

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF MARYLAND  
Greenbelt Division**

<b>IN RE:</b>	)	
	)	
<b>JOANNE'S BED &amp; BACK STORES, INC.</b>	)	<b>Case No. 08-14606 (TJC)</b>
	)	<b>(Chapter 11)</b>
<b>Debtor</b>	)	

**INTERIM ORDER (1) AUTHORIZING DEBTOR-IN-POSSESSION TO OBTAIN  
FINANCING, GRANT SECURITY INTERESTS AND ACCORD PRIORITY STATUS  
PURSUANT TO 11 U.S.C. §§ 361, 364(c) AND 364(d); (2) GIVING NOTICE OF FINAL  
HEARING PURSUANT TO BANKRUPTCY RULE 4001(b)(2) AND (c)(2);  
AND (3) MODIFYING AUTOMATIC STAY**

This matter is before the Court on the Motion (the "Motion") of JoAnne's Bed & Back Stores, Inc., a Maryland corporation, as debtor and debtor-in-possession in the above-captioned Chapter 11 case (the "Debtor"), requesting entry of an order (1) authorizing Debtor to obtain financing and other extensions of credit from Mark Levin (the "DIP Lender"), grant security interests and liens and accord priority claim status in favor of DIP Lender pursuant to Sections 361, 364(c) and 364(d)(1) of Title 11 of the United States Code (the "Bankruptcy Code"); and (2) giving notice of a final hearing pursuant to Bankruptcy Rule 4001(b)(2) and (c)(2).

Based upon this Court's review of the Motion and all matters brought to the Court's attention at the interim hearing, which was held on \_\_\_\_\_, 2008 , pursuant to Bankruptcy Rule 4001(b)(2) and (c)(2) (the "Interim Hearing"), and after due deliberation and consideration, the Court makes the following findings of fact and conclusions of law applicable to the financing sought by Debtor from DIP Lender (to the extent any findings of fact constitute conclusions of law, they are adopted as such, and *vice versa*):

THE COURT HEREBY FINDS AND DETERMINES:

A. On April 2, 2008 (the "Petition Date"), Debtor filed with this Court a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code and is continuing to manage its properties and to operate its business as a debtor-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code. No trustee or examiner has been appointed herein.

B. Debtor is engaged in the business of marketing and selling furniture and other home furnishings.

C. An immediate and ongoing need exists for Debtor to obtain financing to continue the operation of its business as debtor-in-possession under Chapter 11 of the Bankruptcy Code, to minimize the disruption of Debtor's business and to allow the Debtor to commence an orderly sale of its business. Despite diligent efforts, Debtor has been unable to obtain financing in the form of unsecured credit allowable under Section 503(b)(1) of the Bankruptcy Code as an administrative expense or solely in exchange for the grant of a special administrative expense priority pursuant to Section 364(c)(1) of the Bankruptcy Code; and other than the financing from DIP Lender pursuant to the DIP Credit Agreement (as hereinafter defined), the Debtor is unable to obtain

financing in the form of credit secured by liens that are junior to existing liens on property of the estates pursuant to Sections 364(c)(2) and (c)(3) of the Bankruptcy Code.

D. Debtor has requested that DIP Lender provide a DIP Loan in the amount of up to \$250,000.00.

E. DIP Lender is willing to provide the DIP Loan, upon the terms and conditions set forth herein and in a certain Post-Petition Revolving Credit and Security Agreement to be entered into by Debtor and DIP Lender, a copy of which is attached to the Motion as **Exhibit A** (the "DIP Credit Agreement").

F. A condition to the willingness of DIP Lender to establish the DIP Facility is that, as security for the prompt payment of all DIP Loans, all interest, fees, expenses and the charges at any time payable by Debtor under the DIP Credit Agreement, DIP Lender receive a security interest in and lien upon all of Debtor' pre-petition and post-petition assets, including, without limitation, all of Debtor' cash, accounts, inventory, equipment, fixtures, general intangibles, whether now in existence or hereafter created, acquired or arising and wherever located (and the proceeds thereof, being collectively hereinafter referred to as the "Collateral"), and that such liens have the priority hereinafter set forth.

G. Debtor requested in the Motion, pursuant to Bankruptcy Rule 4001(b)(2) and (c)(2), that the Court hold the Interim Hearing to consider authorizing Debtor to (i) obtain, on an interim basis, DIP Loans for operating purposes.

