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

In re:

JENNIFER CONVERTIBLES, INC., et al.,¹

Debtors.

Chapter 11

Case No. 10-13779 (ALG)

Jointly Administered

**NINTH STIPULATION REGARDING: CHARGEBACK RESERVE ACCOUNT;
INTERIM EXTENSION OF, AND AMENDMENT TO, THE MERRICK BANK
CORPORATION - JENNIFER CONVERTIBLES INC. CREDIT CARD PROCESSING
AGREEMENT; AND RELIEF RELATING TO POSSIBLE
EXPIRATION/TERMINATION OF SAID AGREEMENT**

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, if applicable, are: (i) Jennifer Convertibles, Inc. (4646); (ii) Jennifer Convertibles Boylston MA, Inc. (7904); (iii) Jennifer Chi cago Ltd. (0505); (iv) Elegant Living Management, Ltd. (5049); (v) Hartsdale Convertibles, Inc. (1681); (vi) Jennifer Management III Corp. (3552); (vii) Jennifer Purchasing Corp. (7319); (viii) Jennifer Management II Corp. (9177); (ix) Jennifer Management V Ltd. (9876); (x) Jennifer Convertibles Natick, Inc. (2227); (xi) Nicole Convertibles, Inc. (5985); (xii) Washington Heights Convertibles, Inc. (0783).

This Ninth Stipulation Regarding: Chargeback Reserve Account; Interim Extension of, and Amendment to, the Merrick Bank Corporation - Jennifer Convertibles Inc. Credit Card Processing Agreement; and Relief Relating to Possible Expiration/Termination of Said Agreement (“Ninth Stipulation”), dated the 14th day of February, 2011, is between and among Merrick Bank Corporation (“Merrick”); Renaissance Associates (“Renaissance” and, collectively with Merrick, the “Bank”); and Jennifer Convertibles Inc. (“Jennifer”). (All parties to this Ninth Stipulation are collectively referred to hereinafter as the “Parties”).

RECITALS

A. On or about January 13, 2010, the Parties signed a “Merchant Application and Agreement” (“Agreement”), which Agreement amended a prior agreement between the Parties, pursuant to which Bank has agreed to process Visa and MasterCard transactions initiated by customers utilizing credit cards at Jennifer locations (*i.e.*, receive from a cardholder’s issuing bank, through the Visa/MasterCard interchange systems, payments for goods purchased at Jennifer locations with Visa/MasterCard cards (“Sales Receipts”) and remit such Sales Receipts on a daily basis, less applicable fees and other costs, to Jennifer). Capitalized terms not otherwise defined herein shall have the meaning ascribed to such terms in the Agreement.

B. Without the Bank’s performance under the Agreement, or the agreement of another bank to provide such services, Jennifer would be unable to accept Visa or MasterCard as a means for payment for its goods.

C. Jennifer’s ordinary course of business is to charge consumers a minimum of 50% of the purchase price for its goods at the time of sale for the Jennifer segment, and, in the case of sales of the Ashley segment goods, 100% of the purchase price at such time (the aggregate of all such down payments made with a Visa or MasterCard card at any given time the

“Visa/MasterCard Deposits”) and the remaining balance, with respect to Jennifer segment sales, upon delivery of the purchased item some time later.

D. Pursuant to the rules of Visa and MasterCard, if product in respect of which a Visa/MasterCard Deposit has been made is not delivered, the cardholder may cancel the order (*i.e.*, “chargeback”) and the Bank is obligated to return the Visa/MasterCard Deposit to the consumer. Likewise, if a cardholder determines not to accept delivered goods (defective, wrong item, etc.) the cardholder may chargeback and the Bank is obligated to return the purchase price to the consumer.

E. On July 18, 2010 (the “Petition Date”), Jennifer and affiliated debtors commenced voluntary cases pursuant to Chapter 11 of Title 11 of the United States Code and the cases (consolidated under Bankr. Case No. 10-13779) were assigned to the Honorable Allan L. Gropper, United States Bankruptcy Judge (the “Court”).

F. On August 4, 2010, the Court approved the Revised Interim Stipulation and Order Regarding Chargeback Reserve Account (the “First Stipulation”) pursuant to which the Bank remitted to Jennifer \$1,000,000 then being held in the Reserve Account. Thereafter, on August 23, 2010 the Parties entered the Second Interim Stipulation Regarding Chargeback Reserve Account (the “Second Stipulation”), pursuant to which the Bank remitted to Jennifer \$350,000 then being held in the Reserve Account. Thereafter, on September 1, 2010 the Parties entered into the Third Interim Stipulation Regarding Chargeback Reserve Account (the “Third Stipulation”), pursuant to which the Parties agreed to maintain the status quo. Thereafter, on September 17, 2010 the Parties entered into the Fourth Interim Stipulation Regarding Chargeback Reserve Account (the “Fourth Stipulation”), pursuant to which the Parties agreed to establish a ratio of 80% between the funds held in the Reserve Account and the amount of

