

**OFFICIAL COMMITTEE OF UNSECURED CREDITORS  
OF JENNIFER CONVERTIBLES, INC., *et al.*, DEBTORS  
CHAPTER 11 CASE NO. 10-13779 (ALG) JOINTLY ADMINISTERED**

c/o Kelley Drye & Warren LLP  
101 Park Avenue  
New York, NY 10178

December 21, 2010

To: All General Unsecured Creditors of Jennifer Convertibles, Inc., *et al.*  
(Holders of Claims in Class 3)

**Re: Official Committee of Unsecured Creditors Support of Chapter 11 Plan of  
Reorganization and Disclosure Statement**

Dear General Unsecured Creditors:

The Official Committee of Unsecured Creditors (the “Committee”) of Jennifer Convertibles, Inc. and its affiliated debtors (collectively, the “Debtors”) writes this letter to all general unsecured creditors of the Debtors to recommend that each general unsecured creditor vote in favor of the Joint Chapter 11 Plan of Reorganization For Jennifer Convertibles, Inc. And Its Affiliated Debtors (the “Plan”). Copies of the Plan and Disclosure Statement are being delivered to you by the Debtors in the same package as this letter. As the official representative of all unsecured creditors in the Debtors’ chapter 11 bankruptcy cases, the Committee believes the Plan is fair and provides general unsecured creditors with the best possible recovery under the circumstances of these cases. **Accordingly, the Committee recommends that all general unsecured creditors vote to accept the Plan in accordance with the instructions set forth in the ballots being delivered to you by the Debtors.**

On July 18, 2010 (the “Petition Date”), the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York. On July 23, 2010, the United States Trustee for the Southern District of New York appointed the Committee to represent the interests of unsecured creditors in the Debtors’ chapter 11 cases. The Committee retained Kelley Drye & Warren as its counsel and Deloitte Financial Advisory Services LLP as its financial advisors.

Since the Petition Date, the Committee has played an active role in these cases in an effort to maximize recoveries for the unsecured creditors. The Plan is the result of intense and extensive negotiations among the Committee, the Debtors, the Plan Sponsor,<sup>1</sup> Haining Mengnu Group Co. Ltd. (“Mengnu”), and other key parties. **As part of the negotiated treatment of**

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<sup>1</sup> Capitalized terms not defined in this letter shall have the meaning set forth in the Plan.

**general unsecured creditors, the Committee has agreed to support the Plan, and recommend that all general unsecured creditors vote to accept the Plan.**

### **Summary of the Plan and Distributions**

Prior to, and during, the course of the Debtors' bankruptcy, no viable entity was located to purchase the assets of the Debtors. In addition, the Debtors were unable to obtain financing from a typical financial institution. The only viable alternative to avoid liquidation of the Debtors' assets was a restructuring sponsored by the Debtors' primary supplier, Mengnu, which has agreed to provide financing to the Debtors to allow them to emerge from bankruptcy. In addition, Mengnu has agreed to convert most of its unsecured debt into the majority of the equity in the Reorganized Debtors. Mengnu has further agreed that its administrative priority claims will be treated parri passu with general unsecured claims and receive a Tranche B Note that has a later maturity date and less collateral protection than the Tranche A Note being issued to holders of allowed general unsecured claims (as discussed below). Without the financing being provided by Mengnu and conversion of its debt to equity, it is almost certain the Debtors would have been compelled to liquidate their assets. During the course of the bankruptcy, the Committee engaged in extensive negotiations with Mengnu to allow for the restructuring of the Debtors and ensure a recovery for general unsecured creditors that exceeded the amount that general unsecured creditors would have received in the event of a liquidation. These negotiations ultimately led to the Plan that is being proposed by the Debtors.

The Plan provides for the reorganization of the Debtors after significant restructuring of the Debtors' operations during the course of bankruptcy, including a significant reduction in the number of Jennifer Convertibles stores being operated by the Debtors.

