

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE MIDDLE DISTRICT OF TENNESSEE
NASHVILLE DIVISION**

IN RE:	§	CASE NO. 07-9024
	§	CHAPTER 11
SOFA EXPRESS, INC.	§	JUDGE PAINE
	§	
Debtor.	§	

**INTERIM ORDER AUTHORIZING DEBTOR’S USE OF CASH COLLATERAL AND
ADEQUATE PROTECTION WITH KLAUSSNER SECURED PARTIES**

THIS MATTER having come before this Court upon the motion of Sofa Express, Inc., a debtor and debtor in possession (the “Debtor”) seeking the entry of interim and final orders authorizing the Debtor to use Cash Collateral (as such term is defined in Section 363 of Title 11 of the United States Code) and other collateral of Klaussner Furniture Industries, Inc., individually (“KFI”) and acting as agent (in such capacity the “Klaussner Administrative Agent”) for itself and the following: Klaussner Corporation, Klaussner Corporate Services, Inc., Klaussner Furniture of California, Inc., Technimark, Inc., Klaussner International, LLC, Golden Oaks Upholstery, Inc., Prestige Fabricators, Inc., Klaussner Furniture of Mississippi, LLC, Technimark Chihuahua, Inc., Technimark Reynosa, Inc., Technimark Mexicali, Inc., Iloap, Inc.

and their respective successors and assigns (collectively with KFI the “Klaussner Secured Parties”), and to provide adequate protection to the Klaussner Administrative Agent for the benefit of the Klaussner Secured Parties; and based upon the information presented to this Court at the hearing on the Motion; and upon review of the Motion, it appears as follows:

1. On December 3, 2007 (the “Petition Date”), the Debtor commenced a case under chapter 11 of the Bankruptcy Code (the “Case”). Pursuant to Sections 1107 and 1108 of the Bankruptcy Code, the Debtor retained possession of its assets and continues to operate its business as a debtor in possession. No request has been made for the appointment of a trustee or examiner.

2. Prior to the Petition Date, KFI made loans and advances to or for the benefit of the Debtor under that certain Amended and Restated Loan Agreement dated January 31, 2007 entered into between the Debtor and KFI (the “KFI Loan Agreement”); the Klaussner Secured Parties had sold furniture and related products to the Debtor on credit terms (the “Klaussner Trade Debt”); and the Klaussner Secured Parties satisfied certain indebtedness owing by the Debtor and the Klaussner Secured Parties, as co-obligors, to certain lenders and as a result, the Klaussner Secured Parties have contribution and other claims against the Debtor that the Debtor agreed to pay pursuant to the terms of a certain Contribution and Payment Agreement dated January 31, 2007 (the “Klaussner Contribution Agreement”).

3. The Klaussner Secured Parties assert that prior to the Petition Date, pursuant to General Security Agreement dated January 31, 2007 entered into between the Debtor and the Klaussner Administrative Agent for the benefit of the Klaussner Secured Parties, the Debtor secured payment of all of its obligations to the Klaussner Secured Parties arising on and after January 31, 2007 and all claims arising under the Klaussner Contribution Agreement by granting to the Administrative Agent, for the for the benefit of the Klaussner Secured Parties, a security

interest in all of the Debtor's present and future inventory, general intangibles, accounts, chattel paper, instruments and documents and any other instrument or intangible representing payment for goods or services, equipment and goods, investment property, commercial tort claims, letter of credit rights, deposit accounts and fund on deposit therein, parts, replacements, substitutions, profits, products, accessions and cash and non cash proceeds and supporting obligations of the foregoing, including insurance proceeds and all books and records relating to the foregoing (collectively the "Klaussner Collateral").

4. As of December 3, 2007, the Klaussner Secured Parties have a claim in the amount of \$36,127,781.09, plus interest thereafter, all subject to adjustment (the "Klaussner Secured Indebtedness"), secured by the Klaussner Collateral, consisting of the following: (1) a claim under the KFI Loan Agreement in the amount of \$2,226,881.68, for loans and advances by KFI to or for the benefit of the Debtor on and after January 31, 2007; (2) unpaid Klaussner Trade Debt in the amount of \$17,900,899.41 for goods that the Klaussner Secured Parties had sold and delivered to the Debtors on and after January 31, 2007; and (3) a claim in the amount of \$16 million owing under the KFI Loan Agreement and the Klaussner Contribution Agreement. As of December 3, 2007, the Klaussner Secured Parties have an additional unsecured claim in the amount of \$8,659,653.64, plus interest thereafter, all subject to adjustment, together with contingent claims against the Debtor with respect to various guarantees, letters of credit and other agreements concerning obligations of the Debtor (the "Klaussner Unsecured Indebtedness").

