

**AMENDED EXHIBIT A**

**Amended Exit Loan Agreement**

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SECURED EXIT CREDIT AGREEMENT,

Dated as of February [ ], 2011,

among

HAINING MENGNU GROUP CO., LTD., as Exit Credit Provider,

and

JENNIFER CONVERTIBLES, INC. AND ALL AFFILIATED ENTITIES, as Obligor

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Exhibits and Schedules

Exhibit A      Tranche E Note

Exhibit B      Tranche E Security Agreement

Exhibit C      Tranche B Note

Exhibit D      Tranche B Security Agreement

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SECURED EXIT CREDIT AGREEMENT dated as of February [ ], 2011 among JENNIFER CONVERTIBLES, INC. AND ALL ITS AFFILIATED ENTITIES (collectively "**Jennifer**" or the "**Obligors**" or the "**Debtors**," ) and HAINING MENGNU GROUP CO., LTD. ("**Mengnu**" or the "**Exit Credit Provider**"). The parties shall be collectively referred to as **Parties** and individually as a **Party**.

## RECITALS

WHEREAS, Debtors have commenced cases under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York on July 18, 2010 (primary case no. 10-13779 (ALG)) (collectively, the "**Case**" or the "**Chapter 11 Cases**") and Debtors have retained possession of their respective assets and are authorized under the Bankruptcy Code to continue the operation of their businesses as debtors-in-possession;

WHEREAS, on December 22, 2011 the Court entered the Final DIP Order approving the DIP Agreement.

WHEREAS, pursuant to the terms of the DIP Agreement and the Final DIP Order, Jennifer owes Mengnu, as of the date hereof, \$[ ], secured by all of Jennifer's assets except as specifically excluded in the DIP Agreement.

WHEREAS, Jennifer has requested that Mengnu continue and increase the amount of the LOC (as that term is defined and more fully described in the DIP Agreement) in favor of the Credit Card Processor or other parties.

WHEREAS, Jennifer has requested that Mengnu provide exit credit on the Effective Date in the form of (i) the LOC in an amount of \$3 million, which amount may be increased to an amount not to exceed \$5 million at the request of Jennifer and the consent of Mengnu (the "**LOC Facility**"), and (ii) (a) in Mengnu's discretion, re-lending of amounts owed by Jennifer to Mengnu that accrued, whether due and owing or not, under the DIP Agreement, including, but not limited to, monies owed in connection with the LOC under the DIP Agreement as of the date hereof, and (b) additional funds provided by Mengnu (the "**Cash Facility**" and, collectively with the LOC Facility, the "**Exit Credit**").

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

## ARTICLE 1 DEFINITIONS

Section 1.01. *Defined Terms.* As used in this Agreement, the following terms shall have the meanings specified below:

"**Agreement**" shall mean this agreement.

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“**Affiliate**” shall mean any company or entity that is owned by a Debtor or by a subsidiary of a Debtor.

“**Bankruptcy Code**” shall mean the United States Bankruptcy Code, being Title 11 of the United States Code as enacted in 1978, 11 U.S.C. §§101 *et seq.*, as the same has heretofore been or may hereafter be amended, recodified, modified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto.

“**Bankruptcy Court**” shall mean the United States Bankruptcy Court for the Southern District of New York.

“**Bankruptcy Rules**” shall mean the Federal Rules of Bankruptcy Procedure, as the same may from time to time be in effect and applicable to the Chapter 11 Cases.

“**Cash Facility**” shall have the meaning ascribed in the Recitals.

“**Chapter 11 Cases**” shall have the meaning ascribed in the Recitals.

“**Closing Date**” shall mean the date on which the Agreement shall have been executed by the Parties which shall not be later than the Effective Date.

“**Collateral**” shall have the meaning ascribed to it in the Security Agreement.

“**Credit Card Processor**” shall mean Merrick Bank.

“**Debtors**” shall have the meaning ascribed in the Recitals.

“**DIP Agreement**” shall mean that certain Senior Secured and Super-Priority Debtor in Possession Credit Agreement by and between the Parties dated as of November 19, 2010.

“**DIP Financing**” shall have the meaning ascribed in the Recitals.

“**Effective Date**” shall mean the date hereof.

“**Exit Credit Provider**” shall have the meaning ascribed in the Preamble.

“**Exit Credit**” shall have the meaning ascribed in the Recitals.

“**Final DIP Order**” shall mean the final order of the Bankruptcy Court approving the DIP Agreement.

“**Governmental Authority**” shall mean any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

“**Jennifer**” shall have the meaning ascribed in the Preamble.

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“**Lien**” shall mean, with respect to any asset, any mortgage, deed of trust, lien (statutory or otherwise), pledge, hypothecation, encumbrance, collateral assignment, charge or security interest in, on or on such asset.

“**LOC Facility**” shall have the meaning ascribed in the Recitals.

“**LOC Fee**” shall have the meaning ascribed in section 2.02 of this Agreement.

“**Material Adverse Effect**” shall mean a material impairment of the ability of any Obligor to perform any of its Obligations under this Agreement.

“**Mengnu**” shall have the meaning ascribed in the Preamble.

“**Obligation**” shall have the meaning ascribed in Article 4 of this Agreement.

“**Obligor**” shall include any Affiliate of the Obligors.

“**Obligors**” shall have the meaning ascribed to them in the Preamble.

“**Petition Date**” shall mean July 18, 2010.

“**Termination Date**” shall have the meaning ascribed to it in Article 8 of this Agreement.

“**Termination Event**” shall have the meaning ascribed to it in Article 8 of this Agreement.

“**Tranche B Note**” shall mean the aggregate, without duplication, of all items that are set forth in the note annexed hereto as Exhibit C.

“**Tranche B Security Agreement**” shall mean the aggregate, without duplication, of all items that are set forth in the agreement annexed hereto as Exhibit D.

“**Tranche E Note**” shall mean the aggregate, without duplication, of all items that are set forth in the note annexed hereto as Exhibit A.

“**Tranche E Security Agreement**” shall mean the aggregate, without duplication, of all items that are set forth in the agreement annexed hereto as Exhibit B.

“**UCC**” shall mean the Uniform Commercial Code.

“**USA Patriot Act**” shall mean The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Title III of Pub. L. No. 107-56 (signed into law October 26, 2001)).

Section 1.02. *Terms Generally; Pro Forma Calculations.* The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun

## DRAFT

shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” and words of similar import, shall not be limiting and shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. The words “asset” and “property” shall be construed as having the same meaning and effect and to refer to any and all rights and interests in tangible and intangible assets and properties of any kind whatsoever, whether real, personal or mixed, including cash, securities, equity interests, accounts and contract rights. The words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision of this Agreement unless the context shall otherwise require.

### ARTICLE 2 THE CREDITS

Section 2.01. *Commitments.* Subject to the terms and conditions hereof, and relying upon the representations and warranties set forth herein, Mengnu agrees (a) to provide Jennifer with the Cash Facility and (b) to provide Jennifer with the LOC Facility in an amount up to and including \$5 million as Jennifer may request and Mengnu, in its sole discretion, may decide.

#### Section 2.02. *Payment of Obligations.*

(a) With respect to the repayment of the Cash Facility, Mengnu shall receive the Tranche E Note and Security Agreement filed contemporaneously herewith and annexed hereto as Exhibit A and Exhibit B, and Jennifer shall be obligated to pay Mengnu pursuant to, and be bound by terms of, the Tranche E Note and Security Agreement. The Tranche E Note and Security Agreement are separate and apart from this Agreement. Jennifer shall be bound by the terms of the Tranche E Note and Security Agreement notwithstanding the validity of some or all of the provisions of this Agreement.

(b) With respect to the repayment of the LOC Facility, Jennifer shall repay Mengnu all amounts drawn by any beneficiary of a letter of credit issued in connection with the LOC Facility for which Mengnu is obligated to repay the bank that issued the letter of credit on the earlier of (a) the Termination Date or (b) five (5) business days following the occurrence of a such drawing.

(c) With respect to the LOC Facility, Jennifer shall be obligated to pay Mengnu a fee (the “**LOC Fee**”) in connection with the LOC Facility equaling 5% per annum applied to the face amount of the LOC Facility commencing as of the Effective Date (without regard to whether any drawings have been made and computed on the basis of the actual number of days elapsed over a year of 365 days calculated from and including the date the LOC Facility is issued to but excluding the date the LOC Facility expires or is otherwise withdrawn or terminated). Jennifer shall pay the LOC Fee on a semi-annual basis, to be paid beginning the first business day that is six (6) months

## DRAFT

following the date the LOC Facility is issued and each subsequent six (6) months until the Termination Date.

### Section 2.03. *Security of Obligations.*

(a) All Obligations with respect to the Cash Facility shall be secured pursuant to the terms of the Tranche E Note and Security Agreement.

(b) All Obligations with respect to the LOC Facility shall be secured by the Collateral, as set forth in the Tranche B Note and Security Agreement, and shall be secured ratably thereto. The security and the terms thereof shall survive the termination of the Tranche B Note and shall not be affected by an amendment to the Tranche B Note after the Effective Date. In addition, the Parties intend to enter into a security agreement in respect of the LOC Facility (the "LOC Facility Security Agreement"). Failing to enter into the LOC Security Agreement shall not affect any of the liens or rights granted hereunder.

## ARTICLE 3 REPRESENTATIONS AND WARRANTIES

Each Obligor jointly and severally represents and warrants to the Exit Credit Provider that:

Section 3.01. *Organization; Powers.* The Obligors represent and warrant to Mengnu that (i) each Obligor is duly organized, validly existing, and is or will be in good standing under the laws of the jurisdiction of its formation and (ii) this Agreement has been duly executed and delivered by it and constitutes its legal, valid, and binding obligation, enforceable in accordance with the terms hereof.

Section 3.02. Mengnu represents and warrants that (i) it is validly existing as a corporation in good standing under the laws of the People's Republic of China and has all the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder and (ii) assuming this Agreement has been duly executed and constitutes the valid and legally binding obligation of Jennifer, this Agreement constitutes its valid and legally binding obligation.

Section 3.03. *Title to Properties.* Each Obligor has good and marketable title to, or valid leasehold interests in the Collateral.

Section 3.04. *Tax Returns.* Each Obligor has timely filed all Federal, state, local and foreign tax returns or materials required to have been filed by it and all such tax returns are correct and complete in all material respects. Each Obligor has timely paid or timely caused to be paid all material taxes that were shown to be due on such tax returns, except taxes that are being contested in



## DRAFT

good faith by appropriate proceedings and for which the Obligor, as applicable, shall have set aside on its books adequate reserves in accordance with GAAP.

Section 3.05. *No Material Misstatements.* No report, financial statement, exhibit, schedule or other written information furnished by or on behalf of any Obligor for use in connection this Agreement or in connection with the negotiation of the terms of this Agreement, contains or will contain any material misstatement of fact or omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading; *provided* that to the extent any such report, financial statement, exhibit, schedule or other written information was based upon or constitutes a forecast or projection, each Obligor represents only that it acted in good faith and utilized reasonable assumptions (based upon accounting principles consistent with the historical audited financial statements of the Obligors, except where accounting principles are not applicable to information outside of a financial statement) and due care in the preparation of such information, report, financial statement, exhibit, schedule or other written information.

