

NEIGER LLP

317 Madison Avenue, 21st Floor
New York, New York 10017
Tel.: (212) 267-7342
Fax: (212) 918-3427
Edward E. Neiger, Esq.

Counsel to Haining Mengnu Group Co. Ltd.

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

In re:
JENNIFER CONVERTIBLES, INC.,

Debtor.

Chapter 11
Case No. 10-13779 (ALG)

**DECLARATION OF L. THOMAS SPERRY IN SUPPORT OF THE DEBTORS’
MOTION PURSUANT TO 11 U.S.C. § 365 FOR APPROVAL OF ASSUMPTION
OF EXECUTORY CONTRACTS WITH LICENSOR, EFFECTIVE AS OF THE
EFFECTIVE DATE OF A PLAN OF REORGANIZATION**

I, L. Thomas Sperry, hereby declare as follows:

1. I am the principal of Sperry Advisors, LLC, doing business as Sperry Restructuring Advisors. Sperry Restructuring Advisors is the financial advisor to Haining Mengnu Group Co. Ltd. (“Mengnu”). I submit this declaration in support of the Debtors’ Motion Pursuant to 11 U.S.C. § 365 for Approval of Assumption of Executory Contracts with Licensor, Effective as of the Effective Date of a Plan of Reorganization (the “Motion to Assume”).

2. Mengnu is (i) the Debtors’ largest unsecured creditor, (ii) the Debtors’ primary supplier, (iii) the DIP Lender, (iv) the Plan Sponsor, and (v) the exit financing provider. As such, I have knowledge about the items to which I am attesting

and if I were called upon to testify, I could and would testify competently as to the facts set forth herein.

PROFESSIONAL BACKGROUND

3. I have an MBA degree with a concentration in finance from the University of California, Berkeley. I practiced as a licensed CPA briefly early in my career with one of the two principal predecessor firms of PricewaterhouseCoopers, LLC. Subsequently, I worked in all principal aspects of corporate finance, including debt and equity financings of various kinds and structure, as well as mergers and acquisitions, in various financial markets for a period of time approaching 10 years with the investment banks Prudential Bache Securities and UBS Securities. Thereafter I founded and for roughly 12 years headed the restructuring group at UBS. Altogether I have worked exclusively on corporate restructurings as both a loan workout principal and as a financial advisor for about 20 years. I have been personally and directly involved, most often in a key leadership role, in over 50 corporate restructurings, both out-of-court and in judicial proceedings, involving the restructuring of an aggregate of over \$35 billion of debt in the United States, Canada, Europe, South America, and Asia.

THE PLAN OF REORGANIZATION

4. According to my understanding, a critical part of the Plan is the Debtors' assumption of the Trademark Usage Agreements (the "TUAs"), entered into by Hartsdale Convertibles, Inc. ("HCI") and Ashley HomeStores Ltd. ("Ashley").

5. According to my understanding of the Plan, HCI will have paid in full in cash all of its prepetition monetary obligations to Ashley as of the Effective Date. I also believe that HCI has been paying Ashley COD during the bankruptcy and will

therefore not have any outstanding monetary obligations due to Ashley immediately following the Effective Date.

**HCI'S POST BANKRUPTCY STATUS AS A SEPARATE
LEGAL ENTITY IS RESPECTED UNDER THE TERMS OF THE PLAN**

6. At this juncture Ashley has declined to provide assurance that it will be willing to supply the HCI owned and operated Ashley Home Stores on trade credit terms following the bankruptcy, as it did prior to the Petition Date. Nor has it given any indication of the specific conditions it might require for the resumption of trade credit. Accordingly, the Debtors have necessarily prepared for life after bankruptcy on the basis that Ashley goods will need to continue to be purchased on a COD basis.

7. As a result of the foregoing, and having read one of the TUAs, it is my belief that HCI will have no direct monetary obligations payable to Ashley in the future and that, by the same token, Ashley will have no direct financial exposure to HCI going forward.