5. The Klaussner Collateral and all Cash Collateral thereof is presently subject to a security interest in favor of Wells Fargo Retail Finance, LLC, as Agent for the benefit of certain lenders (the "Secured Parties"), pursuant to a certain Credit Agreement dated April 13, 2007, in

substantially all of the Debtor's assets, including the Klaussner Collateral, to secure payment of the Debtor's obligations to the Secured Parties.

6. The Debtor is seeking this Court's approval of a debtor in possession financing arrangement with the Secured Parties under which the Debtor has agreed to grant the Secured Parties a first and prior security interest in substantially all of the Debtor's assets, including the Klaussner Collateral, pursuant to the terms of the DIP Financing Order and agreements to be executed thereunder (the "DIP Credit Facility").

7. The Klaussner Administrative Agent, on behalf of the Klaussner Secured Parties, has consented to the Debtor's use of the Klaussner Collateral and all Cash Collateral thereof on the express terms and conditions set forth in this Interim Order.

8. Notice of the interim hearing on the Motion and this Interim Order has been provided to (i) the Office of the United States Trustee for the Middle District of Tennessee (the "U.S. Trustee"), (ii) counsel for the Secured Parties, (iii) counsel for the Klaussner Administrative Agent, (iv) all known holders of UCC security interest who have filed UCC-1 financing statements and other known holders of prepetition liens against the Debtor's property (or their counsel), (v) the creditors holding the twenty (20) largest unsecured claims against the Debtor and (vi) the Debtor's current landlords (collectively, the "Notice Parties").

9. Good cause has been shown for the entry of this Interim Order. Among other things, entry of this Interim Order will permit the Debtor's businesses and operations to continue uninterrupted and permit the Debtor to continue to meet payroll and other operating expenses and to maintain vendor support. The use of Cash Collateral authorized hereunder is vital to avoid harm to the Debtor's estate. Absent the use of the Cash Collateral, the Debtor's estate would not have necessary funds to satisfy its obligations. Allowing the use of the Cash Collateral, therefore, is in the best interests of the Debtor's estate and creditors.

10. The use of the Cash Collateral and adequate protection arrangements authorized hereunder have been negotiated in good faith and at arms length, and the terms of such Cash Collateral use and adequate protection arrangements are fair and reasonable under the circumstances, reflect the Debtor's exercise of prudent business judgment, and are supported by reasonably equivalent value and fair consideration.

11. The Debtors have requested immediate entry of this Interim Order pursuant to Rule 4001 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"). The permission granted herein to allow the Debtor's continued use of the Cash Collateral is necessary to avoid harm to the Debtor. The Court has determined that the Debtor should be permitted to continue to use the Cash Collateral on the terms set forth below in this Interim Order and has concluded that entry of this Interim Order is in the best interests of the Debtor and its estate and creditors as its implementation will, among other things, allow for the continued operation of the Debtor's existing business.

**IT IS HEREBY ORDERED, ADJUDGED, DECREED AND, AS APPLICABLE,
STIPULATED¹:**

1. The Motion is GRANTED as set forth herein.
2. This Court has jurisdiction over this matter under 28 U.S.C. § 1334. This is a core proceeding under 28 U.S.C. § 157.
3. The Klaussner Administrative Agent, on behalf of the Klaussner Secured Parties, has consented to, and the Debtor is hereby authorized, on an interim basis through the earlier of (a) the entry of a final order authorizing the Debtor's use of the Klaussner

¹ Findings of fact shall be construed as conclusions of law, and conclusions of law shall be construed as findings of fact, pursuant to Bankruptcy Rule 7052.

Collateral, including Cash Collateral thereof, or (b) the occurrence of a Termination Event, as hereinafter defined.

4. Notwithstanding anything to the contrary in this Interim Order, if an Event of Default occurs under the DIP Credit Facility, unless cured by the Debtors or waived by the Agent (as defined under the DIP Credit Facility, a “Termination Event”), then the Debtor’s right to use the Klaussner Collateral, including Cash Collateral, pursuant to the terms of this Interim Order shall immediately cease.