Section 3.06. *Insurance.* The Debtors have valid and existing insurance policies protecting the Collateral from damage and/or theft. As of such date, such insurance is in full force and effect and all premiums have been duly paid. The Obligors have insurance in such amounts and covering such risks and liabilities as are in accordance with normal and prudent industry practice. None of the Obligors have received notice from any insurer (or agent thereof) that substantial capital improvements or other substantial expenditures will have to be made in order to continue such.

Section 3.07. *Labor Matters.* As of the Closing Date, there are no strikes, lockouts or slowdowns against any Obligor threatened. The hours worked by and payments made to employees of any Obligor have not been in violation of the Fair Labor Standards Act or any other applicable Federal, state, local or foreign law dealing with such matters. The consummation of this Agreement will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which any Obligor is bound.

Section 3.08. *Intellectual Property.* Each Obligor owns, is licensed or otherwise has the right to use, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and the use thereof by each of Obligor does not infringe upon the rights of any other person or entity, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

Section 3.09. *Sanctioned Persons; USA Patriot Act.* To the knowledge of the Obligor, no Obligor, or director, officer, agent, employee or Affiliate of the Obligor is currently subject to any U.S. sanctions administered by the

## DRAFT

Office of Foreign Assets Control of the U.S. Treasury Department (“OFAC”); and the Obligor will not directly or indirectly use the proceeds of the Obligations or otherwise make available such proceeds to any person or entity, for the purpose of financing the activities of any person or entity currently subject to any U.S. sanctions administered by OFAC. The Obligors are in compliance with (a) the Trading with the Enemy Act, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B Chapter V, as amended) and any other enabling legislation or executive order relating thereto, (b) the USA Patriot Act and (c) other federal or state laws relating to “*know your customer*” and anti-money laundering rules and regulations. No part of the proceeds of this Agreement will be used directly or indirectly for any payments to any government official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977.

### ARTICLE 4 OBLIGATIONS

Section 4.01. *Obligations.* Jennifer shall be obligated to repay Mengnu pursuant to Article 2 of this Agreement.

Section 4.02. *Joint and Several Liability.* Each Obligor shall be jointly and severally liable for the Obligations.

### ARTICLE 5 USE OF PROCEEDS

Section 5.01. The proceeds provided under this Agreement shall be used to repay all obligations owed under the DIP Agreement and to provide working capital to Jennifer.

### ARTICLE 6 CONDITIONS PRECEDENT

Section 6.01. The obligations of the Exit Credit Provider hereunder in connection with the Exit Credit are subject to the satisfaction of the following conditions:

- (a) the representations and warranties set forth in this Agreement and in the Tranche E Note and Security Agreement shall be true and correct in all material respects;
- (b) the Court approves the Debtors’ plan of reorganization; and
- (c) the Effective Date has occurred on or before February 28, 2011.

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**ARTICLE 7  
AFFIRMATIVE COVENANTS**

Each Obligor covenants and agrees that it will abide by the covenants contained in this Agreement which shall remain in effect until the Obligations have been repaid including interest, fees and all other expenses or amounts payable under this Agreement, and each Obligor shall:

Section 7.01. *Existence; Businesses and Properties.* (a) Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as occasioned by the Chapter 11 Cases.

(b) (i) Do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names material to the conduct of its business; (ii) maintain and operate such business in substantially the manner in which it is presently conducted and operated, except if the failure to do so could not reasonably be expected to have a Material Adverse Effect; (iii) comply in all material respects with all applicable laws, rules, regulations and decrees and orders of any Governmental Authority, whether now in effect or hereafter enacted; and (iv) at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair, working order and condition, ordinary wear and tear excepted, and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times.

Section 7.02. *Insurance.* Keep its insurable properties and assets adequately insured at all times by financially sound and reputable insurers; maintain such other insurance, to such extent and against such risks (and with such deductibles, retentions, and exclusions), including fire and other risks insured against by extended coverage, as is customary with companies in the same or similar businesses operating in the same or similar locations, including public liability insurance against claims for personal injury or death or property damage occurring upon, in, about or in connection with the use of any properties owned, occupied or controlled by it; and maintain such other insurance as may be required by law.

**ARTICLE 8  
EVENTS OF DEFAULT**

Section 8.01. *Events of Default.* Each of the following shall constitute an Event of Default:

(a) Any breach of a representation, warranty, affirmative or negative covenant contained in this Agreement.

## DRAFT

(b) With respect to the LOC facility, failure of any Obligor to timely make payments on any Obligation, as set forth in Section 2.02(b) and Section 2.02(c), or

(c) With respect to the Cash Facility, a default under the Tranche E Note and Security Agreement.

## ARTICLE 9 TERMINATION

Section 9.01. The following shall constitute a termination event (a “**Termination Event**” under this Agreement:

- (a) Notice of the occurrence an Event of Default that cannot be cured;
- (b) The occurrence of an Event of Default under Section 8.01(a) that can be cured but has not been cured within thirty (30) days of notice of the Event of Default; or
- (c) The occurrence of an Event of Default under Section 8.01(b) that can be cured but has not been cured within five (5) business days of notice of the Event of Default.
- (d) The occurrence of an Event of Default under Section 8.01(c) that gives the Exit Credit Provider the right to exercise its remedies under the Tranche E Note and Security Agreement.

Section 9.02. This Agreement shall terminate on the earliest of (i) the date of the occurrence of a Termination Event (ii) any date upon 30 days notice by the Obligor or (iii) any date after December 31, 2012 upon 30 days notice by Mengnu (the “**Termination Date**”).

Section 9.03. Notwithstanding the above, the Agreement shall not be terminated if Mengnu, in its discretion, advises Jennifer that it does not consider the Agreement terminated. Mengnu shall have the option to reinstate the Agreement upon notice to Jennifer notwithstanding the occurrence of a Termination Event.

### Section 9.04. *Effect of Termination.*

- (a) A Termination Event shall terminate the Agreement and all of Mengnu’s obligations hereunder subject to the provisions contained in this Agreement but shall not affect the Obligors’ Obligations or any of Mengnu’s rights.
- (b) Upon a Termination Event, all amounts owed under the Agreement shall be immediately due and owing to Mengnu and Mengnu shall have the right to take all remedial actions at its disposal without further notice to Jennifer, including foreclosing

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on the Collateral and implementing all remedies granted to Mengnu under the Tranche E Note and Security Agreement (notwithstanding whether the Termination Event arose in connection with sections 9.01(a), (b), or (c) of this Agreement).

**ARTICLE 10  
MISCELLANEOUS**

Section 10.01. *Notices; Electronic Communications.* Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by fax, as follows:

(a) If to the Debtors, at:

Jennifer Convertibles, Inc.  
417 Crossways Park Drive  
Woodbury, NY 11797  
Attn: Rami Abada

If to Mengnu:

James Jiang  
c/o King & Wood, LLC  
444 Madison Avenue, 42nd Floor  
New York, NY 10022

-and-

Neiger LLP  
317 Madison Avenue, 21<sup>st</sup> Floor  
New York, NY 10017  
Attn: Edward E. Neiger, Esq.

Section 10.02. *Survival of Agreement.* All (i) covenants, agreements, representations and warranties made by the Parties in the Agreement and in the certificates or other documents delivered in connection therewith (ii) Obligations arising under this Agreement, and (iii) all rights provided to the Exit Credit Providers, shall survive notwithstanding an Event of Default or the termination of this Agreement.

Section 10.03. *Binding Effect.* This Agreement shall become effective when it shall have been executed by each of the Parties.

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Section 10.04. *Successors and Assigns.* Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Obligors or the Exit Credit Provider that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

Section 10.05. *Entire Agreement.* This Agreement constitutes the entire contract between the parties relative to the subject matter hereof. Any other previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement.

Section 10.06. *Severability.* In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions. Moreover, the invalidity of any portion of this Agreement, or the entire Agreement, shall have no bearing on Jennifer's duties and obligations under the Tranche E Note and Security Agreement annexed hereto as Exhibit A and Exhibit B.

Section 10.07. *Counterparts.* This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract, and shall become effective on the Closing Date. Delivery of an executed signature page to this Agreement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Agreement.

Section 10.08. *Headings.* Article and Section headings and the Table of Contents used herein are for convenience of reference only and are not part of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

**JENNIFER CONVERTIBLES, INC.**

By: \_\_\_\_\_  
Name:  
Title:

**HAINING MENGNU GROUP**

By: \_\_\_\_\_  
Name:  
Title:

Exhibit A  
Tranche E Note



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**PROMISSORY NOTE**

**SECURED TRANCHE E NOTE**

February [ ], 2011

\$[ ]

This Secured Tranche E Note is executed and delivered pursuant to the terms of that certain Amended Joint Chapter 11 Plan of Reorganization for Jennifer Convertibles, Inc. and its Affiliated Debtors, dated as of December 21, 2010 (the “Plan”) as approved by the United States Bankruptcy Court for the Southern District of New York pursuant to that certain Confirmation Order, dated as of January [ ], 2011 (the “Confirmation Order”). Capitalized terms not otherwise defined herein or in the Security Agreement (as defined herein) shall have the meanings provided in the Plan.

**DEFINITIONS**

“Consolidated EBITDA” means, with respect to any period, an amount determined for the Obligor on a consolidated basis equal to: (a) the Consolidated Net Income for such period, plus (b) to the extent taken into account in calculating Consolidated Net Income, (i) depreciation and amortization for such period, plus (ii) interest expense for such period, plus (iii) income taxes for such period, plus (iv) other non-cash or non-recurring charges for such period, minus (c) to the extent taken into account in calculating Consolidated Net Income, (i) other non-cash or non-recurring items to the extent such items increase the Consolidated Net Income for such period, plus (ii) interest income.

“Consolidated Excess Cash Flow” means, with respect to any period, an amount, which shall not be less than zero, determined for the Obligor on a consolidated basis equal to: (a) the sum, without duplication, of the amounts for such period of (i) Consolidated EBITDA, plus (ii) cash interest income, plus (iii) other non-ordinary course cash income deducted in the calculation of Consolidated EBITDA, plus (iv) the Working Capital Adjustment, minus (b) the sum, without duplication, of the amounts for such period of (i) capital expenditures, plus (ii) cash interest expense, plus (iii) income taxes, plus (iv) principal repayments on any indebtedness.

“Consolidated Net Income” means the aggregate of the net income (loss) of the Obligor for such period (excluding to the extent included therein any extraordinary and/or one time or unusual and non-recurring gains or losses) after deducting all charges which should be deducted before arriving at the net income (loss) for such period and, without duplication, after deducting the taxes for such period, all as determined in accordance with GAAP.

“Current Assets” means as at any date of determination, the total assets of such Obligor on a consolidated basis that may properly be classified as current assets in conformity with GAAP, excluding cash and cash equivalents.

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“Current Liabilities” means as at any date of determination, the total liabilities of such Obligor on a consolidated basis that may properly be classified as current liabilities in conformity with GAAP, excluding the current portion of long term debt.

“Exit Credit Facility” shall mean that certain Secured Exit Credit Agreement by and between Mengnu and the Debtors dated February [ ], 2011

“Measurement Period” means, any of the following periods: May 29, 2011 through November 26, 2011, November 27, 2011 through May 26, 2012 and May 27, 2012 through November 24, 2012.

“Working Capital” means, as at any date of determination, the excess or deficiency of Current Assets less Current Liabilities.

