foreign trusts, foreign estates, Holders who are not citizens or residents of the U.S., Holders subject to the alternative minimum tax, and Holders who have a functional currency other than the U.S. dollar.

HOLDERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE U.S. FEDERAL INCOME TAX CONSEQUENCES TO THEM OF THE CONSUMMATION OF THE PLAN, AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER ANY STATE, LOCAL OR FOREIGN TAX LAWS, OR ANY OTHER FEDERAL TAX LAWS.

TO COMPLY WITH INTERNAL REVENUE SERVICE CIRCULAR 230, TAXPAYERS ARE HEREBY NOTIFIED THAT (a) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THE DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON A TAXPAYER UNDER THE INTERNAL REVENUE CODE, (b) ANY SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN, AND (c) TAXPAYERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Section 16.02. Federal Income Tax Consequences to Holders of Certain Claims.

1. Federal Income Tax Consequences to Holders of General Unsecured Claims

In accordance with the Plan, each Holder of an Allowed General Unsecured Claim against the Debtors shall be entitled to receive his, her or its Pro Rata Share of the General Unsecured Claim Distribution. Each Holder of an Allowed General Unsecured Claim will recognize gain or loss upon receipt of such Pro Rata Share equal to the difference between the "amount realized" by such Creditor and such Creditor's adjusted tax basis in his, her or its Claim. The amount realized is equal to the value of such Creditor's Pro Rata Share of the proceeds of the Debtors' Property. Any gain or loss realized by an Unsecured Creditor should constitute ordinary income or loss to such creditor unless such Claim is a capital asset in the hands of such Unsecured Creditor. If a Claim is a capital asset and it has been held for more than one year, such Creditor will realize long-term capital gain or loss.

The federal income tax consequences to such Creditors will differ and will depend on factors specific to each such Creditor, including, but not limited to: (i) whether the Creditor's Claim (or a portion thereof) constitutes a Claim for principal or interest, (ii) the origin of the Creditor's Claim, (iii) the type of consideration received by the Creditor in exchange for the Claim, (iv) whether the Creditor is a United States person or a foreign person for United States federal income tax purposes, (v) whether the Creditor reports income on the accrual or cash basis method, and (vi) whether the Creditor has taken a bad debt deduction or otherwise recognized a loss with respect to the Claim.

THERE ARE MANY FACTORS THAT WILL DETERMINE THE TAX CONSEQUENCES TO EACH SUCH CREDITOR. FURTHERMORE, THE TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND IN SOME CASES UNCERTAIN. THEREFORE, IT IS IMPORTANT THAT EACH CREDITOR OBTAIN HIS, HER OR ITS OWN PROFESSIONAL TAX ADVICE REGARDING THE TAX CONSEQUENCES TO SUCH CREDITOR AS A RESULT OF THE PLAN.

2. Withholding and Reporting

Payments of interest, dividends and certain other payments are generally subject to backup withholding at the rate of 28% unless the payee of such payment furnishes such payee's correct taxpayer identification number (social security number or employer identification number) to the payor. The Debtors may be required to withhold the applicable percentage of any payments made to a Holder who does not provide his, her or its taxpayer identification number. Backup withholding is not an additional tax, but an advance payment that may be refunded to the taxpayer by the IRS to the extent that the backup withholding results in an overpayment of tax by such taxpayer in such taxable year.

THE FOREGOING DISCUSSION OF FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. EACH HOLDER SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE FEDERAL,

STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN DESCRIBED HEREIN. NEITHER THE DEBTORS NOR THEIR PROFESSIONALS WILL HAVE ANY LIABILITY TO ANY PERSON OR HOLDER ARISING FROM OR RELATED TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN OR THE FOREGOING DISCUSSION.

ARTICLE XVII

SECURITIES LAW MATTERS

Section 17.01. General.

The Plan provides for the Reorganized Debtors to issue New Common Stock on account of the Allowed Mengnu Unsecured Claim and Allowed General Unsecured Claims pursuant to Section 6.02 of the Plan. The Debtors believe that the New Common Stock constitute "securities," as defined in Section 2(a)(1) of the Securities Act, section 101 of the Bankruptcy Code, and applicable state securities laws.

Section 17.02. New Common Stock.

1. Issuance of New Common Stock.

The Debtors believe that the offer and sale of the New Common Stock pursuant to the Plan will be exempt from federal and state securities registration requirements under various provisions of the Securities Act and the Bankruptcy Code. Section 1145 of the Bankruptcy Code provides that Section 5 of the Securities Act and any state law requirements for the offer and sale of a security do not apply to the offer or sale of stock, options, warrants or other securities by a debtor if (a) the offer or sale occurs under a plan of reorganization, (b) the recipients of the securities hold a claim against, an interest in, or claim for administrative expense against, the debtor, and (c) the securities are issued in exchange for a claim against or interest in a debtor or are issued principally in such exchange and partly for cash and property. In reliance upon section 1145 of the Bankruptcy Code, the New Common Stock will not be registered under the Securities Act or any state securities laws.