Visa/MasterCard Deposits (the “80% Metric”). Thereafter, on September 23, 2010 the Parties entered into the Fifth Interim Stipulation Regarding Chargeback Reserve Account (the “Fifth Stipulation”), pursuant to which the Parties agreed to maintain the 80% Metric. Thereafter, on October 8, 2010 the Parties entered into the Sixth Interim Stipulation Regarding Chargeback Reserve Account (the “Sixth Stipulation”), pursuant to which the Parties agreed to further maintain the 80% Metric. Thereafter, on October 29, 2010 the Parties entered into the Seventh Interim Stipulation Regarding Chargeback Reserve Account (the “Seventh Stipulation”), pursuant to which the Parties agreed to further maintain the 80% Metric. Thereafter, on December 3, 2010 the Parties entered into the Eighth Interim Stipulation Regarding Chargeback Reserve Account (the “Eighth Stipulation”), pursuant to which the Parties agreed to further maintain the 80% Metric. The Court “so ordered” the Eighth Stipulation and entered same on December 13, 2010.

G. On November 19, 2010, Jennifer and its affiliated debtors filed their Joint Chapter 11 Plan of Reorganization (as amended, the “Plan”) and its associated Disclosure Statement, which documents were subsequently amended and modified.

H. On January 13, 2011, Jennifer and its affiliated debtors filed their Amended Cure Schedule for Assumed Executory Contracts (the “Cure Notice”).

I. Appendix B to the Cure Notice lists the Agreement as one of the executory contracts to be assumed by Jennifer and its affiliated debtors pursuant to Article XI of the Plan.

J. The relevant entry within Appendix B to the Cure Notice states that the Agreement is to be “Assumed and modified per agreement”.

K. The “agreement” listed on Appendix B to the Cure Notice consummates the terms of a settlement (the “Settlement”) among the Parties, materialized as *Amendment No. 1 to*

Merchant Agreement which was filed by Jennifer and its affiliated debtors as “Exhibit H” to their Plan Supplement on January 14, 2011 (the “Amendment”).

L. By its plain terms, the Amendment was to be effective and the obligations of the Parties thereunder were to commence as of the then-forthcoming Confirmation Date of the Plan.

M. The Confirmation Date has since occurred, via entry by the Court of its Order granting Confirmation (the “Confirmation Order”) on February 9, 2011.

N. The Parties agree that the Court has thereby given its requisite approval for Jennifer and its affiliated Debtors to assume the Agreement, as modified by the Amendment. Specifically, paragraph 25 of the Confirmation Order states in relevant part that “[s]ubject to the occurrence of the Effective Date, the Debtors are authorized to assume, assign and/or reject executory contracts or unexpired leases in accordance with Article XI of the Plan and orders of this Court.”

O. The Parties also agree that the obligations under the Amendment have become effective as of the Confirmation Date and that the Parties essentially consider the Agreement, as modified by the Amendment, as having been assumed by Jennifer as of the Confirmation Date, as recited therein and in Appendix B to the Cure Notice.

P. Absent the extension of the Agreement pursuant to the Settlement or this Ninth Stipulation, the Bank would have already moved for relief from the Section 362 stay to the extent, if any, necessary in order for it to have taken steps to ensure that the Agreement would not have been deemed renewed when its one-year term ended on January 13, 2011.

Q. The Parties acknowledge, as recited in the Amendment, that Jennifer has arranged for the issuance of an irrevocable letter of credit (“LOC”) in favor of Merrick and that such LOC was issued on January 12, 2011 pursuant to the Application of Haining Mengnu Group Co. Ltd.

("Mengnu") with the Industrial and Commercial Bank of China Ltd., New York Branch, in the amount of \$3,000,000.

R. In light of the foregoing, the Parties have agreed to enter into this interim Ninth Stipulation so that the Bank will not have been prejudiced by its forbearance and that none of the Parties will be prejudiced by the potential non-occurrence of the Effective Date of the Plan.

S. In light of the Settlement, this Ninth Stipulation is intended to be a final (not an interim) agreement, with all of its provisions surviving termination of this Ninth Stipulation.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby stipulated and agreed by and between the Parties hereto as follows:

1. The term of this Ninth Stipulation shall be an extension of the First Stipulation, the Second Stipulation, the Third Stipulation, the Fourth Stipulation, the Fifth Stipulation, the Sixth Stipulation, the Seventh Stipulation and the Eighth Stipulation in accordance with paragraph 21 of this stipulation and, if executed subsequent to the termination of the Eighth Stipulation, shall relate back to the expiration of the Eighth Stipulation.

2. The Agreement is extended to the earlier date to occur of a) thirty (30) days to March 16, 2011 or, b), the Effective Date (at which date the Agreement, as modified by the Amendment, becomes fully assumed).

3. The Parties stipulate that this extension of the Agreement constitutes an interim extension of the existing Agreement that would otherwise expire on February 14, 2011 (as extended by the Eighth Stipulation), and does not in itself constitute a renewal of said Agreement.

4. The term of this Ninth Stipulation shall also extend through and including the earlier date to occur of a) thirty (30) days to March 16, 2011 or, b), the Effective Date.