5. The Debtor shall provide to the Klaussner Administrative Agent, for the benefit of the Klaussner Secured Parties, copies of all reports and information that are otherwise required to be provided to the Secured Parties pursuant to the terms of the DIP Financing Order and the DIP Credit Facility and all reports and other information filed by the Debtor in the Case.

6. The Klaussner Administrative Agent, for the benefit of the Klaussner Secured Parties, is hereby granted, pursuant to Sections 361 and 363(e) of the Bankruptcy Code, as adequate protection of their interest in the Klaussner Collateral the following: (a) a postpetition replacement lien in the Klaussner Collateral existing on, and acquired, arising or created after, the Petition Date to the same extent and priority as existed immediately prior to the Petition Date (the “Klaussner Replacement Lien”); and (b) only to the extent of the aggregate diminution in the value of the Klaussner Secured Parties’ interests in the Klaussner Collateral from and after the Petition Date, whether arising out of the Debtor’s sale, disposition or other use of the Klaussner Collateral, including the Cash Collateral thereof, the priming of the Klaussner Administrative Agent’s security interests and liens in the Klaussner Collateral by the Secured Parties pursuant to the DIP Financing Order and the DIP Credit Facility, the imposition of the automatic stay

pursuant to Section 362 of the Bankruptcy Code, or otherwise (a “Klaussner Diminution Claim”), a valid, perfected and enforceable security interest (the “Klaussner Diminution Lien”) equivalent to a lien granted under Section 364(c) of the Bankruptcy Code in and upon all of the assets of the Debtor in existence on the Petition Date and acquired, arising or created after the Petition Date, including without limitation, all of the Debtor’s accounts, inventory, machinery and equipment, licenses, general intangibles, vehicles, real property (including real property known and numbered as 725 Myatt Drive, Madison Tennessee and 11501 Carolina Place Parkway, Pineville, North Carolina), all proceeds from the sale, assignment or other disposition of any leasehold interest (but not including claims or causes of action arising solely under Sections 544, 547, 548, 550 and 553 of the Bankruptcy Code and the proceeds therefrom), whether such property was owned on the Petition Date or thereafter created, acquired or arising, and all improvements, additions and extensions thereto, all replacements thereof, all books and records with respect thereto and all products and proceeds of the foregoing, specifically including any proceeds of the foregoing deposited into bank accounts opened by the Debtor prepetition, any accounts opened by the Debtor after the Petition Date and the accounts themselves (the “Diminution Replacement Collateral”).

7. The Klaussner Replacement Lien and the Klaussner Diminution Lien both: (i) shall be subject to any and all security interests, liens and rights of set-off granted in favor of the Secured Parties either prior to the Petition Date or in connection with the DIP Credit Facility in the same order of priority as existed prior to the Petition Date and subject to that certain Subordination and Intercreditor Agreement dated as of April 20, 2007 by and between the Secured Parties and the Klaussner Administrative Agent on behalf of the Klaussner Secured Parties, as the same may have been

amended or modified from time to time (the “Subordination Agreement”); (ii) shall be subject to the Carve-Out (as hereinafter defined); (iii) shall be in addition to all security interests, liens and rights of set-off existing in favor of the Klaussner Administrative Agent for the benefit of the Klaussner Secured Parties on the Petition Date; (iv) are and shall be valid, perfected, enforceable and effective as of the date of the entry of this Interim Order without any further action by the Debtor or the Klaussner Administrative Agent and without the necessity of the execution, filing or recordation of any financing statements, security agreements, vehicle lien applications, filings with the United States Patent and Trademark Office, mortgages or other documents; and (v) shall secure the payment of the Klaussner Secured Indebtedness, as the case may be, and in connection with the Klaussner Diminution Lien in an amount equal to any diminution in value of the Klaussner Collateral from and after the Petition Date. The Klaussner Administrative Agent may, with consent of the Secured Parties (provided such consent shall not be required after full payment of the Secured Parties’ claim) and at its sole discretion, file or record a certified copy of this Interim Order in filing or recorders offices and all filing offices are hereby authorized to accept such certified copy of this Interim Order for filing and recording.

