

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

In re:) Case No. 11 B 48903
)
CLARE OAKS,) Hon. Pamela S. Hollis
) Chapter 11
Debtor.)

NOTICE OF AMENDMENT TO DIP DOCUMENTS

PLEASE TAKE NOTICE that pursuant to Section 1(ii) of the Court's *Final Order (I) Authorizing Debtor to Obtain Postpetition Financing on a Senior Secured Superpriority Basis Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, and 364, (II) Granting Related Relief*, entered March 8, 2012 [Dkt. 179] (the "DIP Order"), Clare Oaks, the debtor and debtor-in-possession in the above-captioned case, hereby files notice (the "Notice") of the third amendment (the "Third Amendment") to the DIP Documents (as defined in the DIP Order). A copy of the Third Amendment is attached hereto.

PLEASE TAKE FURTHER NOTICE that, pursuant to the DIP Order, following the filing of this Notice, any party in interest may contest the Third Amendment by filing a motion (an "Amendment Challenge") with the Court within five (5) business days of being provided notice of the Third Amendment. Subject to the convenience of the Court's calendar, a hearing on any Third Amendment Challenge shall be held within five (5) business days of the date that the Amendment Challenge is filed. If an Amendment Challenge is not timely filed and served and a hearing is not timely sought, or if the relief sought in the Amendment Challenge is denied, the Third Amendment will become immediately effective.

Dated: May 10, 2012

CLARE OAKS

by: /s/ George R. Mesires
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Debtor-in-Possession*

**THIRD AMENDMENT TO SENIOR SECURED SUPER-PRIORITY
DEBTOR-IN-POSSESSION LOAN AGREEMENT**

THIS THIRD AMENDMENT TO SENIOR SECURED SUPER-PRIORITY DEBTOR-IN-POSSESSION LOAN AGREEMENT (this "**Amendment**") is entered into as of May 8, 2012, by and between **CLARE OAKS**, an Illinois not-for-profit corporation, as Borrower, Debtor and Debtor-in-Possession under Chapter 11 of the Bankruptcy Code ("**Borrower**") and **SENIOR CARE DEVELOPMENT, LLC**, a Delaware limited liability company, together with its successors and assigns ("**Lender**").

WITNESSETH

WHEREAS, pursuant to the terms of that certain Senior Secured Super-Priority Debtor-in-Possession Loan Agreement dated as of December 22, 2011 (as amended by that certain First Amendment to Senior Secured Super-Priority Debtor-in-Possession Loan Agreement dated as of February 2, 2012, the Second Amendment to Senior Secured Super-Priority Debtor-In-Possession Loan Agreement dated as of March 8, 2012 and as may be further amended, restated, supplemented or otherwise modified from time to time, the "**Agreement**"), the Lender has agreed to make loans to the Borrower;

WHEREAS, pursuant to the terms of the Agreement, the Borrower is to comply with certain milestones regarding the sale of all or substantially all of its assets;

WHEREAS, the Borrower has requested that the Lender extend the stated maturity date by one month and modify certain of the sales milestones; and

WHEREAS, the Lender is willing to amend the Agreement as requested in accordance with the terms hereof.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

§1. Definitions. Capitalized terms used herein without definition that are defined in the Agreement shall have the same meanings herein as therein.

§2. Ratification of Existing Agreements. All of the Borrower's obligations and liabilities to the Lender as evidenced by or otherwise arising under the Agreement and the Loan Documents (collectively, the "**Financing Documents**"), except as otherwise expressly modified in this Amendment upon the terms set forth herein, are, by Borrower's execution of this Amendment, ratified and confirmed in all respects. In addition, by Borrower's execution of this Amendment, Borrower represents and warrants that no counterclaim, right of set-off, right of recoupment, or defense of any kind exists or is outstanding with respect to such obligations and liabilities. Borrower acknowledges and agrees that this Amendment shall be included in the definition of Loan Documents under the Agreement.

§3. Representations and Warranties. Borrower hereby represents and warrants to the Lender as follows:

(a) All of the representations and warranties made by the Borrower in the Agreement and the other Financing Documents are true and correct in all material respects on the date hereof as if made on and as of the date hereof, except to the extent that any of such representations and warranties relate by their terms to a prior date and for matters previously disclosed to the Lender in writing.