5. The Parties stipulate that any notice required from the Bank under the terms of the Agreement to prevent the Agreement's renewal when its current term, as extended by the Eighth Stipulation, expires on February 14, 2011, is deemed as having duly and timely been given, and the Section 362 stay in these Cases is, as a consequence, deemed modified to the extent necessary for the Bank to effectuate non-renewal should this Ninth Stipulation expire.

6. Jennifer agrees and stipulates that it hereby waives any and all rights to contest the Bank's notice of non-renewal as having been deemed given.

7. Jennifer warrants that none of its affiliated Debtors will contest the Bank's notice of non-renewal as having been deemed given.

8. Given the issuance of the LOC, the Bank will be entitled to hold in the Reserve Account during each Measuring Period (either through payments made by Jennifer or hold back of Sales Receipts) an amount of cash (the "Cash Amount") that would have otherwise been remitted to Jennifer under the Agreement, which, when added to the funds available under the LOC for drawing down by the Bank on the Applicable Measuring Date (the "LOC Amount") will not exceed the sum of (i) \$250,000 plus (ii) 80% of the Visa/MasterCard Deposits reported by Jennifer on the Applicable Measuring Date (such sum the "Acceptable Risk Amount") minus (iii) any drawn portion of the LOC, except to the extent that such drawn funds either (a) have previously been deposited into the Reserve Account as of the time at which the calculation as to amounts held back are made or (b) have been used to cover overdue amounts unrelated to customer deposits due the Bank under the Agreement. As used herein, a "Measuring Period" shall mean each one week period commencing on each Friday during the term hereof except the

last Measuring Period which shall commence on the second to last Friday during the term hereof and end on the last day of the term hereof and the “Applicable Measuring Date” for each Measuring Period shall be the Wednesday immediately preceding the start of each Measuring Period.

9. On each Friday during the term hereof, and on the last day of the term hereof, Jennifer agrees to remit to Merrick by wire transfer the amount by which the sum of the Cash Amount and the LOC Amount on the immediately previous Measuring Date is less than the Acceptable Risk Amount, if any, and Bank agrees to remit to Jennifer by wire transfer the amount by which such sum is greater than the Acceptable Risk Amount, if any; provided however, in no event shall Bank ever be required to remit to Jennifer an amount in excess of the then current balance of the Reserve Account.

10. Bank shall be entitled to recoup chargebacks in accordance with the terms of the Agreement, including but not limited to recoupments of such losses from the Reserve Account and the LOCs, regardless of whether the transaction date as referenced in the chargeback is post - petition (“Post Petition Recoupment”) or pre-petition (“Pre-Petition Recoupment”) (collectively, the Post-Petition Recoupments and the Pre-Petition Recoupments are defined as “Recoupments”).

11. Notwithstanding termination of this Ninth Stipulation, the Bank shall be authorized to take Post Petition Recoupments against the Reserve Account and the LOCs.

12. The Bank will submit an accounting of such Recoupments to Jennifer on a weekly basis, and Jennifer reserves its right to challenge any such Recoupments, to the extent that such Recoupments do not comport with the ordinary course of business between the Parties.

13. To the extent any person or entity, receives a post-Petition Date lien over Jennifer's estate property, either by Court approval or otherwise, any such lien shall be subordinate to Merrick's rights, if any, to the funds in the Reserve Account or available under the LOCs.

14. Jennifer will provide the weekly Visa/MasterCard Deposit report to Merrick, on a post-Petition Date basis. Jennifer also will provide, identical to the prepetition practice, the following separate reports to Merrick on a weekly basis: (1) Jennifer's Cash Flow Projections (weekly); (2) Merrick Exposure Presentation (weekly); (3) Jennifer Segment Exposure Document (weekly); (4) Ashley Segment Exposure Document (weekly); (5) Financial Statements (monthly); (6) Ashley Inventory Report (weekly); (7) Jennifer General Stock Inventory Report (weekly); (8) Jennifer Store Warehouse Report (weekly). Merrick reserves the right to move to compel additional reporting as needed, and Jennifer reserves the right to object to any such motion.

15. Any Recoupments taken in accordance with paragraphs 10 and/or 11 prior to termination of this Ninth Stipulation, which are not otherwise challenged pursuant to paragraph 12, shall be deemed authorized, and not subject to challenge, notwithstanding the termination of this Ninth Stipulation.

16. All other terms and conditions of the Agreement, as modified by the Amendment, remain unchanged (excepting those terms and conditions of the Agreement that have been modified by entry of the First through Ninth Stipulations).

17. As noted in paragraph 4 of this Ninth Stipulation, *supra*, the term of this Ninth Stipulation will terminate upon the occurrence of the Effective Date, upon which date the terms of the Amendment to the Agreement shall govern.

18. The Parties may mutually consent (such consent to be in writing) to extend the term of this Ninth Stipulation, subject to the occurrence of the Effective Date.

19. This Ninth Stipulation shall be binding upon, and shall inure to the benefit of, the Parties and their respective successors and assigns.

20. The parties, as signatories to this Ninth Stipulation, represent and acknowledge that they have the requisite authority to execute this Ninth Stipulation.

21. This Ninth Stipulation may be executed by facsimile and in counterparts, each facsimile being deemed an original and constituting one original document.

Dated: February 15, 2011

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