“Working Capital Adjustment” means, for any period of determination, the Working Capital as of the beginning of such period less the Working Capital as of the end of such period.

FOR VALUE RECEIVED, **JENNIFER CONVERTIBLES, INC.**, a Delaware corporation (the “Obligor”), hereby unconditionally promises to pay in immediately available funds to the order of **HAINING MENGNU GROUP CO. LTD.** (“Mengnu”), in respect of the Exit Credit Facility, at such place that Mengnu may from time to time designate to the Obligor in writing:

- (i) the principal sum of [ ] (\$[ ]) on February \_\_, 2013; and
- (ii) interest on the principal amount of this Secured Tranche E Note at 3 ½% per annum, payable in four equal installments, the first of which shall be on August \_\_, 2011, the second of which shall be on February \_\_, 2012, the third of which shall be on August \_\_, 2012, and the fourth of which shall be on February \_\_, 2013. All interest shall be computed on the basis of a year of three hundred and sixty-five (365) days and the actual number of days, including the first day but excluding the last day, elapsed.

In the event there shall be Consolidated Excess Cash Flow for any Measurement Period, the Obligor shall, no later than 60 days after the end of such Measurement Period, prepay the Tranche E Note in an aggregate amount equal to 50% of such Consolidated Excess Cash Flow; provided that notwithstanding anything to the contrary in this paragraph, the Obligor shall not be required to make that portion of a prepayment hereunder to the extent that such prepayment would cause the average amount of cash and cash equivalents of the Obligor over the prior two months of such Measurement Period (excluding (i) any restricted cash and (ii) any cash held with the stores or truckers, subject to a maximum of \$500,000) to be less than

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\$3,000,000. For the avoidance of doubt, with respect to any Measurement Period, the average amount of cash and cash equivalents of the Obligor over the prior two months shall be calculated by averaging the amount of cash and cash equivalents of the Obligor on (i) the last day of such Measurement Period, (ii) the last day of Obligor's accounting month end for month prior to the end of such Measurement Period and (iii) the last day of Obligor's accounting month end for second month prior to the end of such Measurement Period.

This Secured Tranche E Note is secured by liens granted pursuant to that certain Security Agreement, dated as of February \_\_, 2011 (the "Security Agreement"), is entitled to the benefits of the Security Agreement, the Plan and the Confirmation Order and is subject to all of the agreements, terms and conditions therein contained. The provisions of the Security Agreement are fully incorporated herein.

If an Event of Default under of the Security Agreement shall occur, then this Secured Tranche E Note shall become due and payable when the conditions for exercising remedies upon default in section 10 of the Security Agreement have been fulfilled, together with reasonable attorneys' fees if the collection hereof is place in the hands of an attorney to obtain or enforce payment hereof. Mengnu shall at all times have the right to waive or rescind the payment acceleration and reinstate the terms of the Secured Tranche E Note.

Upon receipt of evidence reasonably satisfactory to the Obligor of the loss, theft, destruction or mutilation of this Secured Tranche E Note, the Obligor will issue a new Secured Tranche E Note, of like tenor and amount.

This Secured Tranche E Note may not be transferred except in compliance with the terms and provisions of the Security Agreement.

Obligor (i) expressly waives diligence, demand, presentment, protest and notice of any kind, and (ii) agrees that it will not be necessary for Mengnu to first institute suit in order to enforce payment of this Secured Tranche E Note. The pleading of any statute of limitations as a defense to any demand against Obligor is expressly hereby waived. Mengnu shall not be required to resort to any collateral for payment, but may proceed against the Obligor, or any of its affiliates or any endorsers hereof in such order and manner as Mengnu may choose. None of the rights of Mengnu shall be waived or diminished by any failure or delay in the exercise thereof.

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**THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS SECURED TRANCHE E NOTE AND ANY DISPUTES ARISING IN CONNECTION HEREWITH OR THEREWITH SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. THE OBLIGOR IRREVOCABLY CONSENTS AND SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF THE UNITED STATES BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF NEW AND WAIVES ANY OBJECTION BASED ON VENUE WITH RESPECT TO ANY ACTION INSTITUTED THEREIN ARISING UNDER OR WITH RESPECT TO THIS SECURED TRANCHE E NOTE. THE OBLIGOR HEREBY WAIVES ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION BROUGHT TO ENFORCE THIS SECURED TRANCHE E NOTE OR ANY AMENDMENT THERETO OR ANY ACTION BROUGHT TO ENFORCE PAYMENT OF ANY OBLIGATIONS OWING TO MENGNU.**

JENNIFER CONVERTIBLES, INC.  
on behalf of itself and its subsidiaries

By: \_\_\_\_\_  
Name: Rami Abada  
Title: President

Exhibit B

Tranche E Security Agreement

59

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**SECURITY AGREEMENT**

This SECURITY AGREEMENT, (this "*Security Agreement*") is dated as of February [ ], 2011, by and among Jennifer Convertibles, Inc. and each of its subsidiaries undersigned below (each, a "*Grantor*" and collectively, the "*Grantors*") and Haining Mengnu Group Co. Ltd. ("*Mengnu*").

**WITNESSETH**

WHEREAS, on July 18, 2010 (the "*Petition Date*"), Jennifer Convertibles, Inc. and each of its undersigned subsidiaries (collectively, the "*Debtors*") filed with the United States Bankruptcy Court for the Southern District of New York (the "*Bankruptcy Court*") voluntary petitions for relief under chapter 11 of the Bankruptcy Code. Since the Petition Date, the Debtors have continued to operate their businesses and manage their properties as debtors-in-possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code. No trustee or examiner has been appointed in these cases;

WHEREAS, on December 21, 2010, the Debtors filed the Amended Joint Chapter 11 Plan of Reorganization for Jennifer Convertibles, Inc. and its Affiliated Debtors (as amended or modified, the "*Plan*");

WHEREAS, on January [ ], 2011, the United States Bankruptcy Court entered an order confirming the Plan (the "*Confirmation Order*");

WHEREAS, the Plan became effective on \_\_\_\_\_, 2011;

WHEREAS, pursuant to the Plan, the Debtors are required to issue the Tranche E Note (the "*Note*") and execute this Security Agreement;

WHEREAS, the Tranche E Note is being issued to and is payable to the order of Mengnu in respect of monies accrued and owing to Mengnu (though not necessarily due and owing) under the DIP Agreement as of the Effective Date with respect to which Mengnu desires to be paid under the Note; and

WHEREAS, the Grantors desire to execute this Security Agreement to satisfy their obligations under the Plan.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

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1. **DEFINED TERMS.** (a) All capitalized terms used but not otherwise defined herein shall have the meanings given to them in the Plan. All other undefined terms contained in this Security Agreement, unless the context indicates otherwise, have the meaning provided for by Article 9 of the Uniform Commercial Code as adopted in the State of New York (the “Code”).

(b) For purposes of this Security Agreement, the following terms shall have the following meanings:

“**Assets**” means all assets of the Grantors other than the Hartsdale Assets and the JCI Inventory, whether tangible or intangible, including, but not limited to, leases, Executory Contracts, accounts receivable, equipment, customer lists, real property, non-real property, intellectual property and securities.

“**Business Day**” means any day other than (a) a Saturday or Sunday and (b) a public or bank holiday in New York City.

“**Cash**” or “**\$**” means the lawful currency of the United States of America and its equivalents.

“**Chapter 11 Cases**” or “**Cases**” means the jointly administered chapter 11 cases of the Debtors, Case No. 10-13779 (ALG), entitled *In re Jennifer Convertibles, Inc.*, pending in the Bankruptcy Court.

“**Collateral**” means the “**JCI Inventory**,” the “**Assets**” and the “**Hartsdale Inventory**” as those terms are defined herein.

“**Debtors**” means (i) Jennifer Convertibles, Inc.; (ii) Jennifer Convertibles Boylston MA, Inc.; (iii) Jennifer Chicago Ltd.; (iv) Elegant Living Management, Ltd.; (v) Hartsdale Convertibles, Inc.; (vi) Jennifer Management III Corp.; (vii) Jennifer Purchasing Corp.; (viii) Jennifer Management II Corp.; (ix) Jennifer Management V Ltd.; (x) Jennifer Convertibles Natick, Inc.; (xi) Nicole Convertibles, Inc.; (xii) Washington Heights Convertibles, Inc., as Debtors and Debtors in Possession in the Chapter 11 Cases.

“**Disclosure Statement**” means the disclosure statement dated November 19, 2010, related to the Plan as such disclosure statement may be amended, modified or supplemented from time to time, and all exhibits and schedules annexed thereto, as approved by the Bankruptcy Court pursuant to Section 1125 of the Bankruptcy Code.

“**Event(s) of Default**” shall have the meaning ascribed to it in Section 7 hereof.

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***“Financing Statements”*** means all filings necessary to perfect the security interest created hereby.

***“Hartsdale Assets”*** means the assets of Hartsdale Convertibles, Inc. other than the Hartsdale Inventory.

***“Hartsdale Inventory”*** means all Inventory acquired from Ashley and sold in Hartsdale Convertibles, Inc. locations.

***“Inventory”*** means all of the Grantors’ now owned and hereafter acquired inventory, goods and merchandise, wherever located, to be furnished under any contract of service or held for sale or lease, including, without limitation, all returned goods, raw materials, work-in-process, finished goods, other materials and supplies of any kind, nature or description with are used or consumed in the Grantors’ business and all documents of title or other documents representing them.

***“JCI Inventory”*** means Inventory, other than the Hartsdale Inventory.

***“Litigation Trust”*** means The Jennifer Convertibles Litigation Trust.

***“Non-JCI Inventory”*** means Ashley Inventory and all non-JCI Inventory assets of the Grantors, whether tangible or intangible, including, but not limited to, leases, Executory Contracts, accounts receivable, equipment, customer lists, real property, non-real property, and intellectual property.

***“Mengnu”*** means Haining Mengnu Group Co. Ltd.

***“Obligation(s)”*** means (i) all amounts owing or to become owing by the Grantors to the Secured Party on account of the Note and Security Agreement, (ii) the repayment of any amounts that the Secured Party may advance or spend for the maintenance or preservation of the Collateral, (iii) expenses of collection and enforcement including attorney’s fees (to the extent permitted by applicable law) and (iv) any interest due or to become due on any amounts referred to in clause (i), (ii) or (iii) immediately preceding.

***“Parties”*** shall mean the Grantors and Mengnu.

***“Plan”*** shall mean the *Amended Joint Chapter 11 Plan of Reorganization for Jennifer Convertibles, Inc. and its Affiliated Debtors*, dated December 21, 2010 (together with any schedules and exhibits, Plan Supplements, as may be amended or modified).



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***“Plan Supplements”*** means (if any) such exhibits, documents, lists or schedules not filed with the Plan but as may be filed in connection therewith, either in draft or final form on or before January 14, 2011, and in final form prior to the date of the Confirmation Order, or such other date as the Bankruptcy Court may establish.

***“Secured Exit Credit Agreement”*** means that certain Secured Exit Credit Agreement, dated as of February \_\_, 2011, among Mengnu and Jennifer Convertibles, Inc. and its affiliated entities.