8. As explained below, HCI owes its very ability to continue in business to its parent, Jennifer.

9. I believe all of the Debtors would have collapsed and liquidated if not for the support of Mengnu before, during, and, as it is planned, after the bankruptcy. Mengnu continued to materially expand its trade credit support of the Debtors in the months prior to the Petition Date. Mengnu engaged in restructuring negotiations with the Debtors and entered into the Plan Support Agreement prior to the filing of the Debtors' cases, without which Jennifer would have entered bankruptcy in a so-called "free fall" state, without direction and left to deal with a skeptical and fractious Creditors' Committee on its own. Mengnu provided the DIP financing critical to the Debtors'

ability to continue to operate in bankruptcy in the form to date of a \$3 million letter of credit and \$500,000 in cash. Mengnu will also provide exit financing in the form of \$3 million to \$5 million in letter of credit support and an estimated \$2.7 million in new cash funding repayable over two years. Mengnu also agreed to supply Jennifer on 90-day trade terms after the Effective Date. That means 90 days from the time goods are received in the United States, or roughly 120 days or more from the time they leave Mengnu's factory in China. Without Mengnu's consistent support, I am convinced that the Debtors would now be liquidating if they had not already. Mengnu would not have, and, with respect to the exit financing, will not, offer such support to HCI on a stand-alone or separate basis. Nor would Mengnu offer such support to Jennifer without HCI and its expected future cash flow contributions and the value that has been built up through Jennifer's investment in, and management of, HCI, an ownership stake whose value would be denied to the Debtors' estates in their entirety if the Motion to Assume was denied. HCI is benefitting in the most substantial manner possible, therefore, from its association with its parent; it is able to stay in business.

10. HCI will remain a co-obligor with Jennifer only on those financial obligations which will provide a direct financial benefit to the Ashley Home Stores owned by the HCI entity, as follows:

- (a) HCI will be a co-obligor under the LOC Facility (as defined in the Secured Exit Credit Agreement) portion of the Secured Exit Credit Agreement (as defined in the Plan), a contingent obligation. That facility will initially consist of a \$3 million LOC already in place in favor of MasterCard and Visa processor Merrick Bank. It is my

understanding that the Ashley Home Stores operated by Jennifer through HCI record a very significant percentage of their sales through credit card charges processed by Merrick Bank. In addition, Mengnu has begun the process of putting into place a \$500,000 LOC in favor of a private label credit card provider, which is expected to provide substantial benefits to the business at the HCI-owned stores.

(b) Second, HCI will be a co-obligor on the Tranche E Note, a funded debt obligation. While the total size of the Tranche E Note is expected to be \$2.7 million, HCI's co-obligation will be limited to an amount equal to the value of the HCI inventory at any given point in time, for the reason explained below.

11. In addition to the LOC Facility and Tranche E Note obligations, HCI will provide a lien on its inventory in favor of the Tranche E Note to be held by Mengnu. In the absence of post bankruptcy trade credit terms from Ashley, Mengnu agreed to increase its cash exit financing under the Tranche E Note to finance the purchase of inventory for the HCI stores. As any working capital lender would, Mengnu required a pledge of the inventory in connection with what has effectively become, in part, a working capital term loan for the purchase of HCI inventory.

12. Other than the aforementioned financial obligations, HCI will be debt free. It will be paying its main supplier, Ashley, COD. I expect that HCI's main future third party monetary obligations will be to its landlords. In addition, HCI will have significant payment obligations to Jennifer in respect of third party goods and services procured on HCI's behalf and the considerable overhead functions Jennifer

provides. However, as its parent, Jennifer will be highly motivated to ensure HCI's continued viability. Of course, that is also true with respect to the LOC Facility contingent obligation and the Tranche E Note co-obligation. That is, Mengnu, the provider of such financing, has strong motivation not to foreclose or accelerate against HCI. Notwithstanding the working capital accounts maintained by Jennifer for use in both the Jennifer and Ashley store segments, HCI will also maintain in its own bank account a cash balance of at least \$100,000.

CONCLUSION

13. Taking all of the foregoing into account, in my experience, it would be difficult to achieve the consensual construction of a less encumbered capital structure for HCI on a stand-alone basis than what is planned for the HCI Debtor under the Plan. I further believe that capital structure to be appropriately reflective, in financial terms, of HCI's status as a separate legal entity from its parent, Jennifer. As they relate specifically to HCI, it is also my professional opinion that the terms of the LOC Facility and the Tranche E Note are fair and reasonable.

I, the undersigned declare that the foregoing is true and correct.

Executed this 23rd day of January, 2011.

/s/ L. Thomas Sperry

L. Thomas Sperry

Sperry Restructuring Advisors