(b) No Default or Event of Default under and as defined in the Agreement or any of the Financing Documents has occurred and is continuing on the date hereof.

§4. Conditions Precedent. The effectiveness of the amendments contemplated hereby shall be subject to the satisfaction on or before the date hereof of each of the following conditions precedent:

(a) Representations and Warranties. All of the representations and warranties made by the Borrower herein, whether directly or incorporated by reference, shall be true and correct on the date hereof.

(b) Performance; No Event of Default. The Borrower shall have performed and complied in all material respects with all terms and conditions herein required to be performed or complied with by them prior to or at the time hereof, and there shall exist no Default or Event of Default or condition which, with either or both the giving of notice or the lapse of time, would result in a Default or an Event of Default upon the execution and delivery of this Amendment.

(c) Amendment. The Lender shall have received this Amendment, duly executed by the Borrower.

(d) Proceedings and Documents. All proceedings in connection with the transactions contemplated by this Amendment shall be satisfactory in substance and form to the Lender, and the Lender shall have received all information and such counterpart originals or certified or other copies of such documents as it may request.

(e) Amendment Fee. Lender's receipt of an amendment fee in an amount equal to Sixty Thousand Dollars (\$60,000).

(f) Amendment Challenge. Either no Amendment Challenge (as defined in the Final Order) was timely filed and served or the relief sought in a timely filed and served Amendment Challenge was denied by the Court.

(g) Final Cash Collateral Order. The Court shall have entered an order modifying paragraph 15 of the Final Cash Collateral Order to conform the milestones contained therein to the revised milestones contained in Section 5(e) of this Amendment

and confirming that the Extended Budget (as hereinafter defined) is included in the definition of "Budget" for all purposes under the Final Cash Collateral Order.

§5. Amendment to the Agreement. Subject to the satisfaction of the conditions precedent set forth in §4, effective as of the date hereof the Agreement is hereby amended as follows:

(a) Amendment to Definition of Maturity Date. Section 1.1 is hereby amended by deleting the date "July 31, 2012" in clause (a) of the defined term "Maturity Date" and inserting "August 31, 2012" in its place.

(b) Amendment to Section 3.1(c). Section 3.1(c) is hereby amended by (i) deleting the date "July 13, 2012" and inserting "August 13, 2012" in its place, (ii) deleting the date "July 31, 2012" and inserting "August 31, 2012" in its place, and (iii) deleting the date "August 31, 2012" and inserting "September 30, 2012" in its place.

(c) Amendment to Section 4.8(b). Section 4.8(b) is hereby amended by deleting the date "August 31, 2012" and inserting "September 30, 2012" in its place.

(d) Amendment to Section 4.8(c). Section 4.8(c) is hereby amended by deleting the dollar amount "\$150,000" and inserting "\$175,000" in its place.

(e) Amendment to Section 8.2(o). Section 8.2(o) is hereby amended and restated in its entirety to read as follows:

"(o) Certain Milestones.

(i) [Intentionally omitted]

(ii) [Intentionally omitted]

(iii) Not later than May 31, 2012, Borrower shall have (x) notified Lender that it is working with a potential stalking horse bidder for the purchase of all or substantially all of Borrower's assets and that such bidder does not have any financing contingencies to consummate such purchase and (y) delivered to Lender documentation evidencing that such bidder does not have any financing contingencies to consummate such purchase.

(iv) Not later than June 8, 2012, Borrower shall have (x) received and notified Lender of Borrower's receipt of a reasonably acceptable asset purchase agreement for the purchase of all or substantially all of Borrower's assets and (y) delivered to Lender a copy of such asset purchase agreement.

(v) Not later than June 29, 2012, Borrower shall have filed a motion for approval of certain bid procedures and authority to sell its assets to the stalking horse bidder or such other bidder making a higher and better offer for

such assets, reasonably satisfactory in form and substance to Lender, which shall authorize Lender (or its designee as a potential purchaser that would receive an assignment from the Lender of all of the Obligations in accordance with Section 9.1 hereof immediately prior to the closing of the applicable transaction) to credit bid the outstanding amount of the Obligations.