H. Good cause has been shown for the entry of this Order and authorization for Debtor to obtain Credit Extensions pursuant to the DIP Credit Agreement as hereinafter provided pending a final hearing on the Motion pursuant to Bankruptcy Rule 4001(b)(2) and (c)(2) (the

"Final Hearing"). Debtor's need for financing of the type afforded by the DIP Credit Agreement is immediate and critical. Entry of this Order will minimize disruption of Debtor's business and operations, will preserve the assets of Debtor's estate and is in the best interests of Debtor, its creditors and its estate. The terms of the proposed financing appear fair and reasonable, reflect Debtor's exercise of business judgment and are supported by reasonably equivalent value and fair consideration.

I. Based upon the record presented at the Interim Hearing, it appears that the DIP Credit Agreement and this Interim Order have been negotiated in good faith and at arm's length between Debtor, on the one hand, and the DIP Lender, on the other.

J. This Court has jurisdiction to enter this Order pursuant to 28 U.S.C. §§ 157(b) and 1334. Consideration of the Motion constitutes a core proceeding, as defined in 28 U.S.C. § 157(b)(2).

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED, as follows:

1. Grant of Motion; Authorization of Interim Financing. The Motion is hereby granted and Debtor is hereby authorized (i) to execute and deliver the DIP Credit Agreement in substantially the form annexed to the Motion; (ii) to obtain a DIP Loan in accordance with the DIP Credit Agreement from time to time up to an aggregate principal amount outstanding at any time not to exceed \$250,000.00, and to incur any and all liabilities and obligations thereunder and to pay all interest, fees, expenses and other obligations provided for under the DIP Financing Documents; and (iii) to satisfy all conditions precedent and perform all obligations hereunder and thereunder in accordance with the terms hereof and thereof; provided, however, that, pending the

Final Hearing and subject to all of the terms and conditions in the DIP Credit Agreement, Debtor may obtain up to \$150,000.00.

2. Execution and Delivery of DIP Financing Documents. Upon execution and delivery thereof, the DIP Financing Documents shall constitute valid and binding obligations of Debtor, enforceable against Debtor in accordance with their terms.

3. DIP Liens. Subject to the provisions hereof, all credit extensions, together with all interest, fees and other charges, at any time or times payable by Debtor to DIP Lender in connection therewith or otherwise pursuant to the DIP Financing Documents (the "DIP Obligations") shall be, and hereby are, secured by security interests and liens in favor of DIP Lender with respect to all of the Collateral, as follows:

(a) pursuant to Section 364(c)(2) of the Bankruptcy Code, perfected first priority senior security interests in and liens upon all Collateral that, as of the Petition Date, is not subject to other valid, perfected and non-avoidable liens or to valid and unavoidable liens in existence on the Petition Date that are perfected thereafter (with a priority that relates back to a date prior to the Petition Date), as permitted by Section 546(b) of the Bankruptcy Code; and

(b) pursuant to Section 364(c)(3) of the Bankruptcy Code, perfected junior security interests in and liens upon all Collateral that is subject to valid, perfected and non-avoidable liens in existence on the Petition Date or to valid and unavoidable liens in existence on the Petition Date that are perfected thereafter (with a priority that relates back to a date prior to the Petition Date) as permitted by Section 546(b) of the Bankruptcy Code.

All of the security interests and liens referred to above and those granted and conveyed pursuant to the DIP Financing Documents are referred to in this Order as "DIP Liens."

Notwithstanding the foregoing provisions of this paragraph or anything to the contrary in the DIP Financing Documents, the DIP Liens shall not attach to any of the following property (unless any Debtor shall grant or consent to any lien or security interest therein in favor of any other party, in which event all such property shall be subject to the DIP Liens referred to in subparagraph (a) of this paragraph 3): (x) any claims pursuant to Sections 502(d), 544, 545, 547, 548, 549, 550, 551 or 553 of the Bankruptcy Code ("Avoidance Claims"), or (y) any proceeds or property recovered in connection with the successful prosecution or settlement of Avoidance Claims ("Avoidance Proceeds").

4. Repayment. The DIP Obligations shall be due and payable, and shall be paid, as and when provided in the DIP Financing Documents and as provided herein, without offset or counterclaim. In no event shall Debtor be authorized to offset or recoup any amounts owed, or alleged owed, by DIP Lender to Debtor against any of the DIP Obligations unless and to the extent expressly otherwise agreed to in writing by DIP Lender.

5. Preservation of Rights Granted Under This Order.

(a) There shall not be entered in this Chapter 11 case or in any successor case any order that authorizes the obtaining of credit or the incurrence of indebtedness by Debtor (or any trustee or examiner) that is (i) secured by a security, mortgage or collateral interest or lien on all or any part of the Collateral that is equal or senior to the DIP Liens or (ii) entitled to priority administrative status that is equal or senior to the Priority Claim granted to DIP Lender herein; provided, however, that nothing herein shall prevent the entry of an order that specifically provides that, as a condition to the granting of the benefits of clauses (i) or (ii) above, all of

the DIP Obligations must be indefeasibly paid in full, in cash, from the proceeds of such credit or indebtedness.