8. In addition to the Klaussner Replacement Lien and Klaussner Diminution Lien granted to the Klaussner Administrative Agent for the benefit of the Klaussner Secured Parties pursuant to this Interim Order, the Klaussner Administrative Agent, for the benefit of the Klaussner Secured Parties is hereby granted, solely to the extent of any Klaussner Diminution Claim, an allowed superpriority administrative claim under Section 364(c)(1) of the Bankruptcy Code, which shall have priority over all other costs and expenses of the kind specified in or ordered pursuant to Sections 105, 326, 328, 330, 331, 503(b), 506(c),

507(a), 507(b) or 726 of the Bankruptcy Code (the “Klaussner Superpriority”), for the amount by which Debtor’s sale, use or other disposition of the Klaussner Collateral from and after the Petition Date results in any diminution of value of the Klaussner Collateral from and after the Petition Date, provided, however, that such superpriority claims afforded the Klaussner Superpriority (the “Klaussner Superpriority Claim”) shall be subject and subordinate to: (i) the Carve-Out and (ii) the “Superpriority Claims” (as defined in the DIP Financing Order) in favor of the Secured Parties.

9. This Interim Order is without prejudice to the Klaussner Secured Parties seeking with respect to the Klaussner Secured Indebtedness: (i) interest charges otherwise due and owing from the Debtor on account of the Klaussner Secured Indebtedness under the KFI Loan Agreement, or otherwise, at the applicable default rate of interest with such interest accruals to be added to the Klaussner Secured Indebtedness to the extent allowed under the applicable agreements and law; or (ii) the actual and reasonable fees, costs and expenses provided for under the KFI Loan Agreement, including, but not limited to actual and reasonable legal fees and costs of its counsel to the extent allowed under the applicable agreements and law.

10. Notwithstanding any provision of this Interim Order to the contrary, the liens on the Klaussner Collateral, the Klaussner Replacement Lien, the Klaussner Diminution Lien, the Diminution Replacement Collateral, and the Klaussner Superpriority Claim granted to the Klaussner Administrative Agent for the benefit of the Klaussner Secured Parties pursuant to this Interim Order shall be subject and subordinate to the Carve-Out as defined in and provided for by the terms of the DIP Financing Order, provided the Carve-Out for professional fees shall not, in the aggregate, exceed \$300,000.00. The Carve-Out shall be included as a diminution in value of the Klaussner Collateral in any calculation

of the Klaussner Diminution Claim and the amount secured by the Diminution Replacement Collateral. The Carve-Out shall not include any fees or expenses arising after the conversion of the Cases to cases under Chapter 7 of the Bankruptcy Code. The Carve-Out also shall not include, and proceeds of the Cash Collateral shall not be used for the payment or reimbursement of, any fees or disbursements of the Debtor or any committee (including, without limitation, the Official Unsecured Creditors' Committee) or trustee appointed in the Case incurred in connection with the assertion and prosecution (but not the investigation of) of, or joinder in, any claim, counterclaim, action, proceeding, application, motion, objection, defenses or other contested matter, the purpose of which is to seek any order, judgment, determination or similar relief: (1) commencing or prosecuting any action asserting claims pursuant to Sections 510, 542, 544, 545, 547, 548, 549, 550, 551, 553(b) or 724(a) of the Bankruptcy Code or other cause of action (whether arising under state law, the Bankruptcy Code or other federal law) against any of the Klaussner Administrative Agent and/or the Klaussner Secured Parties; (2) invalidating, setting aside, recharacterizing, avoiding or subordinating, in whole or in part, the Klaussner Secured Indebtedness and/or the Klaussner Unsecured Indebtedness, and/or any liens securing the payment of the Klaussner Secured Indebtedness, including, but not limited to the Klaussner Collateral, and/or any collateral supporting the Klaussner Replacement Lien and/or the Klaussner Diminution Lien of any of the Klaussner Secured Parties; or (3) preventing, hindering or delaying (whether, directly or indirectly) the Klaussner Administrative Agent or any of the Klaussner Secured Parties in respect of its liens, including, but not limited to the Klaussner Collateral; and/or any collateral supporting the Klaussner Replacement Lien and/or the Klaussner Diminution Lien of any of the

Klaussner Secured Parties. Nothing herein shall be construed as a waiver of the right of any party to object to the allowance of any such professional fees.

11. Upon reasonable notice to the Debtors, the Klaussner Administrative Agent, for the benefit of the Klaussner Secured Parties, shall have access to, and the right to examine and audit the Debtor's books and records.