(vi) Not later than July 17, 2012, the Bankruptcy Court shall have held a hearing on the motion described in preceding clause (v).

(vii) If applicable, on or before August 14, 2012, Borrower shall have conducted an auction for the purchase of all or substantially all of the Borrower's assets.

(viii) Not later than August 16, 2012, the Bankruptcy Court shall have held a hearing to approve the sale of Borrower's assets to the stalking horse bidder or such other bidder making a higher and better offer for such assets.

(ix) Borrower shall close the sale of all or substantially all of the Borrower's assets on or before September 30, 2012.

If the Debtor selects another Person as the bidder for the purposes of satisfying the milestones contained in subsections 8.2(o)(iii) and (iv) above (such Person, the "Potential Stalking Horse Bidder"), the Lender confirms and agrees that it will not seek to become the potential stalking horse bidder for the acquisition of all or substantially all of the Debtor's assets unless the Debtor does not enter into a definitive agreement with the Potential Stalking Horse Bidder and the Debtor undertakes to select a potential stalking horse bidder other than the Potential Stalking Horse Bidder. The confirmation and agreement of Lender set forth in the preceding sentence does not, and will not, prevent Lender from participating in any public auction for the sale of all or substantially all of the Debtor's assets."

§6. Budget. All parties acknowledge and agree that the budget attached to this Amendment as Exhibit A (the "Extended Budget") is a modification of the Final Order Budget and the Extended Budget is included in the definition of "Budget" for all purposes in the Agreement and under the Final Order.

§7. Miscellaneous.

(a) This Amendment shall be governed by and construed in accordance with the laws of the State of Illinois.

(b) Except as otherwise expressly provided by this Amendment, all of the respective terms, conditions and provisions of the Agreement shall remain the same. It is declared and agreed by each of the parties hereto that the Agreement, as amended hereby, shall continue in full force and effect, and that this Amendment and the Agreement be read and construed as one instrument, and all references in the Financing Documents to

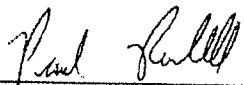
the Agreement shall hereafter refer to the Agreement, as amended by this Amendment.

(c) This Amendment may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto. A facsimile or other electronic transmission of an executed counterpart shall have the same effect as the original executed counterpart.

[Signatures on next page]

IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment to be executed in its name and behalf by its duly authorized officer, as applicable, as of the date first written above.

**BORROWER:
CLARE OAKS**

By: 
Name: Paul Rundell
Title: Chief Restructuring Officer

**LENDER:
SENIOR CARE DEVELOPMENT, LLC**

By: _____
Name: _____
An Authorized Person

IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment to be executed in its name and behalf by its duly authorized officer, as applicable, as of the date first written above.

**BORROWER:
CLARE OAKS**

By: _____
Name: Paul Rundell
Title: Chief Restructuring Officer

**LENDER:
SENIOR CARE DEVELOPMENT, LLC**

By: 
Name: Brett Mehlman
An Authorized Person

EXHIBIT A

EXTENDED BUDGET

Please see attached.

DIP Budget
for Clare Oaks
(\$'000s Omitted)

DIP Budget
Not-For-Profit
(\$ in Thousands)

Clare Oaks

Week of Case	22	23	24	25	26	27	28	29	30	31	32	33	34	35
Week Ended	5/4/2012	5/11/2012	5/19/2012	5/25/2012	6/1/2012	6/8/2012	6/15/2012	6/22/2012	6/29/2012	7/6/2012	7/13/2012	7/20/2012	7/27/2012	8/3/2012