2. Resale of New Common Stock: Securities Law Restrictions.

The Debtors further believe that subsequent transfers of the New Common Stock by the Holders thereof that are not "underwriters," as defined in Section 2(a)(11) of the Securities Act and Section 1145(b)(1) of the Bankruptcy Code, will be exempt from federal and state securities registration requirements under various provisions of the Securities Act, the Bankruptcy Code and applicable state securities laws. In addition, the New Common Stock generally may be able to be resold without registration under state securities laws pursuant to various exemptions provided by the respective laws of those states; however, the availability of such exemptions cannot be known unless individual state securities laws are examined. Therefore, recipients of the New Common Stock are advised to consult with their own legal advisors as to the availability

of any such exemption from registration under state law in any given instance and as to any applicable requirements or conditions to such availability.

Section 1145(b)(1) of the Bankruptcy Code defines an "underwriter" as one who, except with respect to "ordinary trading transactions" of an entity that is not an "issuer," (a) purchases a claim against, interest in, or claim for an administrative expense in the case concerning, the debtor, if such purchase is with a view to distribution of any security received or to be received in exchange for such claim or interest, or (b) offers to sell securities offered or sold under a plan for the holders of such securities, or (c) offers to buy securities offered or sold under a plan from the holders of such securities, if such offer to buy is (i) with a view to distribution of such securities and (ii) under an agreement made in connection with the plan, with the consummation of the plan, or with the offer or sale of securities under the plan, or (d) is an issuer of the securities within the meaning of Section 2(a)(11) of the Securities Act. In addition, a Person who receives a fee in exchange for purchasing an issuer's securities could also be considered an underwriter within the meaning of Section 2(a)(11) of the Securities Act.

The definition of an "issuer" for purposes of whether a Person is an underwriter under section 1145(b)(1)(D) of the Bankruptcy Code, by reference to Section 2(a)(11) of the Securities Act, includes as "statutory underwriters" all persons who, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with, an issuer of securities. The reference to "issuer," as used in the definition of "underwriter contained in Section 2(a)(11), is intended to cover "controlling persons" of the issuer of the securities. "Control," as defined in Rule 405 of the Securities Act, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise. Accordingly, an officer or director of a reorganized debtor or its successor under a plan of reorganization may be deemed to be a "controlling person" of such debtor or successor, particularly if the management position or directorship is coupled with ownership of a significant percentage of the reorganized debtor's or its successor's voting securities. Moreover, the legislative history of section 1145 of the Bankruptcy Code suggests that a creditor who owns ten percent (10%) or more of a class of securities of a reorganized debtor may be presumed to be a "controlling person" and, therefore, an underwriter.

Resale of the New Common Stock by Persons deemed to be "underwriters" (which definition includes "controlling person") are not exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. Under certain circumstances, holders of New Common Stock who are deemed to be "underwriters" may be entitled to resell their New Common Stock pursuant to the limited safe harbor resale provisions of Rule 144 of the Securities Act. Generally, Rule 144 of the Securities Act would permit the public sale of securities received by such person if current information regarding the issuer is publicly available and if volume limitations, manner of sale requirements and certain other conditions are met. However, the Reorganized Debtors do not presently intend to make publicly available the requisite information regarding the Reorganized Debtors and, as a result, Rule 144 will not be available for resales of New Common Stock by persons deemed to be underwriters.

Whether any particular Person would be deemed to be an "underwriter" (including whether such Person is a "controlling person") with respect to the New Common Stock would depend upon various facts and circumstances applicable to that Person. Accordingly, the Debtors express no view as to whether any Person would be deemed an "underwriter" with respect to the New Common Stock. In view of the complex nature of the question of whether a particular Person may be an underwriter, the Debtors make no representations concerning the right of any Person to freely resell New Common Stock. **Accordingly, the Debtors recommend that potential recipients of New Common Stock consult their own counsel concerning whether they may freely trade such securities without compliance with the federal and state securities laws.**

ARTICLE XVIII

SUMMARY OF VOTING PROCEDURES

The Disclosure Statement, including all Exhibits hereto and the related materials included herewith, is being furnished to the Holders of Claims in Classes 2 and 3, which are the only Classes entitled to vote on the Plan.

All votes to accept or reject the Plan must be cast by using the ballot (the "Ballot") enclosed with the Disclosure Statement. No other votes will be counted. Consistent with the provisions of Bankruptcy Rule 3018, the Debtors have fixed [DATE] at 5:00 p.m. (prevailing Eastern Time) as the Voting Record Date. Ballots must be RECEIVED by the Claims Agent at the address set forth below (or as otherwise directed) no later than 4:00 p.m. (prevailing Eastern Time) on [DATE], unless the Debtors, at any time, in their sole discretion, extend such date by oral or written notice to the Claims Agent, in which event the period during which Ballots will be accepted will terminate at 4:00 p.m. (prevailing Eastern Time) on such extended date.

