



Jennifer Convertibles, Inc., 419 Crossways Park Drive, Woodbury, NY 11797 516-496-1900

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**FOR IMMEDIATE RELEASE**

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**JENNIFER CONVERTIBLES REPORTS  
THIRD QUARTER RESULTS**

- **Returns to profitability**
- **Diluted EPS \$0.19 versus \$0.17 for quarter, (\$1.12) vs. (\$0.27) year-to-date**
- **Revenue from continuing operations decreased 8.6% for quarter, 11.2% year-to-date**
- **Comparable store sales decreased by 9.1% for quarter, 12.0% year-to-date**
- **Company enters into a Credit and Security Agreement with major supplier**

Woodbury, New York \*\*\*July 12, 2005\*\*\* Jennifer Convertibles, Inc. (AMEX: JEN) announced today its unaudited financial results for the third fiscal quarter ended May 28, 2005.

For the third quarter, revenue from continuing operations decreased by 8.6% to \$30.6 million from the \$33.5 million reported for the same period last year. Last year's results were impacted by the delivery of the backlog of orders not shipped in the prior quarter increasing revenues for the third quarter. For the nine-month period, revenue from continuing operations decreased 11.2% to \$87.2 million from the \$98.2 reported in the same period last year. Such decreases during the third quarter of fiscal 2005, were impacted by the deflationary pressure in the furniture industry caused by a change in the source of supply to China, which reduced unit prices to customers. In addition, the reduction in merchandise sales was affected by an overall decline in demand within the furniture industry sector. The decrease in merchandise sales directly impacted revenues from home delivery and service contracts.

For the third quarter, net income was \$1,373,000 or \$0.19 per basic share compared to net income of \$1,283,000 or \$0.18 per basic share for the same period last year. On a fully diluted basis, income per share was \$0.19 for the third quarter of fiscal 2005 and income per share was \$0.17 for the same period last year. The income for the third quarter included \$2,000,000 from collection of receivables, which had been reserved, from the Private Company. For the nine-month period, the net loss was \$6,455,000 or (\$1.12) per basic share compared to a net loss of \$1,535,000 or (\$0.27) per basic share for the same period last year. On a fully diluted basis, loss per share was (\$1.12) for the nine month period of fiscal 2005 and loss per share was (\$0.27) for the same period last year. The loss for fiscal 2005 included a write-down of a deferred tax asset of \$1.8 million, which represents estimated future tax benefits, which may be realized when the Company returns to profitability.

Operating margins from continuing operations decreased during the current three and nine month periods to 28.7% and 26.8%, respectively, compared to operating margins from continuing operations of 31.7% and 29.6%, respectively, during the three and nine month periods last year. The decrease is

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primarily attributable to an increase in store occupancy costs, including rent, combined with the decrease in revenues.

For the third quarter, selling, general, and administrative expenses from continuing operations increased to 29.9% as a percentage of revenue from continuing operations compared to 26.4% for the same period last year. For the nine-month period, selling, general and administrative expenses from continuing operations increased to 32.5% compared to 29.4% for the same period last year. These increases are primarily due to the reductions in revenues.

During the third quarter, the Company closed one store in Indianapolis, Indiana, one store in Miami, Florida and one clearance center store in the metropolitan New York City area. Revenues from these stores, exclusive of the clearance center store in the metropolitan New York City, amounted to \$446,000 and \$1,486,000 in the third quarters of fiscal 2005 and 2004, respectively. For the third quarter of fiscal 2005, the income from operations of these stores was \$48,000, including income related to store closings of \$31,000. For the third quarter in fiscal 2004, loss from operations of these stores amounted to \$100,000.

Commenting on the results for the quarter, Harley J. Greenfield, Chief Executive of Jennifer said, "During our third fiscal quarter, we continued to make progress as is evidenced by our significant improvement in quarterly results compared to our last three fiscal quarters. Written sales continue to be strong which should result in increased revenue in future periods."

