

## POST-PETITION REVOLVING CREDIT AND SECURITY AGREEMENT

**THIS POST-PETITION REVOLVING CREDIT AND SECURITY AGREEMENT** (the “**Agreement**”) dated as of March 28, 2008 is entered into between **JOANNE’S BED & BACK STORES, INC.** a Maryland corporation, (the “**Borrower**”), and **MARK LEVIN** (the “**Lender**”).

WHEREAS, Borrower commenced a case (the “**Bankruptcy Case**”) under Chapter 11 of Title 11, United States Code (as amended, the “**Bankruptcy Code**”) in the United States Bankruptcy Court for the District of Maryland (together with any other court having jurisdiction over the Bankruptcy Case or any proceedings therein from time to time, the “**Bankruptcy Court**”) and Borrower is continuing to operate its business and manage its properties as a debtor and debtor-in-possession under Sections 1107 and 1108 of the Bankruptcy Code;

WHEREAS, Borrower has requested that Lender make available to Borrower a revolving credit facility (the “**DIP Loan**”) in a maximum principal amount at any time outstanding of up to Two Hundred Fifty Thousand Dollars (\$250,000) (the “**Obligations**”), the proceeds of which shall be used by Borrower exclusively for working capital purposes; and

WHEREAS, The Lender is willing to make the DIP Loan available to Borrower upon the terms and subject to the conditions set forth in this Agreement, and subject to the terms and conditions set forth in the Financing Orders.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and adequacy of which hereby are acknowledged, Borrower and Lender hereby agree as follows:

### **I. ADVANCES, PAYMENT AND INTEREST**

#### **1.1 The DIP Loan;**

(a) Subject to the provisions of this Agreement and the Financing Orders, Lender shall make available to Borrower Advances under the DIP Loan upon Borrower’s request from time to time during the Term, provided that, prior to the entry of the Final Financing Order, the sum of the total outstanding Advances shall not exceed \$150,000 at any time outstanding. The DIP Loan is a revolving credit facility, which may be drawn, repaid and redrawn, from time to time as permitted under this Agreement and the Financing Orders.

#### **1.2 The Advances; Maturity**

All Advances under the DIP Loan shall be immediately due and payable in full in cash, if not earlier in accordance with the terms of this Agreement and the Financing Orders, without further application to or order of the Bankruptcy Court, on the earliest of (i) acceleration of maturity of the Obligations upon the occurrence an Event of Default, (ii) July 4, 2008, (iii) the effective date of a plan of reorganization approved by an order of the Bankruptcy Court and (iv) the effective date of any Sale pursuant to Section 363 of the Bankruptcy Code.

### **1.3 Interest on the Advances**

Interest on outstanding Advances under the Revolving Facility shall be payable monthly in arrears on the first day of each calendar month at an annual rate equal to Prime plus 2%, calculated on the basis of a 360-day year and for the actual number of calendar days elapsed in each interest calculation period. Interest accrued on each Advance under the DIP Loan shall be due and payable upon payment in full of the Obligations as set forth above.

### **1.4 DIP Loan Disbursements**

So long as no Default or Event of Default shall have occurred and be continuing, Borrower may give Lender written notice requesting an Advance under the DIP Loan.

### **1.5 Promise to Pay; Manner of Payment**

Borrower absolutely and unconditionally promises to pay principal and interest to the Lender when due under this Agreement.

### **1.6 Grant of Security Interest; Collateral**

(a) To secure the payment and performance of the Obligations, Borrower, upon entry of the Interim Financing Order by the Bankruptcy Court, hereby grants to Lender, a continuing security interest in and Lien upon, and pledges to Lender, all of its rights, title and interests in and to the DIP Loan Collateral, any and all additions and accessions thereto, and any and all replacements, products and Proceeds (including insurance proceeds) thereof (the “**Collateral**”), which Liens and security interests shall have the priorities set forth in the Financing Orders.

(b) As to all Collateral, including without limitation, all cash, cash equivalents, and real property the title to which is held by Borrower, or the possession of which is held by Borrower in the form of a leasehold interest, Borrower hereby assigns and conveys as security, grants a security interest in, hypothecates, mortgages, pledges and sets over unto Lender, all of the right, title and interest of Borrower in all of such Collateral, including without limitation, all cash, cash equivalents, and in all such leasehold interests, together in each case with all of the right, title and interest of Borrower in and to all buildings, improvements, and fixtures related thereto, any lease or sublease thereof, all general intangibles relating thereto and all proceeds thereof.