The Plan does not provide for the immediate distribution of cash to holders of allowed general unsecured claims. Instead, the Plan provides for holders of allowed general unsecured claims in Class 3 to receive their pro rata share of the following:

1. Proceeds of the Tranche A Note. The Tranche A Note is a 1-year note in the amount of \$1.4 million, with interest at a rate of 3% per annum, payable semi-annually. The Tranche A Note is secured by a first priority lien on all JCI Inventory;
2. Proceeds of the Tranche C Note. The Tranche C Note is a 3-year note in the amount of \$950,000, with interest at a rate of 5% per annum, payable semi-annually. The Tranche C Note is secured by a first priority lien on all JCI Inventory;
3. 9.9% of the common stock of the Reorganized Debtors; and
4. 70% of the Litigation Trust Proceeds.

Pursuant to the Disclosure Statement, the Plan provides for an estimated distribution to holders of allowed general unsecured claims in Class 3 of approximately 22%, as opposed to the

estimated 8% that such holders would receive if the Debtors simply liquidated their assets. This distribution depends upon several factors including the ultimate total amount of allowed claims as well as the success of the Litigation Trust in pursuing certain litigation actions.

The Plan provides for the creation of a Litigation Trust that will be administered by a plan administrator selected by the Committee. The Litigation Trust is more fully described in Article XII of the Plan. The Litigation Trust will hold the notes and the common stock until they can be distributed to the holders of allowed general unsecured claims. In addition, the plan administrator will be responsible for prosecuting certain avoidance actions, including potential actions against the Debtors' directors and officers related to acts that occurred prior to the Debtors' chapter 11 cases. The Committee cannot predict with any certainty how long it will take to resolve these causes of action, the ultimate outcome of such actions or the amount of the total proceeds from such actions.

### **Voting and Recommendation**

For the purpose of voting on the plan, the Debtors have provided you with a ballot, which should be completed by you for either accepting or rejecting the Plan. Before voting, all creditors are strongly urged to carefully read and review in their entirety the Plan and the Disclosure Statement, including the discussion of the risk factors related to the Plan and all other documents submitted to you by the Debtors. The treatment provisions for Class 3 are set forth in Section 4.02(b)(3) of the Plan. Summary information regarding recoveries for Class 3 are set forth in Section 1.01 of the Disclosure Statement. If you want your vote to accept or reject the Plan to be counted, you must return your original signed ballot so that it is received by the Debtors' Claims Agent **no later than 4:00 p.m. (prevailing Eastern Time) on January \_\_, 2011**. The Claims Agent will not accept ballots sent by facsimile or email. Ballots must be sent by overnight mail, first class mail or delivered by hand to the following address:

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

The Bankruptcy Court will hold a hearing on **[January 25, 2011 at 11:00 a.m. (EST)]** to determine whether to approve the Plan. Under the Bankruptcy Code, for the Plan to be approved consensually, at least  $\frac{1}{2}$  in number of voting creditors and  $\frac{2}{3}$  in amount of each voting class must vote to accept the Plan. If a voting class of creditors votes to reject the Plan, the Plan may still be confirmed if (a) at least one class of impaired creditors (a class of creditors not receiving 100% on their claims) votes to accept the Plan, and (b) the Debtors can establish that the Plan is fair and equitable.

**THE COMMITTEE ENDORSES THE PLAN AND RECOMMENDS THAT ALL HOLDERS OF GENERAL UNSECURED CLAIMS IN CLASS 3 VOTE TO ACCEPT THE PLAN. NOTWITHSTANDING OUR RECOMMENDATION, EACH CREDITOR MUST MAKE ITS OWN INDEPENDENT DETERMINATION AS TO**

**WHETHER THE PLAN IS ACCEPTABLE TO THAT CREDITOR AND SHOULD CONSULT WITH ITS OWN LEGAL AND/OR FINANCIAL ADVISORS.**

The Committee's decision to support the Plan was made after considering several factors and after extensive discussions and negotiations with the Debtors and Mengnu. Although the Committee recognizes that the estimated recovery set forth in the Disclosure Statement for Mengnu's unsecured claim is higher than the estimated recovery for holders of allowed general unsecured claims, such recovery is substantially based upon the common stock that Mengnu will receive, the value of which is uncertain and significantly more difficult to estimate than other forms of consideration such as the Tranche A and C Notes. In addition, Mengnu will be providing the Debtors with various forms of financing that no other entity was willing to provide and without which, it is almost certain that the reorganization would fail and the Debtors would need to liquidate. Accordingly, after much analysis and thorough consideration, the Committee agreed to support the Plan.

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS  
OF JENNIFER CONVERTIBLES, INC., *et al.*