(b) If this Chapter 11 case is dismissed, converted or substantively consolidated, then neither the entry of this Order nor the dismissal, conversion or substantive consolidation of this Chapter 11 case shall affect the rights of DIP Lender under the DIP Financing Documents or this Order, and all of the respective rights and remedies thereunder of DIP Lender shall remain in full force and effect as if this Chapter 11 case had not been dismissed, converted, or substantively consolidated. Debtor shall not seek, and it shall constitute an Event of Default if Debtor seeks, or if there is entered, any Order dismissing the Chapter 11 case. If an order dismissing either Chapter 11 case is at any time entered, such order shall provide (in accordance with Sections 105 and 349 of the Bankruptcy Code) that (i) the DIP Liens and Priority Claim granted to and conferred upon the DIP Lender shall continue in full force and effect and shall maintain their priorities as provided in this Order until all DIP Obligations shall have been paid and satisfied in full (and that such DIP Liens and Priority Claim shall, notwithstanding such dismissal, remain binding on all interested parties) and (ii) this Court shall retain jurisdiction, notwithstanding such dismissal, for the purpose of enforcing the DIP Liens and Priority Claim referred to herein.

6. Automatic Perfection of DIP Liens. The DIP Liens shall be deemed valid, binding, enforceable and perfected upon entry of this Order. DIP Lender shall not be required to file any UCC-1 financing statements, mortgages, deeds of trust, security deeds, notices of lien or any similar document or take any other action (including possession of any of the Collateral) in order to validate the perfection of the DIP Liens. If DIP Lender shall, in its discretion, choose to file

any such mortgages, deeds of trust, security deeds or UCC-1 financing statements, or take any other action to validate the perfection of any part of the DIP Liens, Debtor and its respective officers are directed to execute any documents or instruments as DIP Lender shall reasonably request, and all such documents and instruments shall be deemed to have been filed or recorded at the time and on the date of entry of this Order.

7. Service of Order. Promptly after the entry of this Order, Debtor shall mail, by first class mail, a copy of this Order, the Motion (and all exhibits attached to the Motion), and a notice of the Final Hearing, to counsel for DIP Lender, the U.S. Trustee, the 20 largest unsecured creditors of Debtor at their respective last known addresses, and all parties who have filed requests for notices under Rule 2002 of the Bankruptcy Rules, and shall file a certificate of service regarding same with the Clerk of the Court. Such service shall constitute good and sufficient notice of the Final Hearing.

8. Final Hearing. The Final Hearing shall be held at \_\_\_\_\_ .m., on \_\_\_\_\_, 2008, at the U.S. Bankruptcy Court, Courtroom 3D, Greenbelt, Maryland. If no objection to the Motion or this Order is timely filed and asserted at the Final Hearing, then this Order shall continue in effect in accordance with its terms subject to such modifications as the Court may make at the Final Hearing and that are acceptable to DIP Lender.

9. Objection Deadline. If any party in interest shall have an objection to any of the provisions of this Order, such party shall be authorized to assert such objection at the Final Hearing, provided that a written statement setting forth the basis for such objection is filed with the Court, and concurrently served upon the Office of the United States Trustee for the District of Maryland at 6305 Ivy Lane, Suite 600, Greenbelt, Maryland 20770; counsel for

Debtor, Shulman, Rogers, Gandal, Porady & Ecker, P.A., 11921 Rockville Pike, 3<sup>rd</sup> Floor, Rockville, Maryland 20852, Attention: Michael J. Lichtenstein, Esq. in each case so that such objections and responses are filed on or before 5:00 p.m., prevailing Eastern time on \_\_\_\_\_, 2008. Unless an objecting party shall be and appear at the Final Hearing to assert the basis for such objection before the Court, such objection shall be deemed to have been waived and abandoned by such objecting party.

10. Inconsistencies. To the extent that any provisions in the DIP Credit Agreement are inconsistent with any of the provisions of this Order, the provisions of this Order shall govern and control.

Copies to:  
Michael J. Lichtenstein, Esq.  
Morton A. Faller, Esq.  
Stephen A. Metz, Esq.  
Shulman Rogers Gandal  
Porady & Ecker, P.A.  
11921 Rockville Pike, Suite 300  
Rockville, MD 20852

**END OF ORDER**