If the Ballot is damaged or lost, you may contact the Claims Agent at the number set forth below.

Ballots received by facsimile, telecopy or other means of electronic transmission will not be accepted.

Ballots previously delivered may be withdrawn or revoked at any time prior to the Voting Deadline by the beneficial owner on the Voting Record Date who completed the original Ballot. Only the person or nominee who submits a Ballot can withdraw or revoke that Ballot. A Ballot may be revoked or withdrawn either by submitting a superseding Ballot or by providing written notice to the Claims Agent.

Acceptances or rejections may be withdrawn or revoked prior to the Voting Deadline by delivering a written notice of withdrawal or revocation to the Claims Agent. To be effective, notice of revocation or withdrawal must: (a) be received on or before the Voting Deadline by the Claims Agent at its address specified below; (b) specify the name of the Holder of the Claim whose vote on the Plan is being withdrawn or revoked; (c) contain the description of the Claim as to which a vote on the Plan is withdrawn or revoked; and (d) be signed by the Holder of the Claim who executed the Ballot reflecting the vote being withdrawn or revoked, in the same

manner as the original signature on the Ballot. The foregoing procedures should also be followed with respect to a person entitled to vote on the Plan who wishes to change (rather than revoke or withdraw) its vote.

If you have any questions concerning voting procedures, you may contact the Claims Agent at:

By overnight mail or by hand delivery, to:

BMC Group, Inc.
Attention: Jennifer Convertibles Claims Processing
18750 Lake Drive East
Chanhassen, MN 55317

-or-

By first-class mail, to:

BMC Group, Inc.
Attention: Jennifer Convertibles Claims Processing
PO Box 3020
Chanhassen, MN 55317-3020

-or-

By telephone:

(888) 909-0100

ARTICLE XIX

CERTAIN FACTORS TO BE CONSIDERED REGARDING THE PLAN

Holders of Claims and Interests against the Debtors should read and consider carefully the factors set forth below, as well as the other information set forth in the Disclosure Statement (and the documents delivered together herewith and/or incorporated by reference), prior to voting to accept or reject the Plan. These risk factors should not, however, be regarded as constituting the only risks involved in connection with the Plan and its implementation.

Section 19.01. Certain Bankruptcy Considerations.

1. General.

Although the Plan is designed to minimize the length of time remaining in the Chapter 11 Cases, it is impossible to predict with certainty the amount of time that the Debtors may spend in bankruptcy or to assure parties-in-interest that the Plan will be confirmed.

Even if the Plan is confirmed on a timely basis, the Chapter 11 Cases could have an adverse effect on the Debtors' businesses. Among other things, it is possible that any delays could adversely affect the Debtors' relationships with their key vendors and suppliers, customers and employees. If the Debtors are unable to obtain confirmation of the Plan on a timely basis because of a challenge to confirmation of the Plan or a failure to satisfy the conditions to consummation of the Plan, they may be forced to continue the Chapter 11 Cases for an extended period while they try to develop a different reorganization plan that can be confirmed. That would increase both the probability and the magnitude of the potentially adverse effects described herein.

2. Failure to Receive Requisite Acceptances.

Classes 2 and 3 are the only Classes that are entitled to vote to accept or reject the Plan. If the requisite acceptances are not received, the Debtors will not be able to seek confirmation of the Plan under section 1129(b) of the Bankruptcy Code, because at least one Impaired Class will not have voted in favor of the Plan as required by section 1129(a)(10) of the Bankruptcy Code. Further, if the requisite acceptances are not received, the Debtors may seek to accomplish an alternative restructuring of their capitalization and obligations to creditors and obtain acceptances to an alternative plan of reorganization for the Debtors, or otherwise, the Debtors may be required to liquidate these Estates under chapter 7 or 11 of the Bankruptcy Code. There can be no assurance that the terms of any such alternative restructuring arrangement or plan would be similar to or as favorable to the Debtors' Creditors as those proposed in the Plan.

3. Failure to Confirm the Plan.

Even if the requisite acceptances are received, the Bankruptcy Court, which, as a court of equity may exercise substantial discretion, may decide not to confirm the Plan. Section 1129 of the Bankruptcy Code requires, among other things, a showing that confirmation of the Plan will not be followed by liquidation or the need for further financial reorganization of the Debtors, and that the value of distributions to dissenting Holders of Claims and Interests may not be less than the value such Holders would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. Although the Debtors believe that the Plan meets such test, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

Additionally, the contemplated solicitation must comply with the requirements of section 1125 of the Bankruptcy Code and the applicable Bankruptcy Rules with respect to the length of the solicitation period and the adequacy of the information contained in the Disclosure Statement.

4. Failure to Consummate the Plan.

One condition to consummation of the Plan is the entry of the Confirmation Order that will approve, among other things, the assumption of a substantial number of the majority of the Debtors' Executory Contracts and unexpired leases. As of the date of the Disclosure Statement, there can be no assurance that these or the other conditions to consummation will be satisfied or

waived. Accordingly, even if the Plan is confirmed by the Bankruptcy Court, there can be no assurance that the Plan will be consummated and the restructuring completed.