Clare Oaks (Not-For-Profit) - Cash Flow

Beginning Book Cash Balance	\$ 1,913	\$ 1,454	\$ 1,419	\$ 1,186	\$ 1,139	\$ 1,356	\$ 1,290	\$ 1,034	\$ 1,213	\$ 1,245	\$ 1,223	\$ 967	\$ 1,146	\$ 1,517
Receipts														
ILU	34	135	102	34	34	34	135	102	34	34	135	102	34	34
ALFMS	8	48	67	35	17	8	48	67	35	17	48	67	35	17
SNF	400	46	10	202	270	100	48	114	418	138	48	114	318	270
Co-Insurance	-	-	86	86	-	-	-	89	89	-	-	89	89	-
Other	-	15	5	-	-	-	15	5	-	-	15	5	-	-
Total Receipts	442	244	269	356	321	142	246	376	576	189	246	376	476	321
Disbursements - Operating														
Payroll	305	-	305	-	305	-	305	-	305	-	305	-	305	-
Trade Payables Current	177	177	177	177	177	177	177	177	177	177	177	177	177	177
Entrance Fee Refunds	-	-	-	207	-	-	-	-	200	-	-	-	-	-
Capital Expenditures	30	30	15	15	15	15	15	15	15	15	15	15	15	260
Other Expenses	5	5	5	5	5	5	5	5	5	5	5	5	5	5
Total Operating Disbursements	517	212	502	404	502	197	502	197	702	197	502	197	502	442
Net Operating Cash Flow	(75)	32	(233)	(47)	(181)	(56)	(256)	179	(126)	(8)	(256)	179	(26)	(121)
Restructuring Disbursements														
Professional Fees	384	-	-	-	352	-	-	-	342	-	-	-	340	-
US Trustee Fees	-	-	-	-	-	-	-	-	-	-	-	-	13	-
Utility Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIP Interest and Fees	-	68	-	-	-	11	-	-	-	14	-	-	-	18
Total Restructuring Disbursements	384	68	-	-	352	11	-	-	342	14	-	-	353	18
Financing Disbursements														
DIP Funding	-	-	-	-	750	-	-	-	500	-	-	-	750	-
Total Financing Disbursements	-	-	-	-	750	-	-	-	500	-	-	-	750	-
Net Cash Flow	(459)	(36)	(233)	(47)	217	(66)	(256)	179	32	(22)	(256)	179	371	(139)
Ending Book Cash Balance	\$ 1,454	\$ 1,419	\$ 1,186	\$ 1,139	\$ 1,356	\$ 1,290	\$ 1,034	\$ 1,213	\$ 1,245	\$ 1,223	\$ 967	\$ 1,146	\$ 1,517	\$ 1,379
Beginning DIP Balance	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 2,250	\$ 2,250	\$ 2,250	\$ 2,250	\$ 2,750	\$ 2,750	\$ 2,750	\$ 2,750	\$ 3,500
DIP Funding	-	-	-	-	750	-	-	-	500	-	-	-	750	-
Ending DIP Balance	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 2,250	\$ 2,250	\$ 2,250	\$ 2,250	\$ 2,750	\$ 2,750	\$ 2,750	\$ 2,750	\$ 3,500	\$ 3,500

DIP Budget
for Clare Oaks
(\$'000s Omitted)