***“Unsecured Creditors”*** shall mean the unsecured creditors of the Debtors who are classified in class 3 of the Plan.

***“Unsecured Creditors Notes”*** means (i) the Tranche A Note, dated February \_\_, 2011, issued by the Grantors in favor of the Unsecured Creditors, (ii) the Tranche C Note, dated February \_\_, 2011, issued by the Grantors in favor of the Unsecured Creditors.

***Unsecured Creditors Security Agreement”*** means that certain Security Agreement, dated as of February \_\_, 2011, by and among the Grantors and the Unsecured Creditors.

2. **GRANT OF LIEN AND SECURITY INTEREST.**

To secure the prompt and complete payment, performance and observance of all of the Obligations, Grantors hereby grant, assign, convey, mortgage, pledge, hypothecate and transfer to the Secured Party (i) a first priority Lien and security interest in all (a) Assets, and (b) Hartsdale Inventory , and (ii) a junior Lien on all JCI Inventory, subordinated to the Liens granted in connection with the Tranche A Note and Tranche C Note.

3. **LIMITATION ON SECURED PARTY’S OBLIGATIONS.**

It is expressly agreed by Grantors that, anything herein to the contrary notwithstanding, Grantors shall remain liable under each of their contracts relating to the Collateral and observe and perform all conditions and obligations to be observed and performed by them thereunder. The Secured Party shall not have any obligation or liability under any such contracts by reason of or arising out of this Security Agreement or the granting herein of Liens or security interests in the Collateral or the receipt of any payment relating to the Collateral. The Secured Party shall not be required or obligated in any manner to perform or fulfill any of the obligations of the Grantors under or pursuant to any contracts, or to make any payments under any of the Grantors’ contracts.

4. **REPRESENTATIONS AND WARRANTIES.**

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Grantors represent and warrant that as of the date hereof:

(a) Grantors are the sole owners of each item of the Collateral upon which they purport to grant Liens and security interests hereunder, and have good and valid title thereto free and clear of any and Liens other than the Liens granted in this Security Agreement and the Liens granted to the Litigation Trust in respect of the Tranche A Note and Tranche C Note.

(b) No effective security agreement, financing statement, equivalent security or Lien instrument or continuation statement covering all or any part of the Collateral is on file or of record in any public office.

(c) This Security Agreement is effective to create a valid and continuing first priority and perfected (upon the filing of appropriate financing statements if necessary) Lien on all (a) Assets, and (b) the Hartsdale Inventory. Such Lien is prior to all other Liens and is enforceable as such against any and all creditors and purchasers of Grantors (other than purchasers of Collateral in the ordinary course of business). All action by Grantors necessary or desirable to protect and perfect such Lien on each item of the Collateral has been duly taken.

(d) This Security Agreement is effective to create a valid and junior Lien on all JCI Inventory with respect to which a Lien may be perfected by filing pursuant to the Code. Such Lien is subordinated to the Liens granted by the Grantors in connection with the Tranche A Note and Tranche C Note.

(e) The Grantors' exact legal names are as set forth herein. The Grantors are existing corporations duly incorporated in the State of Delaware.

(f) Until all Obligations have been paid in full, unless the Secured Party shall give its express prior written consent, the Grantors: (i) will preserve their corporate existence and will not, in one transaction or a series of related transactions, sell all or substantially all of their assets, (ii) will not sell, assign, exchange, lend, or otherwise transfer any Collateral or interest therein other than in their ordinary course of business and (iii) will not create or cause to exist any security interest in or Lien on any of the Collateral or any interest therein, other than the Liens granted in respect of the Tranche A Note and Tranche C Note, which Liens have senior priority over the Liens granted by this Security Agreement, and other than carriers', warehousemen's and similar Liens arising in the ordinary course of business and which secure obligations that are not delinquent.

(g) There are no legal, administrative, or other proceeding pending or threatened against them, other than those disclosed in the Disclosure Statement and Plan, which relate to the Collateral, the grant of a security interest hereunder, or continued corporate existence of the Grantors, nor do the Grantors know of any basis for the assertion of any such claim. The Grantors shall, at their own expense, take any and all actions necessary or desirable to preserve, protect, and defend the security interest of the Secured Party in the Collateral and the perfection and priority thereof against any and all adverse claims, including appearing in and

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defending all actions and proceedings which purport to affect any of the foregoing all at their own expense.

(h) The Grantors shall pay all Obligations pursuant to the terms and conditions imposed by the Note.

(i) The Grantors will use commercially reasonable efforts to keep the Collateral in good order and repair and will pay all taxes, assessments, or charges which may be levied or assessed against the same before they become delinquent. In the event of their failure to comply with the foregoing, any amounts expended by the Secured Party as it, in its reasonable discretion, may deem necessary to repair the Collateral or to pay any and all taxes, assessments, and charges to be discharged, shall be considered an Obligation which is secured by this Security Agreement.

(j) The Grantors shall, at their own expense and within commercial reason, keep the Collateral insured against potential damage, with the exception of Collateral located in the Grantors' showrooms and stores. Such insurance shall not be permitted to lapse without Grantors or the insurer giving to the Secured Party fifteen (15) days' prior written notice. Should the Grantors fail to procure or provide evidence of said insurance, the Secured Party may procure same, and the cost thereof shall be considered an Obligation.

(k) The Grantors shall keep complete and accurate records of their business, including those pertaining to their inventory and the Collateral. The Collateral is located at the Grantors' current place(s) of business. No Collateral is now, or shall at any time or times hereafter be stored at any other location without the Secured Party's prior consent, which consent shall not be unreasonably withheld.

(l) The Grantors shall notify the Secured Party in writing within five (5) business days of the occurrence of (i) an Event of Default or of the occurrence of an event which with notice or lapse of time, or both, would constitute an Event of Default, or (ii) any event which adversely and materially affects the value of the Collateral, the ability of the Grantors or Secured Party to dispose of the Collateral, or the rights and remedies of Secured Party in relation thereto.

5. COVENANTS. Grantors covenant and agree that from and after the date of this Security Agreement and until all Obligations have been indefeasibly paid in full:

(a) Further Assurances. At any time and from time to time, upon the written request and at the sole expenses of Grantors, Grantors shall promptly and duly execute and deliver any and all such further instruments and documents and shall take such further actions as the Secured Party may deem reasonably necessary to obtain the full benefit of this Security Agreement and of the rights and powers herein granted, including filing any financing or continuation statements under the Code with respect to the Liens granted hereunder. Grantors

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also hereby authorize the Secured Party, for the benefit of the Holders of Allowed General Unsecured Claims, to file any such financing or continuation statements without the signature of the Grantors to the extent permitted by applicable law.

(b) Limitation on Liens on Collateral. Grantors will not create, permit or suffer to exist, and will defend the Collateral against, and take such other actions as in necessary to remove, any Lien on the Collateral except the senior priority Liens granted in connection with the Tranche A Note and Tranche C Note, and will defend the right, title and interest of the Secured Party in and to any of Grantors' rights under the Collateral against the claims and demands of all persons whomsoever. Nothing herein shall restrict the Grantors' ability to encumber the Collateral with Liens junior to those of the Secured Party, provided that the Grantors shall enter into a subordination agreement with the proposed secured party in respect of those junior Liens.

(c) Limitations on Disposition. Grantors will not sell, lease, transfer or otherwise dispose of any of the Collateral or attempt to contract to do so except in the ordinary course of business of the Grantors.

(d) Further Identification of Collateral. Grantors will, if so requested by the Secured Party, (i) furnish to the Secured Party such statement and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Secured Party may reasonably request, (ii) allow the Secured Party to enter the premises of the Grantors to perform reasonable inventory inspections and audits of books and records during regular business hours. Prior to exercising its rights under this subsection (d), the Secured Party shall sign a non-disclosure agreement, as provided by the Grantors. The Secured Party may not exercise any rights under this subsection (d) more than one (1) time in six (6) months.

6. SECURED PARTY'S APPOINTMENT AS ATTORNEY-IN-FACT.

Grantors hereby constitute and appoint the Secured Party as their true and lawful attorney, irrevocably, with full power after the occurrence of and during the continuance of an Event of Default (in the name of such Grantors or otherwise) to take any actions the Secured Party deems necessary to protect the Secured Party's interests in the Collateral. Such power of attorney shall not impose any duty upon the Secured Party to exercise any such powers. The Secured Party agrees that (a) it shall not exercise any power or authority granted under this power of attorney unless an Event of Default has occurred and is continuing, and (b) it shall account for any moneys received in respect of any foreclosure on or disposition of Collateral pursuant to this power of attorney; provided that the Secured Party shall have no duty as to any Collateral and shall be accountable only for amounts actually received as a result of the exercise of such powers. None of the Secured Party or any of its agents or representatives shall be responsible to Grantors for any act or failure to act under this power of attorney or otherwise, except in respect of damages attributable solely to their own gross negligence or willful

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misconduct as finally determined by a court of competent jurisdiction, nor for any punitive, exemplary, indirect or consequential damages.

7. **EVENTS OF DEFAULT.**

The occurrence of any of the following, for any reasons whatsoever, whether such occurrence shall, on the part of the Grantors, be voluntary or involuntary, shall constitute an Event of Default hereunder:

(a) (i) Any failure by the Grantors to make a principal or interest payment under the Note (a “***Payment Default***”), (ii) other than a Payment Default, the Grantors’ material breach of any terms of the Note and Security Agreements pertaining thereto, other than those set forth in subsections (b), (c) and (d) below or therein, or (iii) A material liquidation or transfer of the Grantors’ assets ((ii) and (iii) shall hereinafter individually be referred to as a “***General Default***”). A Payment Default or General Default on the Note shall not be an Event of Default hereunder unless the conditions for exercising remedies upon default in such Note have been fulfilled;

(b) If the Grantors dissolve, suspend, or discontinue doing business, become insolvent, make an assignment for the benefit of creditors, liquidate all or substantially all of their assets, or make or send notice of a bulk transfer of all or substantially all of their assets;

(c) With the exception of the Debtors’ Chapter 11 Cases, a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution, or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed against any of the Grantors and such petition is not dismissed within thirty (30) days after the date of the filing; and

(d) With the exception of the Debtors’ Chapter 11 Cases, a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution, or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed by the any of the Grantors ((b), (c) and (d) shall hereinafter be referred to as a “***Liquidation Default***”).

(e) any default under any of (i) the Unsecured Creditors Notes, (ii) the Unsecured Creditors Security Agreement, or (iii) the Secured Exit Credit Agreement, which has not been cured during the applicable cure period thereunder or otherwise waived.

8. **NOTICES.**

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Upon the occurrence of an Event of Default under Section 7 of this Security Agreement, Mengnu shall furnish the Grantors with notice of the occurrence of such Event of Default (a "*Notice of Default*"). All notices required under this Security Agreement shall be made in writing, addressed as set forth below may be personally served, telecopied, sent by overnight courier service or U.S. mail and shall be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by telecopy, on the date of transmission if transmitted on a business day before 5:00 p.m. (eastern time); (c) if delivered by overnight courier, one (1) business day after delivery to the courier properly addressed; or (d) if delivered by U.S. mail, four (4) business days after deposit with postage prepaid and properly addressed.