5. Objections to Classification of Claims.

Section 1122 of the Bankruptcy Code provides that a plan of reorganization may place a claim or an interest in a particular class only if such claim or interest is substantially similar to the other claims or interests in such class. The Debtors believe that the classification of Claims and Interests under the Plan complies with the requirements set forth in the Bankruptcy Code. However, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

6. Allowance of Unsecured Claims may substantially dilute the recovery to holders of Other Unsecured Claims under the Plan.

The Debtors currently are in the process of reviewing, analyzing and reconciling the scheduled and filed Claims. Objections will be filed as the Claims resolution process continues but the aggregate amount of General Unsecured Claims that will ultimately be Allowed is not determinable at present, and the Debtors expect that the Claims resolution process will not be completed until after the Effective Date. Because General Unsecured Claims will receive a Pro Rata Share of the General Unsecured Claim Distribution, any material increase in the amount of Allowed General Unsecured Claims over the amounts estimated by the Debtors would materially reduce the recovery to holders of such Claims.

Section 19.02. Risks Relating to the New Common Stock.

1. Substantial Leverage.

Although the Reorganized Debtors will have less indebtedness than the Debtors, the Reorganized Debtors will still have some indebtedness. On the Effective Date, after giving effect to the transactions contemplated by the Plan, the Reorganized Debtors will have significantly increased their secured debt as a result of the various notes being issued to Mengnu and the General Unsecured Creditors.

The degree to which the Reorganized Debtors will be leveraged could have important consequences because:

- a substantial portion of the Reorganized Debtors' cash flow from operations will be dedicated to debt service and unavailable to support operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other purposes;

- the Reorganized Debtors' ability to obtain additional financing in the future may be limited;

- the Reorganized Debtors may be more highly leveraged than some of their competitors, which may place the Reorganized Debtors at a competitive disadvantage;

- the Reorganized Debtors' operational flexibility in planning for, or reacting to, changes in their business may be severely limited; and

- it may make the Reorganized Debtors more vulnerable in the event of further deterioration of their business or the economy in general.

2. Ability to Service Debt.

Although the Reorganized Debtors will have less indebtedness than the Debtors, the Reorganized Debtors will still have significant obligations. The Reorganized Debtors' ability to make payments on and to refinance their debt, and the Reorganized Debtors' other obligations, will depend on their future financial and operating performance and their ability to generate Cash in the future. This, to a certain extent, is subject to general economic, business, financial, competitive, legislative, regulatory and other factors that are beyond the control of the Reorganized Debtors.

There can be no assurance that the Reorganized Debtors will be able to generate sufficient cash flow from operations or that sufficient future borrowings will be available to pay off the Reorganized Debtors' debt obligations.

3. Obligations Under the Exit Facilities

a. The Exit LC Facility

The Reorganized Debtors' obligations under the Exit LC Facility will be secured by duly perfected, first liens on substantially all of the Reorganized Debtors' assets, except for the JCI Inventory and second liens on the JCI Inventory, shared ratably with the Exit Funding Facility and the Tranche B Note. If the Reorganized Debtors become insolvent or are liquidated, or if there is a default under the Exit LC Facility, and payment on any obligation thereunder is accelerated, Mengnu would be entitled to exercise the remedies available to a secured lender under applicable law, including foreclosure on the collateral that is pledged to secure the indebtedness thereunder, and they would have a claim on the assets securing the obligations under the Exit LC Facility that would be superior to any claim of the Holders of unsecured debt.

b. The Exit Funding Facility

The Reorganized Debtors' obligations under the Exit Funding Facility will be secured by duly perfected first liens on substantially all of the Reorganized Debtors' assets except for JCI Inventory, and second liens on the JCI Inventory shared ratably with the Exit LC Facility and the Tranche B Note. If the Reorganized Debtors become insolvent or are liquidated, or if there is a default under the Exit Funding Facility, and payment on any obligation thereunder is accelerated, Mengnu would be entitled to exercise the remedies available to a secured lender under applicable law, including foreclosure on the collateral that is pledged to secure the indebtedness thereunder, and they would have a claim on the assets securing the obligations under the Exit Funding Facility that would be superior to any claim of the holders of unsecured debt.

4. The Valuation of New Common Stock is Not Intended to Represent the Trading Value of the New Common Stock.

The valuation of the Reorganized Debtors, set forth herein, prepared by TM Capital with the assistance of the Debtors, is not intended to represent the trading values of New Common Stock in public or private markets.

5. Dividend Policies.

It is expected that all of the Reorganized Debtors' cash flow will be required to be used in the foreseeable future to fund the Reorganized Debtors' other obligations under the Plan, and for working capital and capital expenditure purposes. Accordingly, the Reorganized Debtors do not anticipate paying dividends on the New Common Stock in the foreseeable future.