12. In consenting to the continued use of the Klaussner Collateral, the Debtor acknowledges and stipulates that: (a) the Klaussner Secured Indebtedness and the Klaussner Unsecured Indebtedness as set forth in Recital 4 above are due and owing without setoff, defense or counterclaim; (b) the Klaussner Administrative Agent, for the benefit of the Klaussner Secured Parties, has a valid, duly perfected, enforceable and non-avoidable security interest in the Klaussner Collateral; (c) the KFI Loan Agreement and Klaussner Contribution Agreement were executed and duly authorized by the Debtor on or about January 31, 2007.

13. Notwithstanding, anything herein to the contrary, any action, claim or defense (hereinafter, an "Objection") that seeks to object to, challenge, contest, or otherwise invalidate or reduce, whether by setoff, recoupment, counterclaim, deduction, disgorgement or claim of any kind, the extent, legality, validity, perfection and enforceability of the Klaussner Secured Indebtedness and the liens and security interests in the Klaussner Collateral and the Klaussner Unsecured Indebtedness shall be filed with the Court ~~by the Debtor or the Committee~~ by no later than 120 days after the date of the Court's entry of this Interim Order (the "Objection Deadline"). If an Objection is filed prior to the Objection Deadline and successfully pursued, nothing in this Order shall preclude the Court from granting appropriate relief with respect to the Klaussner Collateral, the Klaussner Secured Indebtedness and Klaussner Unsecured

Indebtedness. If no Objection is filed by the Objection Deadline or an Objection is timely filed but denied, the liens and security interests in the Klaussner Collateral and the Klaussner Secured Indebtedness and Klaussner Unsecured Indebtedness shall be deemed allowed in full, shall not be subject to any setoff, recoupment, counterclaim, deduction, or claims of any kind, and shall not be subject to any further objection or challenge by any party at any time, and the liens and security interests in the Klaussner Collateral and the Klaussner Secured Indebtedness and Klaussner Unsecured Indebtedness shall be deemed legal, valid, perfected, enforceable, and non-avoidable for all purposes and shall not be subject to any further objection or challenge by any party at any time.

14. Subject to the terms of the Subordination Agreement, no expenses of administration of the Debtor's estate shall be charged pursuant to Sections 105, 506(c) or 552 of the Bankruptcy Code, or otherwise, against the Klaussner Collateral and/or any collateral supporting the Klaussner Replacement Lien and/or Klaussner Diminution Lien. Nothing contained in this Interim Order shall be deemed to be consent by the Klaussner Administrative Agent, whether express *or* implied, to any claims against the Cash Collateral, any other Klaussner Collateral, and/or the collateral supporting the Klaussner Replacement Lien and/or Klaussner Diminution Lien under Sections 105, 506(c) or 552 of the Bankruptcy Code or otherwise.

15. To the extent that any of the Klaussner Secured Parties provide insurance for the Debtor and pay claims or incur liabilities with respect to said insurance coverage subsequent to the Petition Date (including, but not limited to pursuant to that certain Agreement by and between Klaussner Corporation, Klaussner Corporate Services, Inc., Klaussner Furniture Industries, Inc., and Sofa Express, Inc. Governing the

Post-Petition Purchase and Maintenance of Insurance for Sofa Express, Inc. and Sofa Express Inc.'s Reimbursement Obligations Related Thereto dated as of December 5, 2007, attached hereto as Exhibit "A" (the "Insurance Reimbursement Agreement") the Debtor shall promptly reimburse the Klaussner Secured Parties for said insurance premiums and for said claims and liabilities incurred by the Klaussner Secured Parties with respect to said insurance coverage (including, reimbursing the Klaussner Secured parties pursuant to the Insurance Reimbursement Agreement for the Post-Petition Insurance Claim, as defined in the Insurance Reimbursement Agreement), and said claims and liabilities shall be secured by the Klaussner Replacement Lien, the Klaussner Diminution Lien, and the Diminution Replacement Collateral provided in paragraph 6 above, and shall be part of the Klaussner Superpriority Claim, affording the Klaussner Secured Parties the superpriority set forth in paragraph 8 above. The liens and priorities granted to the Klaussner Secured Parties in this paragraph 15 do not apply to insurance claims arising prior to the Petition Date.