If to Grantors:

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

If to the Secured Party:

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

and

James Jiang  
c/o King & Wood, LLC  
444 Madison Avenue, 42nd Floor  
New York, NY 10022

9. CURE PERIOD.

Upon a Notice of Default that is given with respect to a Payment Default, the Grantors shall have five (5) Business Days thereafter to cure the Payment Default before Mengnu may exercise any remedies. Upon a Notice of Default that is given with respect to a General Default, the Grantors shall have thirty (30) days thereafter to cure the General Default

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before Mengnu may exercise any remedies. The Secured Party may immediately exercise its remedies with respect to a Liquidation Default upon providing Notice of Default to the Grantors pursuant to Section 8 of this Security Agreement.

10. REMEDIES UPON DEFAULT.

(a) Upon the occurrence of any Event of Default that, after proper Notice of Default (if applicable) was served, was not cured as provided in Section 9 above, the Secured Party shall have and may pursue all of the rights and remedies of a secured party as provided in the Uniform Commercial Code or otherwise available to it at law or in equity to collect, enforce or satisfy any Obligations then owing, whether by acceleration or otherwise.

(b) Without limiting the foregoing, Grantors expressly agree that in any such event the Secured Party, without demand of performance or other demand, advertisement or notice of any kind (except notices of time and place of public sale or private sale) to or upon the Grantors (all and each of which demands, advertisements and notices are hereby expressly waived to the maximum extent permitted by the Code and other applicable law) shall have the right to pursue any of the following remedies separately, successively or simultaneously: (i) take possession of all or any of the Collateral if not in its possession wherever found, and for that purpose the Secured Party may enter the premises of the Grantors where any Collateral is located through self-help to obtain possession of the Collateral without first obtaining any court order or giving Grantors or any other person notice and an opportunity for a hearing and may collect, receive, assemble, process, appropriate and realize upon the Collateral, or any part thereof; (ii) with or without taking possession, sell, lease, assign, give an option or options to purchase or otherwise dispose of and deliver said Collateral or any part thereof, in one or more parcels at a public or private sale or sales, at any exchange at such prices as it may deem acceptable, for cash or on credit in accordance with the Uniform Commercial Code; or (iii) deduct from the proceeds of sale of Collateral all unpaid Obligations, court costs, other expenses such as moving, storage, and repair of the Collateral, any expenses incurred for the preservation or renovation of the Collateral for purposes of sale as the Secured Party may be entitled to under the Uniform Commercial Code.

(c) Grantors further agree, upon the Secured Party's request, to assemble and make the Collateral available to the Secured Party at places which the Secured Party shall select, whether at Grantors' premises or elsewhere. Until the Secured Party is able to effect a sale, lease or other disposition of Collateral, the Secured Party shall have the right to hold or use the Collateral, or any part thereof, to the extent that it deems appropriate for the purpose of preserving Collateral or its value or for any other purpose deemed appropriate by the Secured Party. The Secured Party shall have no obligation to Grantors to maintain or preserve the rights of the Grantors as against third parties with respect to Collateral while Collateral is in the possession of the Secured Party. The Secured Party may, if it so elects, seek appointment of a receiver or keeper to take possession of Collateral and to enforce any of the Secured Parties' remedies with respect to such appointment without prior notice or hearing as to such

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appointment. To the maximum extent permitted by applicable law, Grantors waive all claims, damages and demands against the Secured Party arising out of the repossession, retention or sale of the Collateral except such as may arise solely out of gross negligence or willful misconduct of the Secured Party as finally determined by a court of competent jurisdiction. Grantors agree that ten (10) days prior notice by the Secured Party of the time and place of any public sale or of the time after which a private sale may take place is reasonable notification of such matters. Grantors shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all Obligations, including attorneys' fees or other expenses incurred by the Secured Party to collect such deficiency.

(d) No delay or omission by the Secured Party to exercise any right or remedy upon any Event of Default shall impair any right or remedy or waive any default or operate as acquiescence to the Event of Default or affect any subsequent default or Event of Default of the same or a different nature. The Secured Party has no obligation to clean up or otherwise prepare the Collateral for sale. For the purpose of enabling the Secured Party to exercise its rights and remedies hereunder (including, without limitation, in order to take possession of, hold, preserve, process, assemble, prepare for sale, market for sale, sell otherwise dispose of Collateral) the Grantors hereby grant the Secured Party a fully paid-up, irrevocable, non-exclusive license (exercisable without payment of royalty or other compensation to Grantors) to use, license or sublicense any of the Grantors' intellectual property to sell or otherwise dispose of any Collateral.

(e) The Secured Party may comply with any applicable legal requirements in connection with the sale or other disposition of Collateral and such compliance will not be considered to affect adversely the commercial reasonableness of any sale or other disposition of Collateral. The Secured Party may sell the Collateral without any warranties and may specifically disclaim any warranties to the extent permitted by law and this procedure shall not be considered to affect adversely the commercial reasonableness of any sale or other disposition of Collateral. If the Secured Party sells any of the Collateral on credit, the Grantor will be credited only with payments actually made by the purchaser and received by the Secured Party and applied to the satisfaction of Obligations. In the event the Secured Party purchases any of the Collateral being sold, the Secured Party may pay for the Collateral by crediting some or all of the Obligations to the extent permitted by applicable law. The Secured Party shall have no obligation to marshal any assets in favor of the Grantors or against or in payment of any of the Obligations or any other obligation owed to the Secured Party by the Grantors or any other person.

(f) The Secured Party has no obligation to attempt to satisfy the Obligations by collecting them from any other party, and the Secured Party may release, modify or waive any Collateral provided by any other person to secure any of the Obligations, all without affecting the Secured Party's rights or remedies against the Grantors. The Grantors waives to the extent permitted by applicable law any rights it may have to require the Secured Party to pursue any third person for any of the Obligations.



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(g) Except as otherwise specifically provided herein, Grantors hereby waive presentment, demand, protest or any notice (to the maximum extent permitted by applicable law) of any kind in connection with this Security Agreement or any Collateral.

11. **REINSTATEMENT.** This Security Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against any Grantors for liquidation or reorganization, should Grantors become insolvent or make an assignment for the benefit of any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of any of Grantors' assets, and shall continue to be effective or reinstated, as the case may be, if at any time payment and performance of the Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Obligations, whether as a "voidance preference," "fraudulent conveyance," or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

12. **LIABILITY AND INDEMNIFICATION.** The Secured Party shall not be liable to the Grantors for any act or omission, including, without limitation, any act by or negligence of the Secured Party or any of its officers, directors, controlling persons, employees, agents or attorneys unless such conduct by the Secured Party shall be finally proven in a court of competent jurisdiction to constitute an act in gross negligence or willful misconduct. The Grantors shall indemnify and hold harmless the Secured Party for any liability of any kind or nature that the Secured Party or any of its officers, directors, controlling persons, employees, agents or attorneys may suffer or incur in connection with this Security Agreement or the exercise or non-exercise of any right or remedy hereunder, including, without limitation, any action, suit, proceeding, claim, demand, penalty, tax or other governmental assessment unless it shall be finally proven in a court of competent jurisdiction that the same constituted an act by the Secured Party in gross negligence or willful misconduct.

13. **NO WAIVER; CUMULATIVE REMEDIES.** No failure on the part of the Secured Party to exercise, and no delay in exercising any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Secured Party of any right, remedy or power hereunder preclude any other or future exercise of any other right, remedy or power. No waiver by the Secured Party shall be valid unless in writing, signed by the Secured Party and then only to the extent set forth therein. The rights and remedies hereunder provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any right and remedies provided by law. None of the terms or provisions of this Security Agreement may be waived, altered, modified or amended except by an instrument in writing, duly executed by the Secured Party and Grantors.

14. **CHOICE OF LAW AND VENUE.** In all respects, including all matters of construction, validity and performance, this Security Agreement and the obligations arising

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hereunder shall be governed by and construed and enforced in accordance with the laws of the State of New York applicable to contracts made and performed in that state except to the extent that the Code requires the application of the law of another state. The Grantors hereby waive any and all rights to trial by jury in any action brought to enforce this Security Agreement or any amendment thereto or any action brought to enforce payment of any Obligations owing to the Secured Party. Grantors hereby consent and agree to the non-exclusive jurisdiction of the Bankruptcy Court to hear and determine any claims or disputed between the Grantors and the Secured Party, provided, that nothing in this Security Agreement shall be deemed to operate to preclude the Secured Party from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral. Grantors expressly submit and consent in advance to such jurisdiction in any action or suit commenced in any such court, and Grantors hereby waive any objection which they may have based upon lack of personal jurisdiction or improper venue. Grantors hereby waive personal service of the summons, complaints and other process issued in any such action or suit and agrees that service of such summons, complaints and other process may be made by registered or certified mail addressed to Grantors at the address set forth herein.

15. BINDING OBLIGATIONS, ASSIGNMENT. All covenants, agreements, representations and warranties made herein and in the Note shall continue in full force and effect so long as any of the Obligations under the Note and this Security Agreement are outstanding. The rights and Obligations of the Grantors and the Secured Party shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the Parties. The rights and Obligations under this Security Agreement may not be assigned by the Grantors to any other party without the express prior written consent of the Secured Party, and any attempted assignment in violation of this provision shall be void. The Secured Party may assign its rights and interests under this Security Agreement, and may assign the Note, and if an assignment is made by the Secured Party, the Grantors shall render performance under this Security Agreement and the Note to the assignee. The Grantors waive and agree that they will not assert against any assignee any claims, defenses or set-offs which the Grantors could assert against the Secured Party except defenses which pursuant to applicable law cannot be waived.

16. SAVINGS CLAUSE. Whenever possible, each provision of this Security Agreement shall be interpreted in a manner as to be effective and valid under applicable law. In case any provision of this Security Agreement or the Note is held by a court of competent jurisdiction to be excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, so that it is enforceable to the maximum extent possible, and the validity and enforceability of the remaining provisions of this Security Agreement and Note will not in any way be affected or impaired thereby.

17. FEES. If any legal action, arbitration or other proceeding is brought by Mengnu to enforce this Security Agreement or the Note, then Mengnu will be entitled to recover, from the Grantors, any attorneys' fees and other costs incurred in such action, arbitration or proceeding and such amounts shall constitute Obligations hereunder.

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18. NO IMPAIRMENT. The Grantors will not, by any voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Grantors, but will at all times in good faith assist in the carrying out of all the provisions of this Security Agreement and the Note and in the taking of all such action as may be necessary or appropriate in order to protect the rights of Mengnu against impairment.

19. MODIFICATIONS, AMENDMENTS. This Security Agreement may not be modified or amended except by a written instrument signed by the Grantors and Mengnu.

20. SATURDAYS, SUNDAYS, OR LEGAL HOLIDAYS. If any payment or act under this Security Agreement 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.

21. COUNTERPARTS. This Security Agreement may be executed in any number of separate counterparts, each of which shall be collectively and separately constitute one and the same agreement.

22. MISCELLANEOUS. All headings used herein are used for convenience only and shall not be used to construe or interpret this Security Agreement. The Security Agreement and the Note, including all documents incorporated by reference, expresses the entire understanding of the Parties and cancels and supersedes any previous agreements, understandings, or representations between the Parties related to the subject matter hereof.

23. NO STRICT CONSTRUCTION. The Parties hereto have participated jointly in the negotiation and drafting of this Security Agreement. In the event of any ambiguity or question of intent or interpretation arises, this Security Agreement shall be construed as if drafted jointly by the Parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provisions of this Security Agreement.