Section 19.03. Certain Tax Consequences of the Plan Raise Unsettled and Complex Legal Issues and Involve Factual Determinations.

The federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Debtors currently do not intend to seek any ruling from the IRS on the tax consequences of the Plan. Even if the Debtors decide to request a ruling, there would be no assurance that the IRS would rule favorably or that any ruling would be issued before the Effective Date. In addition, in such case, there would still be issues with significant uncertainties, which would not be the subject of any ruling request. *Thus, there can be no assurance that the IRS will not challenge the various positions the Debtors have taken, or intend to take, with respect to the tax treatment in the Plan, or that a court would not sustain such a challenge.*

As a result of the consummation of the Plan and the transactions contemplated thereby, the Reorganized Debtors believe they will be subject to the fresh-start accounting rules. Fresh-start accounting allows for the assessment of every balance sheet account for possible fair value adjustment, resulting in the emergence of a new company recapitalized and revalued. This process is guided by purchase price allocation standards under GAAP.

In addition, the contents of the Disclosure Statement should **not** be construed as legal, business or tax advice. Each Holder of a Claim or Interest should consult his, her, or its own legal counsel and accountant as to legal, tax and other matters concerning his, her, or its Claim or Interest.

The Disclosure Statement is **not** legal advice to you. The Disclosure Statement may **not** be relied upon for any purpose other than to determine how to vote on the Plan or object to confirmation of the Plan.

Section 19.04. Risks Associated with the Business.

1. The Debtors' Chapter 11 Cases May Negatively Impact the Debtors' Future Operations.

While the Debtors believe they will be able to emerge from chapter 11 relatively expeditiously, there can be no assurance as to timing for approval of the Plan or the Debtors' emergence from chapter 11.

2. Provision for Income Taxes.

The Debtors' income taxes are prepared by KGS LLP ("KGS"). The provision for income taxes in the years ended August 29, 2009 and August 28, 2010, included state income taxes. At August 28, 2010, the Debtors had consolidated federal net operating losses ("NOLs") for income tax purposes of approximately $22.75 million, of which all are expected to be carried forward, expiring in the year 2030.

It is the opinion of KGS that the amount of cancellation of indebtedness income ("COD Income") realized upon consummation of the Plan will be significant; however, the ultimate amount of COD Income realized by the Debtors is uncertain because, among other things, it will depend on the fair market value of the New Common Stock.

A corporation's use of its net operating loss carryforwards is generally limited under IRC section 382 if a corporation undergoes an "ownership change." When an "ownership change" occurs pursuant to a case commenced under chapter 11 of the Bankruptcy Code, the general limitation under section 382 of the IRC may not apply if certain requirements are satisfied under either section 382(l)(5) or section 382(l)(6) of the IRC. The Debtors will experience an "ownership change" in connection with these Chapter 11 Cases, but the Debtors have not yet determined whether it will be eligible for or rely on the special rule under section 382(l)(5) or the special rule under section 382(l)(6) of the IRC. If the Debtors rely on section 382(l)(5) of the IRC, a second "ownership change" within two years from the Effective Date could eliminate completely the Debtors' ability to utilize its net operating loss carryovers. Regardless of whether the Debtors rely on section 382(l)(5) of the IRC, an "ownership change" after the Effective Date could significantly limit the Debtors' ability to utilize its net operating loss carryforwards for taxable years including or following such "ownership change."

3. The Debtors Rely on a Limited Number of Key Suppliers and Vendors to Operate its Business.

As discussed above, approximately 80% of the Debtors' merchandise for the Jennifer segment comes from a single supplier - Mengnu. Currently, Mengnu's shipments are adequate to supply the Debtors' needs. However, if the Debtors experience future problems with Mengnu, and/or potential issues associated with shipments coming to the United States from China, the Debtors could become unable to operate their business successfully.

In addition, the Debtors rely on Ashley to supply inventory for the Debtors' Ashley stores. Currently Ashley is providing adequate inventory on a timely basis to supply the Debtors' needs.

However, if the Debtors experience future problems with Ashley, the Debtors could become unable to operate the Ashley segment successfully.

4. The Loss of One or More of the Debtors' Key Personnel Could Disrupt Operations and Adversely Affect Financial Results.

The Debtors are highly dependent upon the availability and performance of their senior management. Accordingly, the loss of services of any of the Debtors' senior management could materially adversely affect the Debtors' business, financial condition and operating results.

5. Legal Matters.

The Debtors are party to routine litigation incidental to business. It is not anticipated that any current or pending lawsuit, either individually or in the aggregate, is likely to have a material adverse effect on the Debtors' financial condition. However, no assurances can be provided that the Debtors will be able to successfully defend or settle all pending or future purported claims, and the Debtors' failure to do so may have a material adverse effect on the Reorganized Debtors.

ARTICLE XX

MISCELLANEOUS PROVISIONS

Section 20.01. Binding Effect of Plan.