16. Notwithstanding anything to the contrary in this Interim Order and subject to the terms of the Subordination Agreement, a Termination Event shall occur, unless cured by the Debtor or waived by Klaussner Administrative Agent: (a) upon the fifth (5th) business day following the delivery of written notice to the Debtor by the Klaussner Administrative Agent of any breach or default by the Debtor of the terms and provisions of this Interim Order, including, but not limited to: failure to furnish to the Klaussner Administrative Agent those reports and information as required by this Interim Order; and (b) without notice of any kind upon the conversion of the Chapter 11 case to a

Chapter 7 case or appointment of a trustee without the consent of the Klaussner Administrative Agent.

17. Subject to entry of a Final Order, upon (i) the full payment of the Secured Parties' claim or (ii) the termination of the DIP Credit Facility, the Debtors shall not be permitted to use the Klaussner Collateral and/or any collateral supporting the Klaussner Replacement Lien and/or the Klaussner Diminution Lien, including any Cash Collateral, for any purpose or under any terms other than as may be otherwise acceptable to the Klaussner Administrative Agent and the Klaussner Secured Parties or approved by the Court following notice and a hearing, provided, however, that (i) the Carve-Out is not affected by this provision and (ii) nothing in this Interim Order shall be deemed a waiver of the Debtor's right to seek additional use of the Klaussner Collateral and/or any collateral supporting the Klaussner Replacement Lien and/or the Klaussner Diminution Lien or the Klaussner Administrative Agent's right to oppose such request.

18. This Interim Order shall be fully effective upon its entry.

**THIS ORDER WAS SIGNED AND ENTERED ELECTRONICALLY AS INDICATED
AT THE TOP OF THE FIRST PAGE.**

APPROVED FOR ENTRY:

/s/ William L. Norton III

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**Agreement by and between Klaussner Corporation, Klaussner Corporate Services, Inc.,
Klaussner Furniture Industries, Inc., and Sofa Express, Inc. Governing the Post-
Petition Purchase and Maintenance of Insurance for Sofa Express, Inc. and Sofa
Express Inc.'s Reimbursement Obligations Related Thereto**

THIS AGREEMENT, dated as of December 5, 2007 (this "Agreement"), sets forth the agreement of Klaussner Corporation, Klaussner Corporate Services, Inc. and Klaussner Furniture Industries, Inc. collectively ("Klaussner") to purchase and maintain certain insurance for Sofa Express, Inc. ("Sofa" or "Debtor") for a limited period following the date of Sofa's anticipated bankruptcy filing (the "Petition Date") and Sofa's obligation to pay directly or reimburse Klaussner for insurance premiums and insurance claims attributable to Sofa.

(a) Klaussner hereby agrees that it shall arrange for the workers' compensation coverage currently in effect with respect to the Debtor (the "W/C Coverage") to continue to be provided for the Debtor with respect to the Debtor's locations outside of Ohio for a period not to exceed 14 days after the Petition Date, or such longer period as shall be agreed to by Klaussner, provided the Debtor (i) pays a monthly premium of \$10,219, pro rated for the number of days the W/C Coverage is in effect, not later than 5 days after the Petition Date and (ii) promptly pays or reimburses Klaussner for all post-petition payments made or liabilities incurred with respect to the W/C Coverage;

(b) Klaussner hereby agrees that it shall arrange for the general liability and product liability coverage currently in effect with respect to the Debtor (the "GL Coverage") to continue to be provided for the Debtor for a period not to exceed 14 days after the Petition Date, or such longer period as shall be agreed to by Klaussner, provided the Debtor (i) pays a monthly premium of \$2,159, pro rated for the number of days the GL Coverage is in effect, not later than 5 days after the Petition Date and (ii) promptly pays or reimburses Klaussner for all post-petition payments made or liabilities incurred with respect to the GL Coverage;

(c) Klaussner hereby agrees that it shall arrange for the auto liability coverage currently in effect with respect to the Debtor (the "Auto Coverage") to continue to be provided for the Debtor for a period not to exceed 14 days after the Petition Date, or such longer period as shall be agreed to by Klaussner, provided the Debtor (i) pays a monthly premium of \$6,869, pro rated for the number of days the Auto Coverage is in effect, not later than 5 days after the Petition Date and (ii) promptly pays or reimburses Klaussner for all post-petition payments made or liabilities incurred with respect to the Auto Coverage;