24. ADVICE OF COUNSEL. Each of the Parties represents to each other Party hereto that it has discussed this Security Agreement and, specifically, the provisions of Section 14, with its counsel.

IN WITNESS WHEREOF, each of the Parties hereto has caused this Security Agreement to be executed and delivered by its duly authorized officer or representative as of the date first set forth above.

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JENNIFER CONVERTIBLES, INC.  
on behalf of itself and its subsidiaries

By: \_\_\_\_\_

Name: Rami Abada

Title: President

HAINING MENGNU GROUP CO. LTD.

By:

By: \_\_\_\_\_

Name:

Title:

Exhibit C

Tranche B Note

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**PROMISSORY NOTE**

**SECURED TRANCHE B NOTE**

February [ ], 2011

\$2,638,284.09

This Secured Tranche B Note is executed and delivered pursuant to the terms of that certain Amended Joint Chapter 11 Plan of Reorganization for Jennifer Convertibles, Inc. and its Affiliated Debtors, dated as of December 21, 2010 (the "Plan") as approved by the United States Bankruptcy Court for the Southern District of New York pursuant to that certain Confirmation Order, dated as of January [ ], 2011 (the "Confirmation Order"). Capitalized terms not otherwise defined herein shall have the meanings provided in the Plan.

FOR VALUE RECEIVED, **JENNIFER CONVERTIBLES, INC.**, a Delaware corporation (the "Obligor"), hereby unconditionally promises to pay in immediately available funds to the order of **HAINING MENGNU GROUP CO. LTD.** ("Mengnu"), in respect of the Mengnu 503(b)(9) Claim, at such place that Mengnu may from time to time designate to the Obligor in writing:

(i) the principal sum of TWO MILLION SIX HUNDRED THIRTY EIGHT THOUSAND TWO HUNDRED AND EIGHTY FOUR DOLLARS AND NINE CENTS (\$2,638,284.09) on February \_\_, 2013; and

(ii) interest on the principal amount of this Secured Tranche B Note at 4% per annum, payable in four equal installments, the first of which shall be on August \_\_, 2011, the second of which shall be on February \_\_, 2012, the third of which shall be on August \_\_, 2012, and the fourth of which shall be on February \_\_, 2013. All interest shall be computed on the basis of a year of three hundred and sixty-five (365) days and the actual number of days, including the first day but excluding the last day, elapsed.

This Secured Tranche B Note is secured by liens granted pursuant to that certain Security Agreement, dated as of February \_\_, 2011 (the "Security Agreement"), is entitled to the benefits of the Security Agreement, the Plan and the Confirmation Order and is subject to all of the agreements, terms and conditions therein contained. The provisions of the Security Agreement are fully incorporated herein.

If an Event of Default under of the Security Agreement shall occur, then this Secured Tranche B Note shall become due and payable when the conditions for exercising remedies upon default in section 10 of the Security Agreement have been fulfilled, together with reasonable attorneys' fees if the collection hereof is place in the hands of an attorney to obtain or enforce payment hereof. Mengnu shall at all times have the right to waive or rescind the payment acceleration and reinstate the terms of the Secured Tranche B Note.

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Upon receipt of evidence reasonably satisfactory to the Obligor of the loss, theft, destruction or mutilation of this Secured Tranche B Note, the Obligor will issue a new Secured Tranche B Note, of like tenor and amount.

This Secured Tranche B Note may not be transferred except in compliance with the terms and provisions of the Security Agreement.

Obligor (i) expressly waives diligence, demand, presentment, protest and notice of any kind, and (ii) agrees that it will not be necessary for Mengnu to first institute suit in order to enforce payment of this Secured Tranche B Note. The pleading of any statute of limitations as a defense to any demand against Obligor is expressly hereby waived. Mengnu shall not be required to resort to any collateral for payment, but may proceed against the Obligor, or any of its affiliates or any endorsers hereof in such order and manner as Mengnu may choose. None of the rights of Mengnu shall be waived or diminished by any failure or delay in the exercise thereof.

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**THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS SECURED TRANCHE B NOTE AND ANY DISPUTES ARISING IN CONNECTION HERewith OR THEREWITH SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. THE OBLIGOR IRREVOCABLY CONSENTS AND SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF THE UNITED STATES BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF NEW AND WAIVES ANY OBJECTION BASED ON VENUE WITH RESPECT TO ANY ACTION INSTITUTED THEREIN ARISING UNDER OR WITH RESPECT TO THIS SECURED TRANCHE B NOTE. THE OBLIGOR HEREBY WAIVES ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION BROUGHT TO ENFORCE THIS SECURED TRANCHE B NOTE OR ANY AMENDMENT THERETO OR ANY ACTION BROUGHT TO ENFORCE PAYMENT OF ANY OBLIGATIONS OWING TO MENGNU.**

JENNIFER CONVERTIBLES, INC.  
on behalf of itself and its subsidiaries

By: \_\_\_\_\_  
Name: Rami Abada  
Title: President



Exhibit D

Tranche B Security Agreement

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**SECURITY AGREEMENT**

This SECURITY AGREEMENT, (this "*Security Agreement*") is dated as of February [ ], 2011, by and among Jennifer Convertibles, Inc. and each of its subsidiaries undersigned below, other than Hartsdale Convertibles, Inc. (each, a "*Grantor*" and collectively, the "*Grantors*") and Haining Mengnu Group Co. Ltd. ("*Mengnu*").

**WITNESSETH**

WHEREAS, on July 18, 2010 (the "*Petition Date*"), Jennifer Convertibles, Inc. and each of its undersigned subsidiaries (collectively, the "*Debtors*") filed with the United States Bankruptcy Court for the Southern District of New York (the "*Bankruptcy Court*") voluntary petitions for relief under chapter 11 of the Bankruptcy Code. Since the Petition Date, the Debtors have continued to operate their businesses and manage their properties as debtors-in-possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code. No trustee or examiner has been appointed in these cases;

WHEREAS, on December 21, 2010, the Debtors filed the Amended Joint Chapter 11 Plan of Reorganization for Jennifer Convertibles, Inc. and its Affiliated Debtors (as amended or modified, the "*Plan*");

WHEREAS, on January [ ], 2011, the United States Bankruptcy Court entered an order confirming the Plan (the "*Confirmation Order*");

WHEREAS, the Plan became effective on \_\_\_\_\_, 2011;

WHEREAS, pursuant to the Plan, the Debtors are required to issue the Tranche B Note (the "*Note*") and execute this Security Agreement;

WHEREAS, the Note is being issued to and is payable to the order of Mengnu in respect of Mengnu 503(b)(9) Claim; and

WHEREAS, the Grantors desire to execute this Security Agreement to satisfy their obligations under the Plan.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. **DEFINED TERMS.** (a) All capitalized terms used but not otherwise defined herein shall have the meanings given to them in the Plan. All other undefined terms contained in this Security Agreement, unless the context indicates otherwise, have the meaning provided for

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by Article 9 of the Uniform Commercial Code as adopted in the State of New York (the “Code”).

(b) For purposes of this Security Agreement, the following terms shall have the following meanings:

“*Assets*” means all assets of the Grantors other than the Inventory, whether tangible or intangible, including, but not limited to, leases, Executory Contracts, accounts receivable, equipment, customer lists, real property, non-real property, and intellectual property.

“*Business Day*” means any day other than (a) a Saturday or Sunday and (b) a public or bank holiday in New York City.

“*Cash*” or “\$” means the lawful currency of the United States of America and its equivalents.

“*Chapter 11 Cases*” or “*Cases*” means the jointly administered chapter 11 cases of the Debtors, Case No. 10-13779 (ALG), entitled *In re Jennifer Convertibles, Inc.*, pending in the Bankruptcy Court.

“*Collateral*” means the “*Inventory*” and the “*Assets*” as those terms are defined herein.

“*Debtors*” means (i) Jennifer Convertibles, Inc.; (ii) Jennifer Convertibles Boylston MA, Inc.; (iii) Jennifer Chicago Ltd.; (iv) Elegant Living Management, Ltd.; (v) Hartsdale Convertibles, Inc.; (vi) Jennifer Management III Corp.; (vii) Jennifer Purchasing Corp.; (viii) Jennifer Management II Corp.; (ix) Jennifer Management V Ltd.; (x) Jennifer Convertibles Natick, Inc.; (xi) Nicole Convertibles, Inc.; (xii) Washington Heights Convertibles, Inc., as Debtors and Debtors in Possession in the Chapter 11 Cases.

“*Disclosure Statement*” means the disclosure statement dated November 19, 2010, related to the Plan as such disclosure statement may be amended, modified or supplemented from time to time, and all exhibits and schedules annexed thereto, as approved by the Bankruptcy Court pursuant to Section 1125 of the Bankruptcy Code.

“*Event(s) of Default*” shall have the meaning ascribed to it in Section 7 hereof.

“*Financing Statements*” means all filings necessary to perfect the security interest created hereby.

**“*Inventory*” means all of the Grantors’ now owned and hereafter acquired inventory, goods and merchandise, wherever located, to be furnished under any contract of service or held for sale or lease, including, without limitation, all returned goods, raw**

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**materials, work-in-process, finished goods, other materials and supplies of any kind, nature or description with are used or consumed in the Grantors' business and all documents of title or other documents representing them.**

***"Litigation Trust"*** means The Jennifer Convertibles Litigation Trust.

***"Mengnu"*** means Haining Mengnu Group Co. Ltd.

***"Obligation(s)"*** means (i) all amounts owing or to become owing by the Grantors to the Secured Party on account of the Note and Security Agreement, (ii) the repayment of any amounts that the Secured Party may advance or spend for the maintenance or preservation of the Collateral, (iii) expenses of collection and enforcement including attorney's fees (to the extent permitted by applicable law) and (iv) any interest due or to become due on any amounts referred to in clause (i), (ii) or (iii) immediately preceding.

***"Parties"*** shall mean the Grantors and Mengnu.

***"Plan"*** shall mean the *Amended Joint Chapter 11 Plan of Reorganization for Jennifer Convertibles, Inc. and its Affiliated Debtors*, dated December 21, 2010 (together with any schedules and exhibits, Plan Supplements, as may be amended or modified).

***"Plan Supplements"*** means (if any) such exhibits, documents, lists or schedules not filed with the Plan but as may be filed in connection therewith, either in draft or final form on or before January 14, 2011, and in final form prior to the date of the Confirmation Order, or such other date as the Bankruptcy Court may establish.

***"Secured Exit Credit Agreement"*** means that certain *Secured Exit Credit Agreement*, dated as of February \_\_, 2011, among Mengnu and Jennifer Convertibles, Inc. and its affiliated entities.

***"Unsecured Creditors"*** shall mean the unsecured creditors of the Debtors who are classified in class 3 of the Plan.

***"Unsecured Creditors Notes"*** means (i) the Tranche A Note, dated February \_\_, 2011, issued by the Grantors in favor of the Unsecured Creditors, (ii) the Tranche C Note, dated February \_\_, 2011, issued by the Grantors in favor of the Unsecured Creditors.

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*Unsecured Creditors Security Agreement*” means that certain Security Agreement, dated as of February \_\_, 2011, by and among the Grantors and the Unsecured Creditors.