(c) The Liens, lien priority, administrative priorities and other rights and remedies granted to Lender, in the Financing Orders and the other DIP Loan Documents (specifically including, but not limited to, the existence, perfection and priority of the Liens and security interests provided therein, and the administrative priority provided therein) shall not be modified, altered or impaired in any manner by any other financing or extension of credit or incurrence of debt by Borrower (pursuant to Section 364 of the Bankruptcy Code or otherwise), or by any other act or omission whatsoever until the full performance and irrevocable payment in full in cash of the Obligations and termination of this Agreement in accordance with the terms hereof.

## **II. CONDITIONS PRECEDENT**

### **2.1 Conditions to Initial Advance and Closing**

The obligations of Lender to consummate the transactions contemplated herein, to make the Initial Advance or any additional Advance under the DIP Loan are subject, in each case, to the satisfaction, of the following:

(a) (i) Borrower shall have delivered to Lender (A) the DIP Loan Documents to which it is a party, each duly executed by an authorized officer of Borrower and the other parties thereto;

(b) The Bankruptcy Court shall have entered the Interim Financing Order in the Bankruptcy Case and such order shall be in full force and effect and shall not have been vacated, reversed, modified or stayed in any respect (and, if such order is the subject of a pending appeal, no further performance of any obligation of any party shall have been stayed pending appeal);

(c) Lender shall have received a written request for the Initial Advance to be made hereunder in form and substance acceptable to Lender;

## **III. REPRESENTATIONS AND WARRANTIES**

Borrower represents and warrants as of the date hereof, the Closing Date and each Borrowing Date as follows:

### **3.1 Organization and Authority**

Borrower is a corporation duly organized, validly existing and in good standing under the laws of its state of formation. Borrower (i) has all requisite corporate or entity power and authority to own its properties and assets and to carry on its business as now being conducted and as contemplated in the DIP Loan Documents, and (ii) subject to the entry of the Financing Orders, has all requisite power and authority (A) to execute, deliver and perform the DIP Loan Documents, (B) to borrow hereunder, (C) to consummate the transactions contemplated under the DIP Loan Documents, and (D) to grant the Liens with regard to the Collateral pursuant to the DIP Loan Documents to which it is a party, the Interim Financing Order and the Final Financing Order.

### **3.2 DIP Loan Documents**

Upon entry of the Interim Financing Order, the execution, delivery and performance by Borrower of the DIP Loan Documents, and the consummation of the transactions contemplated thereby, (i) have been duly authorized by all requisite action of Borrower and have been duly executed and delivered by or on behalf of Borrower. When executed and delivered, and upon entry of the Interim Financing Order, each of the DIP Loan Documents will constitute the legal, valid and binding obligation of Borrower, enforceable against such Person in accordance with its terms.

### **3.3 Litigation**

There is no action, suit, arbitration, proceeding or investigation pending or, to Borrower's knowledge, threatened against Borrower that (i) questions, seeks to enjoin, or could in any way prevent the validity of any of the DIP Loan Documents or the right of Borrower to enter into any DIP Loan Document or to consummate the transactions contemplated thereby.

### **3.4 Disclosure**

No DIP Loan Document nor any other agreement, document, certificate, or statement furnished to Lender by or on behalf of Borrower in connection with the transactions contemplated by the DIP Loan Documents, nor any representation or warranty made by Borrower in any DIP Loan Document, contains any untrue statement of material fact or omits to state any fact necessary to make the statements therein not materially misleading.

### **3.5 Insurance**

Borrower has in full force and effect such insurance policies as are customary in its industry.

## **IV. AFFIRMATIVE COVENANTS**

Borrower covenants and agrees that, until full performance and satisfaction, and indefeasible payment in full in cash, of all the Obligations and termination of this Agreement:

(a) Notices. Borrower shall promptly, and in any event within five (5) calendar days after Borrower or any authorized officer of Borrower obtains knowledge thereof, notify Lender in writing of (i) any pending or threatened litigation, suit, investigation, arbitration, dispute resolution proceeding or administrative proceeding brought or initiated by Borrower or otherwise affecting or involving or relating to Borrower or any of Borrower's property or assets or any application or motion of any Person seeking relief from the automatic stay under Section 362 of the Bankruptcy Code with respect thereto, (ii) any Default or Event of Default, which notice shall specify the nature and status thereof, the period of existence thereof and what action is proposed to be taken with respect thereto.

### **4.2 Payment of Obligations**

Borrower shall make full and timely indefeasible payment in cash of the principal of and interest on the Loans, Advances and all other Obligations.