On July 11, 2005, the Company entered into a Credit Facility with Caye Home Furnishings, LLC and its affiliates (the "Lender") who is also a vendor of the Company. Under the credit facility the Company can draw down up to \$10 million for the purchase of merchandise from the Lender subject to a formula based on eligible accounts receivable, inventory and cash in deposit accounts. The borrowings under the Credit Agreement are due 105 days from the date goods are received by the Company and bear interest at a rate of margin over prime for borrowings outstanding more than 75 days. If the borrowings are not repaid after 105 days the interest rate will be prime plus 2.75%

The credit facility is collateralized by a security interest in all of the Company's assets, excluding restricted cash and the annuity contract. Under the terms of the Credit Facility the Company is required to maintain certain financial conditions at the end of each fiscal quarter and annually. The Credit Facility also prohibits the Company from: incurring certain additional indebtedness, liens, and certain guarantees; limits certain investments, issuance of additional equity, and certain advances or loans; restricts substantial asset sales, capital expenditures and cash dividends.

The Company may terminate the Credit Agreement at any time, so long as it has paid in full all outstanding amounts. The Company may also terminate the Credit Agreement if it has (i) maintained a tangible net worth of at least \$3.0 million for 180 days and (ii) adjusted net earnings from continuing operations of either at least \$2.0 million for four fiscal quarters.

Mr. Greenfield added, "The \$2 million payment received during the quarter from the Private Company, strengthened our financial position. We believe that this, together with the Credit Agreement we received from Caye provides us with adequate working capital. We now feel everything is in place to complete our turn around and continue to report improving profitability."

Jennifer Convertibles is the owner and licensor of the largest group of sofabed specialty retail stores in the United States, with 183 Jennifer Convertibles® stores and 16 Jennifer Leather stores. As of May

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28, 2005, the Company owned 174 stores and licensed 25 (including 22 owned and operating stores by a private company on a royalty free basis.)

*Statements in this press release other than the statements of historical fact are "forward-looking statements." Such statements are subject to certain risks and uncertainties, including changes in retail demand, vendor performance and other risk factors identified from time to time in the Company's filings with the Securities and Exchange Commission that could cause actual results to differ materially from any forward-looking statements. These forward-looking statements represent the Company's judgment as of the date of the release. The Company disclaims, however, any interest or obligations to update these forward-looking statements.*

JENNIFER CONVERTIBLES, INC. & SUBSIDIARIES  
SUMMARY CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

	<u>05/28/05</u>	<u>08/28/04</u>
CASH AND CASH EQUIVALENTS	\$ 7,895	\$ 3,294
RESTRICTED CASH	112	110
ACCOUNTS RECEIVABLE	1,027	935
MERCHANDISE INVENTORIES, Net	13,647	14,044
DUE FROM AFFILIATED COMPANY, Net	3,847	3,288
FEDERAL INCOME TAX REFUND RECEIVABLE	-	314
DEFERRED TAX ASSET	-	1,172
PREPAID EXPENSES AND OTHER CURRENT ASSETS	1,262	1,195
	<u>27,790</u>	<u>24,352</u>
FIXTURES, EQUIPMENT & LEASEHOLD IMPROVEMENTS, Net	2,361	3,032
ANNUITY CONTRACT	1,005	1,088
DEFERRED LEASE COSTS AND OTHER INTANGIBLES, Net	33	42
GOODWILL, Net	1,650	1,796
OTHER ASSETS	580	607
DEFERRED TAX ASSET	-	605
	<u>\$ 33,419</u>	<u>\$ 31,522</u>
ACCOUNTS PAYABLE	\$ 16,823	\$ 12,812
CUSTOMER DEPOSITS	9,708	7,878
ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES	6,154	3,709
DUE TO AFFILIATED COMPANY	450	500
DEFERRED RENT AND ALLOWANCES – Current Portion	506	489
TOTAL CURRENT LIABILITIES	<u>33,641</u>	<u>25,388</u>
DEFERRED RENT AND ALLOWANCES – Net of Current Portion	3,272	3,320
STOCKHOLDERS' EQUITY (CAPITAL DEFICIT)	<u>(3,494)</u>	<u>2,814</u>
	<u>\$ 33,419</u>	<u>\$ 31,522</u>

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JENNIFER CONVERTIBLES, INC. & SUBSIDIARIES  
SUMMARY CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT SHARE DATA)