2. GRANT OF LIEN AND SECURITY INTEREST.

To secure the prompt and complete payment, performance and observance of all of the Obligations, Grantors hereby grant, assign, convey, mortgage, pledge, hypothecate and transfer to the Secured Party (i) a first priority Lien and security interest in the Assets, and (ii) a junior Lien on all Inventory, subordinated to the Liens granted in connection with the Tranche A Note and Tranche C Note.

3. LIMITATION ON SECURED PARTY’S OBLIGATIONS.

It is expressly agreed by Grantors that, anything herein to the contrary notwithstanding, Grantors shall remain liable under each of their contracts relating to the Collateral and observe and perform all conditions and obligations to be observed and performed by them thereunder. The Secured Party shall not have any obligation or liability under any such contracts by reason of or arising out of this Security Agreement or the granting herein of Liens or security interests in the Collateral or the receipt of any payment relating to the Collateral. The Secured Party shall not be required or obligated in any manner to perform or fulfill any of the obligations of the Grantors under or pursuant to any contracts, or to make any payments under any of the Grantors’ contracts.

4. REPRESENTATIONS AND WARRANTIES.

Grantors represent and warrant that as of the date hereof:

(a) Grantors are the sole owners of each item of the Collateral upon which they purport to grant Liens and security interests hereunder, and have good and valid title thereto free and clear of any and Liens other than the Liens granted in this Security Agreement and the Liens granted to the Litigation Trust in respect of the Tranche A Note and Tranche C Note.

(b) No effective security agreement, financing statement, equivalent security or Lien instrument or continuation statement covering all or any part of the Collateral is on file or of record in any public office.

(c) This Security Agreement is effective to create a valid and continuing first priority and perfected (upon the filing of appropriate financing statements if necessary) Lien on the Assets. Such Lien is prior to all other Liens and is enforceable as such against any and all creditors and purchasers of Grantors (other than purchasers of Collateral in the ordinary course of business). All action by Grantors necessary or desirable to protect and perfect such Lien on each item of the Collateral has been duly taken.

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(d) This Security Agreement is effective to create and valid and junior Lien on all Inventory with respect to which a Lien may be perfected by filing pursuant to the Code. Such Lien is subordinated to the Liens granted by the Grantors in connection with the Tranche A Note and Tranche C Note.

(e) The Grantors' exact legal names are as set forth herein. The Grantors are existing corporations duly incorporated in the State of Delaware.

(f) Until all Obligations have been paid in full, unless the Secured Party shall give its express prior written consent, the Grantors: (i) will preserve their corporate existence and will not, in one transaction or a series of related transactions, sell all or substantially all of their assets, (ii) will not sell, assign, exchange, lend, or otherwise transfer any Collateral or interest therein other than in their ordinary course of business and (iii) will not create or cause to exist any security interest in or Lien on any of the Collateral or any interest therein, other than the Liens granted in respect of the Tranche A Note and Tranche C Note, which Liens have senior priority over the Liens granted by this Security Agreement, and other than carriers', warehousemen's and similar Liens arising in the ordinary course of business and which secure obligations that are not delinquent.

(g) There are no legal, administrative, or other proceeding pending or threatened against them, other than those disclosed in the Disclosure Statement and Plan, which relate to the Collateral, the grant of a security interest hereunder, or continued corporate existence of the Grantors, nor do the Grantors know of any basis for the assertion of any such claim. The Grantors shall, at their own expense, take any and all actions necessary or desirable to preserve, protect, and defend the security interest of the Secured Party in the Collateral and the perfection and priority thereof against any and all adverse claims, including appearing in and defending all actions and proceedings which purport to affect any of the foregoing all at their own expense.

(h) The Grantors shall pay all Obligations pursuant to the terms and conditions imposed by the Note.

(i) The Grantors will use commercially reasonable efforts to keep the Collateral in good order and repair and will pay all taxes, assessments, or charges which may be levied or assessed against the same before they become delinquent. In the event of their failure to comply with the foregoing, any amounts expended by the Secured Party as it, in its reasonable discretion, may deem necessary to repair the Collateral or to pay any and all taxes, assessments, and charges to be discharged, shall be considered an Obligation which is secured by this Security Agreement.

(j) The Grantors shall, at their own expense and within commercial reason, keep the Collateral insured against potential damage, with the exception of Collateral located in the Grantors' showrooms and stores. Such insurance shall not be permitted to lapse without

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Grantors or the insurer giving to the Secured Party fifteen (15) days' prior written notice. Should the Grantors fail to procure or provide evidence of said insurance, the Secured Party may procure same, and the cost thereof shall be considered an Obligation.

(k) The Grantors shall keep complete and accurate records of their business, including those pertaining to their inventory and the Collateral. The Collateral is located at the Grantors' current place(s) of business. No Collateral is now, or shall at any time or times hereafter be stored at any other location without the Secured Party's prior consent, which consent shall not be unreasonably withheld.

(l) The Grantors shall notify the Secured Party in writing within five (5) business days of the occurrence of (i) an Event of Default or of the occurrence of an event which with notice or lapse of time, or both, would constitute an Event of Default, or (ii) any event which adversely and materially affects the value of the Collateral, the ability of the Grantors or Secured Party to dispose of the Collateral, or the rights and remedies of Secured Party in relation thereto.

5. COVENANTS. Grantors covenant and agree that from and after the date of this Security Agreement and until all Obligations have been indefeasibly paid in full:

(a) Further Assurances. At any time and from time to time, upon the written request and at the sole expenses of Grantors, Grantors shall promptly and duly execute and deliver any and all such further instruments and documents and shall take such further actions as the Secured Party may deem reasonably necessary to obtain the full benefit of this Security Agreement and of the rights and powers herein granted, including filing any financing or continuation statements under the Code with respect to the Liens granted hereunder. Grantors also hereby authorize the Secured Party, for the benefit of the Holders of Allowed General Unsecured Claims, to file any such financing or continuation statements without the signature of the Grantors to the extent permitted by applicable law.

(b) Limitation on Liens on Collateral. Grantors will not create, permit or suffer to exist, and will defend the Collateral against, and take such other actions as in necessary to remove, any Lien on the Collateral except the senior priority Liens granted in connection with the Tranche A Note and Tranche C Note, and will defend the right, title and interest of the Secured Party in and to any of Grantors' rights under the Collateral against the claims and demands of all persons whomsoever. Nothing herein shall restrict the Grantors' ability to encumber the Collateral with Liens junior to those of the Secured Party, provided that the Grantors shall enter into a subordination agreement with the proposed secured party in respect of those junior Liens.

(c) Limitations on Disposition. Grantors will not sell, lease, transfer or otherwise dispose of any of the Collateral or attempt to contract to do so except in the ordinary course of business of the Grantors.

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(d) Further Identification of Collateral. Grantors will, if so requested by the Secured Party, (i) furnish to the Secured Party such statement and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Secured Party may reasonably request, (ii) allow the Secured Party to enter the premises of the Grantors to perform reasonable inventory inspections and audits of books and records during regular business hours. Prior to exercising its rights under this subsection (d), the Secured Party shall sign a non-disclosure agreement, as provided by the Grantors. The Secured Party may not exercise any rights under this subsection (d) more than one (1) time in six (6) months.

## 6. SECURED PARTY'S APPOINTMENT AS ATTORNEY-IN-FACT.

Grantors hereby constitute and appoint the Secured Party as their true and lawful attorney, irrevocably, with full power after the occurrence of and during the continuance of an Event of Default (in the name of such Grantors or otherwise) to take any actions the Secured Party deems necessary to protect the Secured Party's interests in the Collateral. Such power of attorney shall not impose any duty upon the Secured Party to exercise any such powers. The Secured Party agrees that (a) it shall not exercise any power or authority granted under this power of attorney unless an Event of Default has occurred and is continuing, and (b) it shall account for any moneys received in respect of any foreclosure on or disposition of Collateral pursuant to this power of attorney; provided that the Secured Party shall have no duty as to any Collateral and shall be accountable only for amounts actually received as a result of the exercise of such powers. None of the Secured Party or any of its agents or representatives shall be responsible to Grantors for any act or failure to act under this power of attorney or otherwise, except in respect of damages attributable solely to their own gross negligence or willful misconduct as finally determined by a court of competent jurisdiction, nor for any punitive, exemplary, indirect or consequential damages.

## 7. EVENTS OF DEFAULT.

The occurrence of any of the following, for any reasons whatsoever, whether such occurrence shall, on the part of the Grantors, be voluntary or involuntary, shall constitute an Event of Default hereunder:

(a) (i) Any failure by the Grantors to make a principal or interest payment under the Note (a "***Payment Default***"), (ii) other than a Payment Default, the Grantors' material breach of any terms of the Note and Security Agreements pertaining thereto, other than those set forth in subsections (b), (c) and (d) below or therein, or (iii) A material liquidation or transfer of the Grantors' assets ((ii) and (iii) shall hereinafter individually be referred to as a "***General Default***"). A Payment Default or General Default on the Note shall not be an Event of Default hereunder unless the conditions for exercising remedies upon default in such Note have been fulfilled;



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(b) If the Grantors dissolve, suspend, or discontinue doing business, become insolvent, make an assignment for the benefit of creditors, liquidate all or substantially all of their assets, or make or send notice of a bulk transfer of all or substantially all of their assets;

(c) With the exception of the Debtors' Chapter 11 Cases, a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution, or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed against any of the Grantors and such petition is not dismissed within thirty (30) days after the date of the filing; and

(d) With the exception of the Debtors' Chapter 11 Cases, a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution, or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed by the any of the Grantors ((b), (c) and (d) shall hereinafter be referred to as a "***Liquidation Default***").

(e) any default under any of (i) the Unsecured Creditors Notes, (ii) the Unsecured Creditors Security Agreement, or (iii) the Secured Exit Credit Agreement, which has not been cured during the applicable cure period thereunder or otherwise waived.

8. NOTICES.

Upon the occurrence of an Event of Default under Section 7 of this Security Agreement, Mengnu shall furnish the Grantors with notice of the occurrence of such Event of Default (a "***Notice of Default***"). All notices required under this Security Agreement shall be made in writing, addressed as set forth below may be personally served, telecopied, sent by overnight courier service or U.S. mail and shall be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by telecopy, on the date of transmission if transmitted on a business day before 5:00 p.m. (eastern time); (c) if delivered by overnight courier, one (1) business day after delivery to the courier properly addressed; or (d) if delivered by U.S. mail, four (4) business days after deposit with postage prepaid and properly addressed.

If to Grantors:

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

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If to the Secured Party:

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

and

James Jiang  
c/o King & Wood, LLC  
444 Madison Avenue, 42nd Floor  
New York, NY 10022

9. CURE PERIOD.

Upon a Notice of Default that is given with respect to a Payment Default, the Grantors shall have five (5) Business Days thereafter to cure the Payment Default before Mengnu may exercise any remedies. Upon a Notice of Default that is given with respect to a General Default, the Grantors shall have thirty (30) days thereafter to cure the General Default before Mengnu may exercise any remedies. The Secured Party may immediately exercise its remedies with respect to a Liquidation Default upon providing Notice of Default to the Grantors pursuant to Section 8 of this Security Agreement.