(d) Klaussner hereby agrees that it shall arrange for the EPLI, fiduciary, crime, D&O, etc. insurance coverage currently in effect with respect to the Debtor (the "EPLI Coverage") to continue to be provided subsequent to the Petition Date, provided Debtor (i) pays a monthly premium of \$2,279 not later than 5 days after the Petition Date and not later than the 1st day of each month thereafter while such insurance is in effect, for each month pro rated for the number of days EPLI Coverage is in effect following the Petition Date, and (ii) promptly pays or

reimburses Klaussner for all post-petition payments made or liabilities incurred with respect to the EPLI Coverage;

(e) Klaussner hereby agrees that it shall arrange for the property, umbrella and auto physical damage insurance coverage currently in effect with respect to the Debtor (the "APD Coverage") to continue to be provided for the Debtor subsequent to the Petition Date, provided the Debtor pays (i) a one time fee of \$23,000 for reduction of deductibles not later than 5 days after the Petition Date, (ii) a monthly premium of \$7,508 on account of Property Coverage; (iii) a monthly premium of \$4,041 on account of Umbrella Coverage and (iv) a monthly premium of \$3,633 on account of Auto Physical Damage Coverage, with all such monthly premiums in (ii), (iii) and (iv) above payable not later than 5 days after the Petition Date and not later than the 1st day of each month thereafter pro rated for the number of days such insurance is in effect; and (v) promptly pays or reimburses Klaussner for all post-petition payments made or liabilities incurred with respect to the APD Coverage.

(f) All claims of Klaussner against Sofa arising on account of all insurance claims arising after the Petition Date including the premiums, payments, claims and liabilities referred to above shall be hereinafter referred to as the "Post-Petition Insurance Claim".

(g) The Post-Petition Insurance Claim shall be secured by a letter of credit issued by Wells Fargo Bank, N.A. in the amount of \$500,000 in favor of Klaussner prior to the Petition Date (the "Letter of Credit") and shall be secured by the Diminution Replacement Collateral (as defined in that certain proposed Interim Order Authorizing Debtor's Use of Cash Collateral and Adequate Protection with Klaussner Secured Parties, as may be amended, modified, or entered on a final basis, hereinafter the "Cash Collateral Order") and shall be entitled to superpriority administrative status, subordinate to the liens and superpriority granted to Wells Fargo Retail Finance, LLC, defined in the Cash Collateral Order as the "Klaussner Superpriority" and the "Carve Out". Klaussner may, at its sole discretion, draw on the Letter of Credit to cover the Post-Petition Insurance Claim.

(h) If Sofa fails to comply with any of its obligations in (a) through (g) above, Klaussner may (i) terminate any and all of the insurance provided above on 5 days notice to the Debtor, Wells Fargo Retail Finance, LLC and any creditors' committee that may be appointed in Sofa's bankruptcy case, without the need for bankruptcy court approval of said termination and/or (ii) draw on the Letter of Credit.

(i) Klaussner's obligations under this Agreement shall terminate not later than thirty (30) days prior to the expiration of the Letter of Credit. At any point prior to the expiration of the Letter of Credit, Klaussner may engage an independent insurance consultant to evaluate (i) Klaussner's projected liability that is reimbursable by Sofa under this Agreement and (ii) the projected amount of the Post-Petition Insurance Claim (collectively, the "Projected Claim"). To the extent that the Projected Claim may not be satisfied in full prior to the Letter of Credit

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expiration date (12/5/08), Sofa shall have the option to extend or replace the Letter of Credit. To the extent the Projected Claim is less than the Letter of Credit, any replacement letter of credit shall be for the amount of the Projected Claim. If Sofa does not replace or extend the Letter of Credit at least 30 days prior to its expiration date on terms reasonably satisfactory to Klaussner, Klaussner may draw on the Letter of Credit in the amount of the Projected Claim. Upon a final resolution of the amount of the Post-Petition Insurance Claim, Klaussner will refund any surplus to the Debtor the extent that it remains.

(i) The parties hereto acknowledge and agree that each of Klaussner Corporation, Klaussner Corporate Services, Inc. and Klaussner Furniture Industries, Inc. may act on behalf of the other in all matters in connection with this Agreement.

Klaussner Corporate Services, Inc. and
Klaussner Furniture Industries, Inc.

By: 

David O. Bryant, Senior Vice President
and Chief Financial Officer

Klaussner Corporation

By: 

David O. Bryant, Vice President
and Chief Financial Officer

Sofa Express, Inc

By: 

K. Scott Pasquith, Chief Financial Officer