The provisions of the Plan shall be binding upon and inure to the benefit of the Debtors, any Holder of any Claim or Interest treated herein and each of their respective heirs, executors, administrators, representatives, predecessors, successors, assigns, agents, officers and directors, and, to the fullest extent permitted under the Bankruptcy Code and other applicable law, each other Person affected by the Plan.

Section 20.02. Severability.

Should the Bankruptcy Court determine prior to entry of the Confirmation Order, that any provision of the Plan is either illegal or unenforceable on its face or illegal or unenforceable as applied to any Claim or Interest, such provision shall be unenforceable as to all Holders of Claims or Interests or to the specific Holder of such Claim or Interest, as the case may be, as to which the provision is illegal. Unless otherwise determined by the Bankruptcy Court, such a determination shall in no way limit or affect the enforceability and operative effect of any other provisions of the Plan. The Debtors reserve the right not to proceed with Confirmation and/or consummation of the Plan if any such ruling occurs.

Section 20.03. Governing Law.

Except to the extent that the Bankruptcy Code or Bankruptcy Rules or other federal laws are applicable, and subject to the provisions of any contract, instrument, release, or other agreement or document entered into in connection with the Plan, the construction, implementation and enforcement of the Plan and all rights and obligations arising under the Plan shall be governed

by, and construed and enforced in accordance with, the laws of the state of New York, without giving effect to conflicts of law principles which would apply the law of a jurisdiction other than the state of New York or the United States of America.

Section 20.04. Notices.

Any notice required or permitted to be provided under the Plan shall be in writing and served by either prepaid (i) certified mail, return receipt requested, (ii) hand delivery, or (iii) overnight delivery service, to be addressed as follows:

If to the Debtor or Reorganized Debtor:

Olshan Grundman Frome Rosenzweig & Wolosky LLP
Counsel for Jennifer Convertibles, Inc.
Park Avenue Tower
65 East 55th Street
New York, NY 10022
Attn: Michael Fox, Esq.
Jordanna Nadritch, Esq.

With a copy to:

Jennifer Convertibles, Inc.
417 Crossways Park Drive
Woodbury, N.Y. 11797
Attn: Rami Abada
Harley Greenfield

If to the Plan Sponsor:

King & Wood
444 Madison Avenue
42nd Floor
New York, NY 10022
Attn: James Jiang, Esq.

With a copy to:

Neiger LLP
Counsel for Mengnu
317 Madison Avenue
21st Floor
New York, NY 10017
Attn: Edward Neiger, Esq.

Section 20.05. Filing of Additional Documents.

On or before substantial consummation of the Plan, or such later time as may be authorized by the Bankruptcy Court, the Debtors are authorized to issue, execute, deliver or File with the Bankruptcy Court or record any agreements and other documents, and take any action as may be necessary or appropriate to effectuate, consummate and further evidence implementation of the terms and conditions of the Plan.

Section 20.06. Time.

Unless otherwise specified herein, in computing any period of time prescribed or allowed by the Plan, the day of the act or event from which the designated period begins to run shall not be included. The last day of the period so computed shall be included, unless it is not a Business Day, in which event the period runs until the end of next succeeding day that is a Business Day. Otherwise, the provisions of Bankruptcy Rule 9006 shall apply.

Section 20.07. Exhibits/Schedules.

All exhibits and schedules to the Plan and any Plan Supplement are incorporated into and constitute a part of the Plan as if fully set forth herein.

Section 20.08. Defenses with Respect to Impaired or Unimpaired Claims.

Except as otherwise specifically provided in the Plan, nothing shall affect the parties' rights and/or legal and equitable defenses with respect to any Impaired or Unimpaired Claim, including but not limited to all rights relating to legal and equitable defenses to setoffs or recoupments against any Unimpaired Claim.

Section 20.09. Exemption from Certain Transfer Taxes

To the fullest extent permitted by applicable law, all sale transactions consummated by the Debtors and approved by the Bankruptcy Court on and after the Confirmation Date through and including the Effective Date, including the transfers effectuated under the Plan, the sale by the Debtors of any owned property pursuant to section 363(b) of the Bankruptcy Code, and any assumption, assignment, and/or sale by the Debtors of their interests in unexpired leases of non-residential real property or Executory Contracts pursuant to section 365(a) of the Bankruptcy Code, shall constitute a "transfer under a plan" within the purview of section 1146 of the Bankruptcy Code, and shall not be subject to any stamp, real estate transfer, mortgage recording, or other similar tax.

Section 20.10. Dissolution of Creditors' Committee.

As of the Effective Date, the Creditors' Committee will terminate and the members thereof and the professionals retained by the Creditors' Committee in accordance with section 1103 of the Bankruptcy Code shall be released and discharged from their respective fiduciary obligations; *provided, however*, that the Creditors' Committee shall not not be dissolved for the following limited purposes: (i) seeking approval of any application of a Professional's fees and expenses;

(ii) objecting to any application of a Professional's fees and expenses; and (iii) any appeals of the Confirmation Order. All reasonable fees and expenses of members of the Creditors' Committee, and the reasonable fees and expenses of the Creditors' Committee's Professionals for post-Effective Date activities authorized under this Section shall be paid upon approval of the Reorganized Debtors, without further Bankruptcy Court approval upon the submission of invoices to the Reorganized Debtors. Following the Effective Date, none of the Creditors' Committee's professionals shall be precluded from representing the Litigation Trust, the Litigation Trustee, any entity acting for the Litigation Trust or the Litigation Trustee, or other entities created by the Plan.

Section 20.11. Access.

From the Effective Date, the Reorganized Debtors shall cooperate with any Person that served as a director or officer of a Debtor at any time prior to the Effective Date (collectively, the "Accessing Parties"), and make available to any Accessing Party, subject to applicable confidentiality and privilege concerns, such documents, books, records or information relating to the Debtors' activities prior to the Effective Date that such Accessing Party may reasonably require in connection with the defense or preparation for the defense of any claim against such Accessing Party relating to any action taken in connection with such Accessing Party's role as a director or officer of a Debtor.

Section 20.12. Amendments.

1. Plan Modifications.

The Plan may be amended, modified, or supplemented by the Debtors in the manner provided for by section 1127 of the Bankruptcy Code, or as otherwise permitted by law, without additional disclosure pursuant to section 1125 of the Bankruptcy Code, except as otherwise ordered by the Bankruptcy Court; provided, that, if such amendment, modification or supplement adversely affects the treatment of holders of Allowed Unsecured Claims, such amendment, modification or supplement can only be done with the consent of the Creditors' Committee. In addition, after the Confirmation Date, so long as such action does not materially and adversely affect the treatment of holders of Allowed Claims pursuant to the Plan, the Debtors may institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan, the Plan Documents and/or the Confirmation Order, with respect to such matters as may be necessary to carry out the purposes and effects of the Plan.

2. Other Amendments.

Prior to the Effective Date, the Debtors may make appropriate technical adjustments and modifications to the Plan, without further order or approval of the Bankruptcy Court; provided, however, that such technical adjustments and modifications do not adversely affect in a material way the treatment of holders of Claims or Interests.

Section 20.13. Revocation or Withdrawal of the Plan.

The Debtors reserve the right to revoke or withdraw the Plan prior to the Effective Date, provided that the Debtors shall obtain the prior consent of the Creditors' Committee for any revocation or withdrawal of the Plan. If the Debtors take such action, the Plan shall be deemed null and void.

Section 20.14. Confirmation Order.

The Confirmation Order shall, and is hereby deemed to, ratify all transactions effected by the Debtors during the period commencing on the Commencement Date and ending on the Confirmation Date, except for any acts constituting willful misconduct or fraud.

Section 20.15. No Injunctive Relief.

No Claim shall be entitled to specific performance or other injunctive, equitable or other prospective relief except as may be specified in the Plan.

Section 20.16. No Admissions.

Notwithstanding anything herein to the contrary, prior to the Effective Date, nothing contained in the Plan shall be deemed an admission by any party with respect to any matter set forth herein, including, without limitation, liability on any Claim or the propriety of any classification of any Claim; provided, however, that the provisions of the Plan shall be treated as admissions under the Federal Rules of Evidence upon the Effective Date.

Section 20.17. Extension of Time.

Any period of time or deadline under the Plan may be extended by agreement of the parties affected thereby, or by order of the Bankruptcy Court upon good cause shown.

Section 20.18. Payment of Statutory Fees.

All fees payable on or before the Effective Date pursuant to section 1930 of title 28 of the United States Code shall be paid by the Debtors on or before the Effective Date, and all such fees payable after the Effective Date shall be paid by the applicable Reorganized Debtors as and when such fees become due. Any deadline for filing Administrative Claims shall not apply to fees payable pursuant to section 1930 of title 28 of the United States Code.

Section 20.19. Conflict.

To the extent that terms of Confirmation Order or the Plan are inconsistent with the Disclosure Statement or any agreement entered into between any of the Debtors and any other party, the terms of the Plan control the Disclosure Statement and any such agreement, except for the Litigation Trust Agreement (which controls as set forth in Section 9.09 of the Plan), and the

provisions of the Confirmation Order (and any Final Orders entered by the Bankruptcy Court after the date of the Plan) control the terms of the Plan and the Litigation Trust Agreement.

Section 20.20. Section 1125(e) of the Bankruptcy Code.

The Debtors have, and upon confirmation of the Plan shall be deemed to have, solicited acceptances of the Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code, and the Debtors (and their affiliates, agents, directors, officers, employees, advisors, and attorneys) have participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code in the offer, issuance, sale, and purchase of the securities offered and sold under the Plan, and therefore are not, and on account of such offer, issuance, sale, solicitation, and/or purchase will not be, liable at any time for the violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or offer, issuance, sale, or purchase of the securities offered and sold under the Plan.