### **4.3 Conduct of Business and Maintenance of Existence and Assets**

Borrower shall (i) conduct its business in accordance with good business practices customary to the industry and on a basis consistent with past practice, (ii) engage in the same lines of business substantially as heretofore conducted, (iii) maintain all of its material properties, assets and equipment used or useful in its business in good repair, working order and condition (normal wear and tear excepted and except as may be disposed of in the ordinary course of business and in accordance with the terms of the DIP Loan Documents and otherwise

as determined by Borrower using commercially reasonable business judgment), (iv) from time to time to make all necessary or desirable repairs, renewals and replacements thereof, as determined by Borrower using commercially reasonable business judgment.

#### **4.4 Insurance**

Borrower shall, (i) keep all of its insurable properties and assets including without limitation Inventory that is in transit (whether by vessel, air or land) adequately insured in all material respects against losses, damages and hazards as are customarily insured against by businesses engaging in similar activities or owning similar assets or properties and at least the minimum amount required by applicable law, including insurance under all applicable workers' compensation laws. All of the foregoing insurance policies name Lender as loss payee and additional insured thereunder.

#### **4.5 Financing Orders**

Borrower shall at all times comply with all terms and conditions of the Financing Orders.

### **V. EVENTS OF DEFAULT**

#### **5.1 Events of Default.**

The occurrence of any one or more of the following shall constitute an "Event of Default:"

(a) Borrower shall fail to pay any amount on the Obligations or provided for in any DIP Loan Document when due (whether on any payment date, at maturity, by reason of acceleration, by required prepayment or otherwise);

(b) the Final Financing Order is not entered by the Bankruptcy Court within forty five (45) days of the entry of the Interim Financing Order; or

#### **5.2 Remedies.**

If an Event of Default shall have occurred and be continuing, and in any such event, notwithstanding any other provision of any Loan Document, Lender may, without notice or demand, do any of the following: (i) terminate Lender's commitments and obligations to make Advances hereunder, whereupon the same shall immediately terminate and (ii) declare all or any of Obligations to be due and payable immediately.

### **VI. RIGHTS AND REMEDIES AFTER DEFAULT**

#### **6.1 Rights and Remedies**

(a) In addition to the acceleration provisions set forth above, upon the occurrence and continuation of an Event of Default, subject to the Financing Orders, Lender shall have the right to exercise any and all rights, options and remedies provided for in the DIP

Loan Documents, under the UCC, the Bankruptcy Code, the Financing Orders or at law or in equity

## **VII. WAIVERS AND JUDICIAL PROCEEDINGS**

### **7.1 Delay; No Waiver of Defaults**

No course of action or dealing, renewal, release or extension of any provision of any DIP Loan Document or the Financing Orders, or single or partial exercise of any such provision, or delay, failure or omission on Lender's part in enforcing any such provision shall affect the liability of Borrower or operate as a waiver of such provision or affect the liability of Borrower or preclude any other or further exercise of such provision.

## **VIII. EFFECTIVE DATE AND TERMINATION**

### **8.1 Termination and Effective Date Thereof**

Subject to Lender's right to terminate and cease Lender's commitments and obligations to make Advances upon or after any Event of Default, this Agreement shall continue in full force and effect until the full performance and indefeasible payment in cash of all Obligations. Borrower may terminate this Agreement at any time upon not less than forty-five calendar days' prior written notice to Lender and upon full performance and indefeasible payment in full in cash of all Obligations on or prior to such forty-fifth calendar day after receipt by Lender of such written notice.

### **8.2 Amendments, Lender Consent**

No modification, amendment or waiver of any provision of this Agreement or waiver of any Event of Default, and no consent to any departure by the Borrower herefrom from any DIP Loan Document, shall in any event be effective unless the same shall be in writing and signed by the Lender and the Borrower and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on the Borrower shall entitle the Borrower to any other or further notice or demand in the same, similar or other circumstances

## **IX. MISCELLANEOUS**

### **9.1 Governing Law; Jurisdiction; Service of Process; Venue**

The DIP Loan Documents shall be governed by and construed in accordance with the internal laws of the State of Maryland without giving effect to its choice of law provisions and, to the extent applicable, the Bankruptcy Code. Any judicial proceeding against Borrower or Lender with respect to the Obligations, any DIP Loan Document or any related agreement must be brought in the Bankruptcy Court or, if the Bankruptcy Court does not have jurisdiction, any federal or state court of competent jurisdiction located in the State of Maryland.