DIP Budget
Not-For-Profit
(\$ in Thousands)
Clare Oaks

Week of Case	23 Weeks										Total 5/4/2012 10/5/2012
	36	37	38	39	40	41	42	43	44		
Week Ended	8/10/2012	8/17/2012	8/24/2012	8/31/2012	9/7/2012	9/14/2012	9/21/2012	9/28/2012	10/5/2012	10/12/2012	
Beginning Book Cash Balance	\$ 1,379	\$ 1,019	\$ 1,068	\$ 1,264	\$ 1,267	\$ 934	\$ 983	\$ 1,507	\$ 1,293	\$ 1,913	
Receipts											
ILU	34	135	102	34	34	135	102	34	34	1,824	
ALFMS	8	48	67	35	17	48	67	35	17	857	
SNF	100	48	114	418	138	48	114	318	170	3,966	
Co-Insurance	-	-	89	89	-	-	89	89	-	883	
Other	-	15	5	-	-	15	5	-	-	99	
Total Receipts	142	246	376	576	189	246	376	476	221	7,429	
Disbursements - Operating											
Payroll	305	-	305	-	305	-	305	-	305	3,660	
Trade Payables Current	177	177	177	177	177	177	177	177	177	4,071	
Entrance Fee Refunds	-	-	178	-	-	-	-	141	-	726	
Capital Expenditures	15	15	15	15	15	15	15	15	15	620	
Other Expenses	5	5	5	5	5	5	5	5	5	115	
Total Operating Disbursements	502	197	680	197	502	197	502	338	502	9,192	
Net Operating Cash Flow	(360)	49	(304)	379	(313)	49	(126)	138	(281)	(1,762)	
Restructuring Disbursements											
Professional Fees	-	-	-	316	-	-	-	316	-	2,050	
US Trustee Fees	-	-	-	-	-	-	-	13	-	26	
Utility Deposits	-	-	-	-	-	-	-	-	-	-	
DIP Interest and Fees	-	-	-	60	20	-	-	23	-	213	
Total Restructuring Disbursements	-	-	-	376	20	-	-	352	-	2,289	
Financing Disbursements											
DIP Funding	-	-	500	-	-	-	650	-	-	3,150	
Total Financing Disbursements	-	-	500	-	-	-	650	-	-	3,150	
Net Cash Flow	(360)	49	196	3	(333)	49	(214)	(214)	(281)	(901)	
Ending Book Cash Balance	\$ 1,019	\$ 1,068	\$ 1,264	\$ 1,267	\$ 934	\$ 983	\$ 1,507	\$ 1,293	\$ 1,012	\$ 1,912	
Beginning DIP Balance	\$ 3,500	\$ 3,500	\$ 3,500	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,650	\$ 4,650	
DIP Funding	-	-	500	-	-	-	650	-	-	3,150	
Ending DIP Balance	\$ 3,500	\$ 3,500	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,650	\$ 4,650	\$ 4,650	\$ 4,650	

Clare Oaks (Not-For-Profit) - Cash Flow

DIP Budget
for Clare Oaks
(\$000s Omitted)

Estimated Total Professional Fees for Clare Oaks

(\$ in Thousands)	December	January	February	March	April	May	June	July	August	September	Total
Clare Oaks											
<i>Financial Advisors:</i>											
Alvarez & Marsal	100	100	90	90	80	70	70	70	70	70	810
Ziegler (1)	-	20	10	10	-	-	-	-	-	-	40
Total FA	100	120	100	100	80	70	70	70	70	70	850
<i>Legal Advisors:</i>											
Ungaretti & Harris	175	175	175	150	150	150	125	125	125	125	1,475
Jones Day (Bond Counsel)	-	-	-	-	-	10	5	5	-	-	20
Total Legal	175	175	175	150	150	160	130	130	125	125	1,495
Claims Agent	20	15	10	10	10	10	10	10	10	10	115
Total Clare Oaks	295	310	285	260	240	240	210	210	205	205	2,460
<i>Other:</i>											
Adequate Protection (Creditors)	100	100	100	100	100	100	100	100	100	100	1,000
Unsecured Committee (2)	10	30	45	30	40	40	40	40	40	40	355
Ombudsman	-	-	-	-	-	-	-	-	-	-	-
Grand Total	405	440	430	390	380	380	350	350	345	345	3,815

Notes: (1) Fees will be paid at closing

Notes: (2) Includes an extra \$15k placeholder in February relating to committee claims, not specified to a specific month

Estimated Professional Fees PAID Net of Holdback

	December	January	February	March	April	May	June	July	August	September	Total	Holdback
Clare Oaks												
<i>Financial Advisors</i>												
Alvarez & Marsal	-	-	100	100	90	90	80	70	70	70	670	140
Ziegler (1)	-	-	-	16	8	8	-	-	-	-	32	8
Total FA	-	-	100	116	98	98	80	70	70	70	702	148
<i>Legal Advisors</i>												
Ungaretti & Harris	-	-	140	140	140	120	120	120	100	100	980	495
Jones Day (Bond Counsel)	-	-	-	-	-	-	-	8	4	4	16	4
Total Legal	-	-	140	140	140	120	120	128	104	104	996	499
Claims Agent	-	-	20	15	10	10	10	10	10	10	95	20
Total Clare Oaks	-	-	260	271	248	228	210	208	184	184	1,793	667
<i>Other</i>												
Adequate Protection (Creditors)	-	-	200	100	100	100	100	100	100	100	900	100
Unsecured Committee (2)	-	-	8	24	36	24	32	32	32	32	220	135
Ombudsman	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	-	-	468	395	384	352	342	340	316	316	2,913	902