	<u>THREE MONTHS ENDED</u>		<u>NINE MONTHS ENDED</u>	
	<u>05/28/05</u>	<u>05/29/04</u>	<u>05/28/05</u>	<u>05/29/04</u>
REVENUE:				
NET SALES	\$ 28,564	\$ 31,311	\$ 81,483	\$ 91,694
REVENUE FROM SERVICE CONTRACTS	2,083	2,225	5,694	6,492
	<u>30,647</u>	<u>33,536</u>	<u>87,177</u>	<u>98,186</u>
COST OF SALES AND OTHER CHARGES	21,847	22,921	63,779	69,074
SELLING, GENERAL & ADMINISTRATIVE EXPENSES	9,168	8,863	28,355	28,890
IMPAIRMENT OF GOODWILL	0	0	146	0
DEPRECIATION AND AMORTIZATION	290	358	868	1,183
RECOVERY OF PRIOR YEAR RECEIVABLES FROM PRIVATE COMPANY	<u>(2,000)</u>	<u>0</u>	<u>(2,000)</u>	<u>0</u>
	<u>29,305</u>	<u>32,142</u>	<u>91,148</u>	<u>99,147</u>
INCOME (LOSS) FROM OPERATIONS	1,342	1,394	(3,971)	(961)
INTEREST INCOME	33	19	83	69
INTEREST EXPENSE	<u>1</u>	<u>1</u>	<u>2</u>	<u>3</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,374	1,412	(3,890)	(895)
INCOME TAXES	<u>49</u>	<u>29</u>	<u>1,887</u>	<u>91</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,325	1,383	(5,777)	(986)
INCOME (LOSS) FROM OPERATIONS OF DISCONTINUED OPERATIONS (including income (loss) on store closings of \$31 and (\$300) for the thirteen and thirty-nine weeks ended in 2005, respectively)	<u>48</u>	<u>(100)</u>	<u>(678)</u>	<u>(549)</u>
NET INCOME (LOSS)	<u>\$ 1,373</u>	<u>\$ 1,283</u>	<u>\$ (6,455)</u>	<u>\$ (1,535)</u>

BASIC INCOME (LOSS) PER COMMON SHARE:

INCOME (LOSS) FROM CONTINUING OPERATIONS	\$ 0.18	\$ 0.19	\$ (1.00)	\$ (0.17)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	0.01	(0.01)	(0.12)	(0.10)
NET INCOME (LOSS) PER COMMON SHARE	<u>\$ 0.19</u>	<u>\$ 0.18</u>	<u>\$ (1.12)</u>	<u>\$ (0.27)</u>

DILUTED INCOME (LOSS) PER COMMON SHARE:

INCOME (LOSS) FROM CONTINUING OPERATIONS	\$ 0.18	\$ 0.18	\$ (1.00)	\$ (0.17)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	0.01	(0.01)	(0.12)	(0.10)
NET INCOME (LOSS) PER COMMON SHARE	<u>\$ 0.19</u>	<u>\$ 0.17</u>	<u>\$ (1.12)</u>	<u>\$ (0.27)</u>

WEIGHTED AVERAGE COMMON SHARES  
OUTSTANDING

5,783,058	5,713,058	5,767,948	5,713,058
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COMMON SHARES ISSUABLE ON CONVERSION OF  
SERIES A PARTICIPATING PREFERRED STOCK

<u>1,424,500</u>	<u>1,424,500</u>	<u>0</u>	<u>0</u>
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TOTAL WEIGHTED AVERAGE COMMON SHARES  
OUTSTANDING BASIC INCOME (LOSS) PER SHARE

7,207,558	7,137,558	5,767,948	5,713,058
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EFFECT OF POTENTIAL COMMON SHARE ISSUANCE:

STOCK OPTIONS

103,550	468,427	0	0
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SERIES B CONVERTIBLE PREFERRED STOCK

<u>40,167</u>	<u>40,167</u>	<u>0</u>	<u>0</u>
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WEIGHTED AVERAGE COMMON SHARES  
OUTSTANDING DILUTED INCOME (LOSS)

<u>7,351,275</u>	<u>7,646,152</u>	<u>5,767,948</u>	<u>5,713,058</u>
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