Section 20.21. Reservation of Rights

Except as expressly set forth herein, the Plan shall have no force or effect unless the Bankruptcy Court shall enter the Confirmation Order. None of the filing of the Plan, any statement or provision contained herein, or the taking of any action by the Debtors with respect to the Plan shall be or shall be, deemed to be, an admission or waiver of any rights of the Debtors with respect to any Claims or Interests prior to the Effective Date.

ARTICLE XXI

ALTERNATIVES TO CONFIRMATION OF THE PLAN

If the Plan is not consummated, the Debtors' capital structure will remain over-leveraged and the Debtors will remain unable to service their debt obligations. Accordingly, if the Plan is not confirmed and consummated, the alternatives include:

1. Liquidation Under the Bankruptcy Code.

The Debtors could be liquidated under chapter 7 of the Bankruptcy Code. The Debtors believe that liquidation would result in lower aggregate distributions being made to creditors than those provided for in the Plan, which is demonstrated by the Liquidation Analysis set forth in Article VII and attached as Exhibit D to the Disclosure Statement.

Prior to the Petition Date, the Debtors considered the option of a liquidation under chapter 11 of the Bankruptcy Code. The Debtors, together with their advisers, concluded that there were substantial challenges to a sale of all or substantially all of the Debtors' assets pursuant to section 363 of the Bankruptcy Code, and that such approach would not likely increase the value of the recovery by the Debtors' stakeholders.

2. Alternative Plan(s) of Reorganization.

The Debtors believe that failure to confirm the Plan will lead inevitably to expensive and protracted Chapter 11 Cases. In formulating and developing the Plan, the Debtors have explored numerous other alternatives and engaged in an extensive negotiating process with Mengnu.

The Debtors and the Creditors' Committee believe that not only does the Plan fairly adjust the rights of various Classes of Claims, but also that the Plan provides superior recoveries to Classes 2 and 3 over any alternative capable of rational consideration (such as a chapter 7 liquidation), thus enabling many stakeholders to maximize their returns. Rejection of the Plan in favor of some alternative method of reconciling the Claims and Interests will require, at the very least, an extensive and time consuming process (including the possibility of protracted and costly litigation) and will not result in a better recovery for any Class of Claims or Interests.

THE DEBTORS BELIEVE THAT CONFIRMATION OF THE PLAN IS PREFERABLE TO ANY ALTERNATIVE BECAUSE THE PLAN MAXIMIZES THE AMOUNT OF DISTRIBUTIONS TO ALL HOLDERS OF CLAIMS AND INTERESTS AND ANY ALTERNATIVE TO CONFIRMATION OF THE PLAN WILL RESULT IN SUBSTANTIAL DELAYS IN THE DISTRIBUTION OF ANY RECOVERIES. **THEREFORE, THE DEBTORS AND THE CREDITORS' COMMITTEE RECOMMEND THAT ALL HOLDERS OF IMPAIRED CLAIMS ENTITLED TO VOTE ON THE PLAN VOTE TO ACCEPT THE PLAN.**

3. Dismissal of the Debtors' Chapter 11 Cases.

Dismissal of the Debtors' Chapter 11 Cases would have the effect of restoring (or attempting to restore) all parties to the status quo ante. Upon dismissal of the Debtors' Chapter 11 Cases, the Debtors would lose the protection of the Bankruptcy Code, thereby requiring, at the very least, an extensive and time consuming process of negotiation with the creditors of the Debtors, and possibly resulting in costly and protracted litigation in various jurisdictions. The Debtors believe that these actions would seriously undermine their ability to obtain financing and could lead ultimately to the liquidation of the Debtors under chapter 7 of the Bankruptcy Code. Therefore, the Debtors believe that dismissal of the Debtors' Chapter 11 Cases is not a viable alternative to the Plan.

ARTICLE XXII

CONCLUSION

The Debtors and the Creditors' Committee believe that confirmation and implementation of the Plan is preferable because it will provide the greatest recovery to Holders of Claims. Other alternatives could involve significant delay, uncertainty and substantial administrative costs and are likely to reduce any return to creditors who hold Claims. The Debtors urge the Holders of impaired Claims in Classes 2 and 3 who are entitled to vote on the Plan, to vote to accept the

Plan and to evidence such acceptance by returning their Ballots to the Claims Agent so that they will be received not later than 4:00 p.m. (prevailing Eastern Time) on [DATE], 2011.

Dated: New York New York
~~November 19,~~December 17, 2010

Respectfully submitted,

JENNIFER CONVERTIBLES, INC.
on behalf of itself and its affiliated Debtors

By: /s/ Rami Abada

Counsel:
OLSHAN GRUNDMAN FROME
ROSENZWEIG & WOLOSKY LLP
Park Avenue Tower
65 East 55th Street
New York, New York 10022
Telephone: (212) 451-2300
Facsimile: (212) 451-2222
Counsel for the Debtors and Debtors in Possession