10. REMEDIES UPON DEFAULT.

(a) Upon the occurrence of any Event of Default that, after proper Notice of Default (if applicable) was served, was not cured as provided in Section 9 above, the Secured Party shall have and may pursue all of the rights and remedies of a secured party as provided in the Uniform Commercial Code or otherwise available to it at law or in equity to collect, enforce or satisfy any Obligations then owing, whether by acceleration or otherwise.

(b) Without limiting the foregoing, Grantors expressly agree that in any such event the Secured Party, without demand of performance or other demand, advertisement or notice of any kind (except notices of time and place of public sale or private sale) to or upon the Grantors (all and each of which demands, advertisements and notices are hereby expressly waived to the maximum extent permitted by the Code and other applicable law) shall have the right to pursue any of the following remedies separately, successively or simultaneously: (i) take

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possession of all or any of the Collateral if not in its possession wherever found, and for that purpose the Secured Party may enter the premises of the Grantors where any Collateral is located through self-help to obtain possession of the Collateral without first obtaining any court order or giving Grantors or any other person notice and an opportunity for a hearing and may collect, receive, assemble, process, appropriate and realize upon the Collateral, or any part thereof; (ii) with or without taking possession, sell, lease, assign, give an option or options to purchase or otherwise dispose of and deliver said Collateral or any part thereof, in one or more parcels at a public or private sale or sales, at any exchange at such prices as it may deem acceptable, for cash or on credit in accordance with the Uniform Commercial Code; or (iii) deduct from the proceeds of sale of Collateral all unpaid Obligations, court costs, other expenses such as moving, storage, and repair of the Collateral, any expenses incurred for the preservation or renovation of the Collateral for purposes of sale as the Secured Party may be entitled to under the Uniform Commercial Code.

(c) Grantors further agree, upon the Secured Party's request, to assemble and make the Collateral available to the Secured Party at places which the Secured Party shall select, whether at Grantors' premises or elsewhere. Until the Secured Party is able to effect a sale, lease or other disposition of Collateral, the Secured Party shall have the right to hold or use the Collateral, or any part thereof, to the extent that it deems appropriate for the purpose of preserving Collateral or its value or for any other purpose deemed appropriate by the Secured Party. The Secured Party shall have no obligation to Grantors to maintain or preserve the rights of the Grantors as against third parties with respect to Collateral while Collateral is in the possession of the Secured Party. The Secured Party may, if it so elects, seek appointment of a receiver or keeper to take possession of Collateral and to enforce any of the Secured Parties' remedies with respect to such appointment without prior notice or hearing as to such appointment. To the maximum extent permitted by applicable law, Grantors waive all claims, damages and demands against the Secured Party arising out of the repossession, retention or sale of the Collateral except such as may arise solely out of gross negligence or willful misconduct of the Secured Party as finally determined by a court of competent jurisdiction. Grantors agree that ten (10) days prior notice by the Secured Party of the time and place of any public sale or of the time after which a private sale may take place is reasonable notification of such matters. Grantors shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all Obligations, including attorneys' fees or other expenses incurred by the Secured Party to collect such deficiency.

(d) No delay or omission by the Secured Party to exercise any right or remedy upon any Event of Default shall impair any right or remedy or waive any default or operate as acquiescence to the Event of Default or affect any subsequent default or Event of Default of the same or a different nature. The Secured Party has no obligation to clean up or otherwise prepare the Collateral for sale. For the purpose of enabling the Secured Party to exercise its rights and remedies hereunder (including, without limitation, in order to take possession of, hold, preserve, process, assemble, prepare for sale, market for sale, sell otherwise dispose of Collateral) the Grantors hereby grant the Secured Party a fully paid-up, irrevocable, non-exclusive license

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(exercisable without payment of royalty or other compensation to Grantors) to use, license or sublicense any of the Grantors' intellectual property to sell or otherwise dispose of any Collateral.

(e) The Secured Party may comply with any applicable legal requirements in connection with the sale or other disposition of Collateral and such compliance will not be considered to affect adversely the commercial reasonableness of any sale or other disposition of Collateral. The Secured Party may sell the Collateral without any warranties and may specifically disclaim any warranties to the extent permitted by law and this procedure shall not be considered to affect adversely the commercial reasonableness of any sale or other disposition of Collateral. If the Secured Party sells any of the Collateral on credit, the Grantor will be credited only with payments actually made by the purchaser and received by the Secured Party and applied to the satisfaction of Obligations. In the event the Secured Party purchases any of the Collateral being sold, the Secured Party may pay for the Collateral by crediting some or all of the Obligations to the extent permitted by applicable law. The Secured Party shall have no obligation to marshal any assets in favor of the Grantors or against or in payment of any of the Obligations or any other obligation owed to the Secured Party by the Grantors or any other person.

(f) The Secured Party has no obligation to attempt to satisfy the Obligations by collecting them from any other party, and the Secured Party may release, modify or waive any Collateral provided by any other person to secure any of the Obligations, all without affecting the Secured Party's rights or remedies against the Grantors. The Grantors waives to the extent permitted by applicable law any rights it may have to require the Secured Party to pursue any third person for any of the Obligations.

(g) Except as otherwise specifically provided herein, Grantors hereby waive presentment, demand, protest or any notice (to the maximum extent permitted by applicable law) of any kind in connection with this Security Agreement or any Collateral.

11. REINSTATEMENT. This Security Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against any Grantors for liquidation or reorganization, should Grantors become insolvent or make an assignment for the benefit of any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of any of Grantors' assets, and shall continue to be effective or reinstated, as the case may be, if at any time payment and performance of the Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Obligations, whether as a "voidance preference," "fraudulent conveyance," or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

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12. **LIABILITY AND INDEMNIFICATION.** The Secured Party shall not be liable to the Grantors for any act or omission, including, without limitation, any act by or negligence of the Secured Party or any of its officers, directors, controlling persons, employees, agents or attorneys unless such conduct by the Secured Party shall be finally proven in a court of competent jurisdiction to constitute an act in gross negligence or willful misconduct. The Grantors shall indemnify and hold harmless the Secured Party for any liability of any kind or nature that the Secured Party or any of its officers, directors, controlling persons, employees, agents or attorneys may suffer or incur in connection with this Security Agreement or the exercise or non-exercise of any right or remedy hereunder, including, without limitation, any action, suit, proceeding, claim, demand, penalty, tax or other governmental assessment unless it shall be finally proven in a court of competent jurisdiction that the same constituted an act by the Secured Party in gross negligence or willful misconduct.

13. **NO WAIVER; CUMULATIVE REMEDIES.** No failure on the part of the Secured Party to exercise, and no delay in exercising any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Secured Party of any right, remedy or power hereunder preclude any other or future exercise of any other right, remedy or power. No waiver by the Secured Party shall be valid unless in writing, signed by the Secured Party and then only to the extent set forth therein. The rights and remedies hereunder provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any right and remedies provided by law. None of the terms or provisions of this Security Agreement may be waived, altered, modified or amended except by an instrument in writing, duly executed by the Secured Party and Grantors.

14. **CHOICE OF LAW AND VENUE.** In all respects, including all matters of construction, validity and performance, this Security Agreement and the obligations arising hereunder shall be governed by and construed and enforced in accordance with the laws of the State of New York applicable to contracts made and performed in that state except to the extent that the Code requires the application of the law of another state. The Grantors hereby waive any and all rights to trial by jury in any action brought to enforce this Security Agreement or any amendment thereto or any action brought to enforce payment of any Obligations owing to the Secured Party. Grantors hereby consent and agree to the non-exclusive jurisdiction of the Bankruptcy Court to hear and determine any claims or disputed between the Grantors and the Secured Party, provided, that nothing in this Security Agreement shall be deemed to operate to preclude the Secured Party from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral. Grantors expressly submit and consent in advance to such jurisdiction in any action or suit commenced in any such court, and Grantors hereby waive any objection which they may have based upon lack of personal jurisdiction or improper venue. Grantors hereby waive personal service of the summons, complaints and other process issued in any such action or suit and agrees that service of such summons, complaints and other process may be made by registered or certified mail addressed to Grantors at the address set forth herein.

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15. **BINDING OBLIGATIONS, ASSIGNMENT.** All covenants, agreements, representations and warranties made herein and in the Note shall continue in full force and effect so long as any of the Obligations under the Note and this Security Agreement are outstanding. The rights and Obligations of the Grantors and the Secured Party shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the Parties. The rights and Obligations under this Security Agreement may not be assigned by the Grantors to any other party without the express prior written consent of the Secured Party, and any attempted assignment in violation of this provision shall be void. The Secured Party may assign its rights and interests under this Security Agreement, and **may assign the Note, and** if an assignment is made by the Secured Party, the Grantors shall render performance under this Security Agreement and the Note to the assignee. The Grantors waive and agree that they will not assert against any assignee any claims, defenses or set-offs which the Grantors could assert against the Secured Party except defenses which pursuant to applicable law cannot be waived.

16. **SAVINGS CLAUSE.** Whenever possible, each provision of this Security Agreement shall be interpreted in a manner as to be effective and valid under applicable law. In case any provision of this Security Agreement or the Note is held by a court of competent jurisdiction to be excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, so that it is enforceable to the maximum extent possible, and the validity and enforceability of the remaining provisions of this Security Agreement and Note will not in any way be affected or impaired thereby.

17. **FEES.** If any legal action, arbitration or other proceeding is brought by Mengnu to enforce this Security Agreement or the Note, then Mengnu will be entitled to recover, from the Grantors, any attorneys' fees and other costs incurred in such action, arbitration or proceeding and such amounts shall constitute Obligations hereunder.

18. **NO IMPAIRMENT.** The Grantors will not, by any voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Grantors, but will at all times in good faith assist in the carrying out of all the provisions of this Security Agreement and the Note and in the taking of all such action as may be necessary or appropriate in order to protect the rights of Mengnu against impairment.

19. **MODIFICATIONS, AMENDMENTS.** This Security Agreement may not be modified or amended except by a written instrument signed by the Grantors and Mengnu.

20. **SATURDAYS, SUNDAYS, OR LEGAL HOLIDAYS.** If any payment or act under this Security Agreement 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.

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21. COUNTERPARTS. This Security Agreement may be executed in any number of separate counterparts, each of which shall be collectively and separately constitute one and the same agreement.

22. MISCELLANEOUS. All headings used herein are used for convenience only and shall not be used to construe or interpret this Security Agreement. The Security Agreement and the Note, including all documents incorporated by reference, expresses the entire understanding of the Parties and cancels and supersedes any previous agreements, understandings, or representations between the Parties related to the subject matter hereof.

23. NO STRICT CONSTRUCTION. The Parties hereto have participated jointly in the negotiation and drafting of this Security Agreement. In the event of any ambiguity or question of intent or interpretation arises, this Security Agreement shall be construed as if drafted jointly by the Parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provisions of this Security Agreement.

24. ADVICE OF COUNSEL. Each of the Parties represents to each other Party hereto that it has discussed this Security Agreement and, specifically, the provisions of Section 14, with its counsel.

IN WITNESS WHEREOF, each of the Parties hereto has caused this Security Agreement to be executed and delivered by its duly authorized officer or representative as of the date first set forth above.

JENNIFER CONVERTIBLES, INC.  
on behalf of itself and its subsidiaries

By: \_\_\_\_\_  
Name: Rami Abada  
Title: President

[add all other debtor entities]

HAINING MENGNU GROUP CO. LTD.

By: \_\_\_\_\_  
Name:  
Title: