

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.)

**SECOND INTERIM ORDER REGARDING USE OF
CASH COLLATERAL AND ADEQUATE PROTECTION**

This Second Interim Order Regarding Use of Cash Collateral and Adequate Protection (the "Interim Order") is entered upon the Debtor's Emergency Motion for the Entry of an Interim Order: (I) Authorizing Use of Cash Collateral; (II) Providing Adequate Protection; and (III) Scheduling a Final Hearing (the "Motion") and upon terms agreed to on an interim basis by and between Clare Oaks (the "Debtor") and Wells Fargo Bank, National Association, as Master Trustee (as described more fully herein, the "Master Trustee") and as Bond Trustee (as described more fully herein, the "Bond Trustee"; collectively with the Master Trustee, the "Trustee"), for those certain Illinois Finance Authority Revenue Bonds (Clare Oaks Project) (as described more fully herein, the "Series 2006 Bonds").

Upon the terms of the Motion, the stipulation, acknowledgement and agreement of the Debtor and the Trustee, it appears to the Court that:

A. On December 5, 2011 (the "Petition Date"), the Debtor filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code and thereby commenced a case thereunder (the "Chapter 11 Case"). The Debtor is operating its business and managing its properties as a debtor in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No request

has been made for the appointment of a trustee or examiner and no official committee of unsecured creditors has yet been appointed in the Chapter 11 Case.

B. This Court has jurisdiction over this matter pursuant to 28 U.S.C. § 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue of the Chapter 11 Case and the Motion in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

C. Due and appropriate notice of the Motion, the relief requested therein and the hearing having been served by the Debtor on: (i) the Office of the United States Trustee for the Northern District of Illinois; (ii) the Debtor's 20 largest unsecured creditors on a consolidated basis; (iii) counsel to the proposed DIP Lender (as defined herein); (iv) counsel to Wells Fargo Bank, National Association, as master trustee under that certain Master Trust Indenture dated as of July 1, 2006 and as mortgagee under the Leasehold Mortgage and Security Agreement dated as of July 1, 2006 with respect to certain bonds issued for the benefit of the Debtor by the Illinois Finance Authority pursuant to two separate Bond Trust Indentures between the Authority and Wells Fargo Bank, National Association, as Bond Trustee, each dated as of July 1, 2006, (v) counsel to Sovereign Bank, the issuer of certain letters of credit backing certain of the Series 2006 Bonds, (vi) counsel to The Sisters of St. Joseph of the Third Order of St. Francis, Inc. and (vii) any other known lien holder as of the Petition Date who has an interest in the cash collateral in compliance with Bankruptcy Rule 4001(b) and the Local Bankruptcy Rules.

The Debtor and the Bonds

D. The Debtor is the sole member of an obligated group (the "Obligated Group") created by the Master Trust Indenture dated as of July 1, 2006, as supplemented and amended by the First Supplemental Master Trust Indenture dated as of July 1, 2008, the Second Supplemental

Master Trust Indenture dated as of May 1, 2010, and the Third Supplemental Master Trust Indenture dated as of October 1, 2010 (as supplemented and amended, the "Master Indenture"), between the Debtor and Wells Fargo Bank, National Association, as Master Trustee (the "Master Trustee").

E. The Debtor has issued certain direct note obligations (the "Bond Obligations") under the Master Indenture to secure four series of tax-exempt revenue bonds (collectively, the "Series 2006 Bonds") issued by the Illinois Finance Authority (the "Authority") in the original aggregate principal amount of \$112,725,000 pursuant to two separate Bond Trust Indentures, each dated as of July 1, 2006 (collectively, the "Bond Indentures"), each between the Authority and Wells Fargo Bank, National Association, as Bond Trustee (the "Bond Trustee"). The Authority loaned the proceeds of the Series 2006 Bonds to the Debtor (such loans, the "Prepetition Loans") pursuant to two separate Loan Agreements, each dated as of July 1, 2006 (collectively, the "Loan Agreements"), between the Authority and the Debtor. As security for the Series 2006 Bonds, the Authority has assigned and pledged to the Bond Trustee the related Bond Obligations and payments to be made by the Obligated Group thereon, and certain rights of the Authority under the Loan Agreements and payments to be made by the Debtor thereunder. As additional security, the Debtor has granted to the Master Trustee a lien on the Debtor's leasehold estate and security interest in certain personal property of the Debtor pursuant to the Leasehold Mortgage and Security Agreement dated as of July 1, 2006 (the "Mortgage"), between the Debtor and the Master Trustee. The Clare Oaks Campus is located on real estate leased to the Debtor by the Sisters of St. Joseph of the Third Order of St. Francis, Inc. (the "Landlord"),

pursuant to the Ground Lease dated July 1, 2006 (the "Ground Lease"), between the Landlord, as landlord, and the Debtor, as tenant.¹

F. The Series 2006C Bonds and the Series 2006D Bonds are also supported by two separate letters of credit, respectively (the "Letters of Credit"), issued by Bank pursuant to the Letter of Credit Agreement dated as of July 1, 2006, as amended by the First Amendment to Letter of Credit Agreement and Waiver dated as of December 1, 2008, and the Second Amendment to Letter of Credit Agreement dated as of October 1, 2008 (as amended, the "L/C Agreement"), between the Bank and the Debtor. MB Financial Bank ("MB Financial") is a participant in certain of the rights and obligations of the Bank under the L/C Agreement. The Debtor has issued certain direct obligations under the Master Indenture as security for the Debtor's reimbursement obligations to the Bank arising under the L/C Agreement for drawings under the Letters of Credit and fees relating to the Letters of Credit.

G. The Debtor has also issued certain direct note obligations under the Master Indenture to secure its obligations (the "Swap Obligations") under two interest rate swaps related to the Series 2006C Bonds and the Series 2006D Bonds entered into by the Debtor with Sovereign Bank (the "Swap Provider").

H. The Debtor, as sole member of the Obligated Group is liable for the Prepetition Loans, plus accrued but unpaid interest, fees, costs and expenses incurred by the Bank and MB Financial pursuant to the L/C Agreement and accrued and unpaid Swap Obligations, which, together with the accrued and unpaid expenses of the Master Trustee and the Bond Trustee, is defined as the "Prepetition Indebtedness."

¹ Terms not defined herein shall have the same meaning as the terms defined in the Motion.

I. To secure repayment of the Prepetition Indebtedness, the Debtor granted to the Master Trustee, pursuant to the Mortgage and the Master Indenture, a mortgage lien on and security interest in the leased premises under the Ground Lease (the "Leased Premises"), a security interest in the personal property of the Debtor located on the Leased Premises, and a security interest in all receipts, revenues, rentals, income, insurance proceeds and other moneys derived from the ownership and operation of the CCRC, whether in the form of accounts, general intangibles and other rights, whether now existing or hereafter acquired (all of the foregoing assets generally described above, the "Prepetition Collateral," and such mortgage, liens and security interests, the "Prepetition Liens"). As used herein, the term "Bond Documents" refers to the Series 2006 Bonds, the L/C Agreement, the Master Trust Indenture, the Bond Indentures, the Loan Agreements and each other agreement, document or instrument granting a Prepetition Lien, evidencing any Prepetition Indebtedness or otherwise executed in connection with the Prepetition Indebtedness or the Prepetition Collateral.

J. A portion of the initial proceeds of the Series 2006 Bonds was used to create debt service reserve funds and other funds pursuant to the terms of the Master Indenture and the Bond Indentures (all accounts and/or deposits therein as of the Petition Date which are held by the Master Trustee and the Bond Trustee pursuant to the terms of the documents evidencing and/or securing the Series 2006 Bonds are hereinafter referred to as the "Trustee Held Funds"). The Debtor, for itself and its successors and assigns, stipulates, acknowledges and agrees that it has no interest in any of the Trustee Held Funds and such Trustee Held Funds are not property of the Debtor's bankruptcy estate.

K. As of the Petition Date, the aggregate principal amount outstanding under the

Series 2006 Bonds is \$95,210,000 (such outstanding principal amount, the “Bond Claim”).² The Master Trustee reserves any and all rights to amend the Bond Claim, and nothing herein shall be deemed to be a waiver of such rights; provided, however, that in the event the Master Trustee amends the Bond Claim to increase the amount thereof (other than in respect of the \$215,000 payment referred to in footnote 3), the Debtor may challenge any such increased amount.

Use of Cash Collateral and Need for Adequate Protection

L. On December 19, 2011, the Court entered an Interim Order (1) Authorizing Use of Cash Collateral and (2) Providing Adequate Protection (the “First Interim Order”), pursuant to which the Master Trustee was granted certain adequate protection for the Debtor’s use of its cash collateral through and including December 15, 2011. The adequate protection granted to the Master Trustee in the First Interim Order applies through the date of the entry of this Interim Order. Thereafter, the only adequate protection provided to the Master Trustee shall be the adequate protection granted hereunder or provided in a further order of the Bankruptcy Court.

M. On December 13, 2011, the Debtor filed its Motion for Interim and Final Orders (I) Authorizing Debtor, as Debtor in Possession, to Incur Postpetition Secured Indebtedness, (II) Granting Security Interests and Super-Priority Claims, (III) Modifying Automatic Stay and (IV) Setting Final Hearing (the “DIP Motion”), pursuant to which the Debtor seeks an interim order (the “Interim DIP Order”) approving, among other things, the granting of certain first-priority liens (the “Priming Liens”) to Senior Care Development, LLC (the “DIP Lender”) that are senior to those of the Master Trustee, and securing financing provided by the DIP Lender on an interim

² This amount of the Bond Claim takes into account a \$215,000 payment scheduled to be made prepetition. If such payment was not made, then the Debtor agrees that the amount of the Bond Claim should be increased to

basis in an amount not to exceed \$1,500,000 (the "Interim DIP Financing"), as provided more fully in the Senior Secured Super-Priority Debtor-in-Possession Loan Agreement dated as of December 22, 2011 between the Debtor and the DIP Lender (the "DIP Loan Agreement").

N. The Master Trustee does not consent to the use of cash collateral or to the terms of the Interim DIP Order, including the Priming Liens granted to the DIP Lender, except upon the terms and conditions of this Interim Order and the Interim DIP Order. The Master Trustee, the Bond Trustee and the Bank (collectively, the "Secured Creditors") reserve any and all rights with respect to final entry of any order approving the financing provided by the DIP Lender on a final basis, and nothing herein shall evidence what constitutes adequate protection for any proposed priming of the Master Trustee's liens on a final basis or otherwise be a waiver of any rights the Secured Creditors have to object to such financing.

O. Without the use of cash collateral and the Interim DIP Financing, the Debtor would suffer immediate and irreparable harm and would likely be required to cease operations immediately or, at a minimum, would disrupt Debtor as a going concern, would eliminate or significantly decrease the likelihood of a successful disposition of the Debtor's assets in Chapter 11, and would not be in the best interest of the Debtor, its estate or its creditors. In lieu of giving the Master Trustee relief from the automatic stay, the Debtor wishes to provide the Master Trustee the liens, security interests, and other protections set forth in this Interim Order.

P. The terms of this Interim Order reflect the Debtor's exercise of business judgment consistent with its fiduciary duties. This Court concludes that entry of this Interim Order is in the Debtor's best interests and that of its estate, residents and creditors.

\$96,025,000. For the avoidance of doubt, the Bond Claim does not include the amount of any interest, fees or

NOW, THEREFORE, THE COURT HEREBY ORDERS AS FOLLOWS:

1. Disposition. The Motion is granted on the terms set forth in this Interim Order. Any objections to the relief sought in the Motion that have not been previously resolved or withdrawn are overruled on the merits. Notwithstanding the foregoing or anything else to the contrary contained herein, each party in interest reserves all of its rights with respect to the entry of any final order authorizing the use of cash collateral.

2. Authorization to Use Cash Collateral. The Debtor is authorized to use all cash collateral (as defined in Section 363 of the Bankruptcy Code) other than (i) proceeds of any lease, sublease, license or sale outside the ordinary course of business of any of the Debtor's assets and (ii) Trustee Held Funds (all such non-excluded cash collateral, the "Cash Collateral") until such authority is terminated pursuant to Section 16; provided, however, that the Debtor shall be authorized to use Cash Collateral and expend money solely in compliance with the budget attached hereto as **Exhibit A** and incorporated herein by reference (as it may be amended from time to time, subject to the consent of the Master Trustee and Bank in their respective sole but reasonable discretion, the "Budget"), subject to the variances permitted by the DIP Loan Agreement.

3. Prohibited Use of Cash Collateral. Notwithstanding anything herein to the contrary, no proceeds of Cash Collateral or Interim DIP Financing shall be used for any of the following (each, a "Trustee Dispute"): (i) objecting to, or contesting in any manner, or raising any defenses to, the validity, amount, extent, perfection, priority, or enforceability of the Series 2006 Bonds, the Prepetition Collateral, the Bond Claim, or any liens or security interests with

expenses payable under the Bond Documents or certain amounts owed to the Bank related to the Swap Obligations.

respect thereto, or any other rights or interests of the Master Trustee therein, or in asserting any claims or causes of action, including, without limitation, any actions under Chapter 5 of the Bankruptcy Code against the Secured Creditors or any holder of the Series 2006 Bonds, including with respect to payments made pursuant to the Bond Documents or the L/C Agreement; (ii) asserting any claims or defenses or causes of action against the Secured Creditors or any holders of the Series 2006 Bonds, or their respective agents, affiliates, representatives, attorneys or advisors; (iii) preventing, hindering or otherwise delaying the Master Trustee's assertion, enforcement or realization on the Prepetition Collateral or Postpetition Bond Collateral (as defined below) in accordance with the Bond Documents or this Interim Order; (iv) seeking to modify or modifying any of the rights granted hereunder to any of the Secured Creditors or any holders of the Series 2006 Bonds; or (v) invalidating, setting aside, avoiding or subordinating, in whole or in part, any of the Master Trustee's liens on any Prepetition Collateral; provided, however, that a Trustee Dispute shall not include (i) the prosecution of the Motion and the Debtor's Emergency Motion for Interim and Final Orders (I) Authorizing Debtor, as Debtor-in-Possession, to Incur Postpetition Secured Indebtedness, (II) Granting Security Interests and Super-Priority Claims, (III) Modifying Automatic Stay, and (IV) Setting Final Hearing, including without limitation the seeking of a final order authorizing the Debtor to obtain postpetition financing and a final order authorizing the use of cash collateral, (ii) responding to any notice of an Event of Default (as defined in the Interim DIP Order) or notice of a Termination Event (as hereinafter defined) or enforcing any of the Debtor's rights under this Interim Order or the Interim DIP Order, including without limitation seeking, appearing at, and fully participating in an emergency hearing, and (iii) actions taken after the

Termination Date (as hereinafter defined) to wind-down the Debtor's estate to extent necessary to protect of the interests of the residents.

4. Amendment or Extension of Order. This Interim Order shall not be amended without the express written consent of the Master Trustee and the Bank, which shall be at their respective sole discretion. Notice of any such amendment to this Interim Order shall be filed with the Court and served on all parties entitled to notice in accordance with Fed R. Bankr. Proc. 4001(b) and the Local Bankruptcy Rules including, but not limited to, any committee of unsecured creditors if appointed (the "Committee"). Any such party may object to such amendment and request a hearing before the Court. If no such objection is made within five business days of such notice, such amendment to this Interim Order shall become final.

5. Amendment or Extension of Use of Cash Collateral. The Budget shall not be amended without the express written consent of the Master Trustee and the Bank, which shall be given at their respective sole but reasonable discretion. Any amendment or modification of the Budget shall not require approval by the Court to be effective.

Adequate Protection Provided to the Master Trustee

6. Adequate Protection Payments. The Master Trustee and the Bank shall receive, as partial adequate protection, payments in the amount provided for in the Budget for adequate protection (the "Adequate Protection Payments"). All parties reserve their respective rights with respect to the allocation of the Adequate Protection Payments.

7. Replacement Lien. As further partial adequate protection and to the extent of the diminution in value of the Master Trustee's interests in the totality of the Prepetition Collateral, from and after the Petition Date, resulting from the use of Cash Collateral by the Debtor, the

subordination of the Master Trustee's liens on the Prepetition Collateral to the Carve Out (as hereinafter defined), the subordination of the Master Trustee's liens on the Prepetition Collateral to the Priming Liens granted pursuant to the Interim DIP Order, and the imposition or enforcement of the automatic stay (collectively, the "Diminution in Value"), the Master Trustee shall have a valid, perfected and enforceable continuing replacement lien and security interest (the "Replacement Lien") in all assets of the Debtor existing on or after the Petition Date of the same type as the Prepetition Collateral, together with the proceeds, rents, products and profits thereof, whether acquired or arising before or after the Petition Date, to the same extent, validity, perfection, enforceability and priority of the liens and security interests of the Master Trustee in the Prepetition Collateral as of the Petition Date. The Replacement Lien shall be subject only to (i) the Priming Liens granted under the Interim DIP Order, (ii) the Carve-Out, (iii) (x) valid, perfected and non-avoidable liens as of the Petition Date or (y) valid liens in existence at the Petition Date and that are perfected subsequent to the Petition Date and as permitted by section 546(b) of the Bankruptcy Code and perfected thereafter as permitted by section 546(b) of the Bankruptcy Code (the liens described in the preceding sub-clauses (x) and (y), the "Permitted Encumbrances") and (iv) the prior rights of residents to the Resident Deposits (as hereinafter defined).

8. Supplemental Lien. As further partial adequate protection and to the extent of the Diminution in Value, the Master Trustee shall have as of the Petition Date a valid, perfected and enforceable continuing supplemental lien and security interest (the "Supplemental Lien") in all Collateral. The term "Collateral" and "Postpetition Bond Collateral" shall each mean all property and interests in property (whether tangible or intangible, real property or personal

property), whether now owned or hereafter acquired by Debtor (which, for the avoidance of doubt, does not include the fee interest in the Land Premises or the Existing Improvements (in each case, as defined in the DIP Loan Agreement). The definition of Collateral and Postpetition Bond Collateral shall be deemed to include, without limitation, cash and cash equivalents, rights in deposit accounts, management contracts, accounts, inventory, equipment, receivables, capital stock or other ownership interest in subsidiaries of Debtor, investment property, instruments, chattel paper, real estate, leasehold interests (including Debtor's leasehold estate in the Tenant Leasehold Estate (as defined in the Lease, as defined in the DIP Loan Agreement), contracts, patents, copyrights, trademarks and other general intangibles, and all products and proceeds thereof. For the avoidance of doubt, the Collateral and Postpetition Bond Collateral shall also include (i) all resident processing fees, entrance fees, if any, deposits to reserve a unit at the campus and option deposits to secure the option of each entrant to terminate the residency agreement, without loss of the entrant's deposits, pursuant to the residency and care agreements (or other applicable agreements) and riders thereto for the continuing care retirement community in Bartlett, Illinois known as "Clare Oaks" received by Debtor after the Petition Date, plus the deposits and entrance fees in the approximate amount of \$907,100 as of the Petition Date held in escrow accounts with The Chicago Trust Company, N.A., a Wintrust Wealth Management Company (whether existing or new) (collectively, the "Resident Deposits") and (ii) all other accounts of Debtor, and all proceeds and products of all of the foregoing. Notwithstanding the foregoing or any other terms of this Interim Order, Collateral shall not include (a) Trustee Held Funds and (b) claims and causes of action that arise on or subsequent to the Petition Date under Chapter 5 of the Bankruptcy Code and the proceeds

thereof and property received thereby, whether by judgment, settlement or otherwise. The Supplemental Lien shall be subject only to (i) the Priming Liens granted under the Interim DIP Order, (ii) the Carve-Out, (iii) the Permitted Encumbrances and (iv) the prior rights of residents to the Resident Deposits. The Replacement Lien and the Supplemental Lien (together, the "Post-Petition Bond Liens") shall be in addition to all other rights of the Master Trustee, including its liens and security interests in the Prepetition Collateral

9. Superpriority Claim. As further partial adequate protection and to the extent of any Diminution in Value, the Master Trustee shall have a super-priority administrative expense claim pursuant to Bankruptcy Code Section 507(b) (the "Superpriority Claims") in all Collateral. Except for the Carve-Out, the superpriority claim granted to the DIP Lender under the Interim DIP Order, and the prior rights of residents with respect to Resident Deposits, the Superpriority Claim shall have priority over any and all administrative expenses, diminution claims and all other claims against the Debtor, now existing or hereafter arising, of any kind whatsoever including, without limitation, all other administrative expenses of the kind specified in sections 503(b) and 507(b) of the Bankruptcy Code.

10. Additional Provisions Regarding Post-Petition Bond Liens. Pending entry of a final order, the Post-Petition Bond Liens shall not be subject or subordinate to (i) any lien or security interest that is avoided and preserved for the benefit of Debtor and its estate under Section 551 of the Bankruptcy Code, (ii) any liens arising after the Petition Date including, without limitation, any liens or security interests in favor of any federal, state, municipal or other government unit, commission, board or court for any tax liability of the Debtor, whether secured or unsecured, including property taxes for which liability is in rem, in personam, or both, except

a tax of a kind specified in Bankruptcy Codes Section 507(a)(8), or (iii) subordinated to or made pari passu with any other lien or security interest under Sections 363 or 364 of the Bankruptcy Code or otherwise, except to the Priming Liens granted pursuant to the Interim DIP Order.

11. No Further Action Required. The approval of this Interim Order by the Court shall be sufficient and conclusive evidence of the validity, extent, enforceability and perfection of the Replacement Lien and the Supplemental Lien granted to the Master Trustee in this Interim Order, whether or not the Master Trustee elects to file or record financing statements, any other documents, or to take such other steps as may otherwise be required to obtain, evidence or perfect such liens under applicable law; provided, however, upon the request of the Master Trustee, the Debtor shall execute such other documents as may be reasonably requested to evidence and perfect such liens, and the Master Trustee may, in its sole discretion, but shall not be required to, file a certified copy of this Interim Order in any filing or recording office in any jurisdiction in which the Debtor has real or personal property, and such filing or recording shall be accepted and shall constitute further evidence of perfection of their liens and security interests. The failure of the Debtor to execute any such other documentation shall in no way affect the validity, perfection or priority of the Master Trustee's liens and security interests in the Prepetition Collateral or the Post-Petition Bond Collateral. No obligation, payment, transfer or grant of security under this Interim Order shall be stayed, restrained, voidable, avoidable or recoverable under the Bankruptcy Code or under any applicable state Uniform Fraudulent Transfer Act, Uniform Fraudulent Conveyance Act (or similar statute or common law) or subject to any defense reduction, setoff, recoupment or counterclaim.

12. Determination of Prepetition Liens and Bankruptcy Code Section 506(c) Waiver.

Except as provided in Paragraph 24 of this Interim Order, the approval of this Interim Order by the Court is a conclusive and binding determination on all parties of (i) the amount of the Bond Claim, and (ii) that the Master Trustee's Prepetition Liens on the Prepetition Collateral have been duly perfected and are in all respects valid and enforceable first priority security interests and liens, subject only to the rights of residents in the Resident Deposits and the Permitted Encumbrances, and not subject to any claim under sections 506(c) and 552(b) of the Bankruptcy Code; notwithstanding the foregoing, the section 506(c) and 552(b) waiver contained in this Paragraph 12 shall not be effective until entry of a final order authorizing the use of cash collateral.

13. Compliance With Bond Documents. The Debtor shall comply with the terms and provisions of the Bond Documents as set forth on schedule 13 which shall be attached to the final order authorizing the use of cash collateral and shall, among other requirements, require maintenance of adequate insurance and the payment of any and all claims that could become a prior lien on the Prepetition Collateral or the Post-Petition Bond Collateral (other than those liens permitted hereunder).

14. Financial Information. The Debtor shall allow the Secured Creditors reasonable access during normal business hours to the premises, officers, employees, auditors, appraisers and financial advisors of the Debtor in order to conduct appraisals, analyses and/or audits of the Prepetition Collateral and the Post-Petition Bond Collateral, and shall otherwise reasonably cooperate in providing any other financial information requested by the Secured Creditors. In addition, upon the reasonable request of the Secured Creditors, the Debtor and its professionals

shall participate in telephone conference calls with the Secured Creditors, and their agents, advisors and/or representatives, along with holders of the Series 2006 Bonds that are restricted, to discuss financial and marketing results and such other matters as are relevant or are reasonably requested by the Secured Creditors, including the status of complying with the Sales Milestones (as defined below). From and after the entry of this Interim Order, the Debtor shall provide to the Secured Creditors the financial and other reporting as described in the DIP Documents (as defined in the Interim DIP Order) on the same dates and times as such reports are provided to the DIP Lender. The Debtor shall provide to the Secured Creditors such other reports and information as may be reasonably requested from time to time by the Secured Creditors.

15. Sale Milestones. The Debtor agrees to market and sell substantially all of their assets, in consultation with their advisors, and to meet the following milestones (collectively, the “Sale Milestones”):

- (i) On or prior to February 6, 2012, the Debtor shall have received and notified the Master Trustee, and the Bank of Debtor’s receipt of a non-binding letter of intent from a potential stalking horse bidder for the purchase of all or substantially all of the Debtor’s assets.
- (ii) On or prior to March 6, 2012, the Debtor shall have received and notified the Master Trustee and the Bank of Debtor’s receipt of a binding letter of intent from a potential stalking horse bidder for the purchase of all or substantially all of the Debtor’s assets.
- (iii) Not later than April 23, 2012, the Debtor shall (x) have received and notified the Master Trustee and the Bank of the Debtor’s receipt of an asset purchase agreement for the purchase of all or substantially all of Debtor’s assets reasonably satisfactory to the Master Trustee and the Bank and (y) file 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 the Master Trustee and the Bank, which shall authorize the Master Trustee to credit bid the amount of the Bond Claim.

(iv) If applicable, on or before June 4, 2012, the Debtor shall have conducted an auction for the sale of all or substantially all of the Debtor's assets.

(v) Debtor shall close the sale of all or substantially all of the Debtor's assets (the "Affiliation/Sale") on or before July 17, 2012.

All proceeds from the Affiliation/Sale shall be remitted (i) first, to satisfy, or otherwise provide for the satisfaction, in full of all Budgeted Professional Expenses incurred or accrued through the closing date of the Affiliation/Sale, (ii) second, to repay the DIP Lender on account of any amounts owed under the DIP Loan Agreement; (iii) third, to the Master Trustee for application to the Bond Claim in accordance with the Bond Documents; and (iv) fourth, to the extent there are proceeds from the Affiliation/Sale remaining after the Bond Claim has been paid in full, subject to further order of the Court, to the Debtor.

16. Termination of Use of Cash Collateral.

(a) The Debtor's authority to use Cash Collateral pursuant to the terms of this Interim Order will, subject to the Debtor's right to cure and further Court order as set forth in Paragraph 15(b) below, terminate without any further action by the Bankruptcy Court five business days after written notification sent by the Master Trustee to the Debtor, the DIP Lender, any Committee, and the U.S. Trustee of the occurrence of any of the following (a "Termination Event"):

- (i) the failure of the Debtor to timely pay all fees due under 28 U.S.C. §1930;
- (ii) the Debtor's Chapter 11 case is dismissed or converted to a proceeding under Chapter 7 of the Bankruptcy Code;
- (iii) the earlier of (y) the date of the entry of an order of this Court appointing a chapter 11 trustee or an examiner with enlarged powers (beyond those set forth in Sections 1104(c) and 1106(a)(3) and (4) of the Bankruptcy Code); or (z) the date

the Debtor files a motion, application or other pleading consenting to or acquiescing in any such appointment;

- (iv) the closing of an Affiliation/Sale;
- (v) the occurrence of an Event of Default (as defined in the Interim DIP Order);
- (vi) the Bankruptcy Court suspends the Debtor's bankruptcy case under Section 305 of the Bankruptcy Code;
- (vii) the Debtor fails to comply with, keep, observe or perform any of its agreements or undertakings under this Interim Order;
- (viii) the Debtor's failure to meet any of the Sale Milestones;
- (ix) the Debtor's failure to be in compliance with the Budget subject to the variances set forth in the DIP Loan Agreement;
- (x) entry of an order confirming a plan in this bankruptcy case;
- (xi) this Interim Order becomes stayed, reversed, vacated, amended, suspended or otherwise modified in any respect without the prior written consent of the Master Trustee (other than with respect to the entry of a final order authorizing the use of cash collateral);
- (xii) a final order authorizing the use of cash collateral is not entered by the Bankruptcy Court on or before January 27, 2012;
- (xiii) an adversary proceeding, contested matter or other action is commenced by the Debtor challenging the validity, extent, enforceability, priority or extent of the Master Trustee's liens or claims or otherwise seeking to impair the Master Trustee's position; or
- (xiv) imposition of orders, penalties or fines by any governmental agency or unit which does or could, if not cured promptly, result in the cessation of operations of the Debtor.

(b) Unless during such five business day period referenced above in Paragraph 15(a), the Debtor cures any Termination Event that is curable or the Debtor obtains an order by this Court, on notice to and with an opportunity to be heard by the Master Trustee and the Bank (i)

the Debtor's authority to use Cash Collateral hereunder shall automatically terminate and the Debtor shall be prohibited from continuing to use such Cash Collateral, (ii) the Master Trustee may exercise all rights and options set forth herein exercisable upon the occurrence of a default, and (iii) the Master Trustee, upon the expiration of such five business day period shall be automatically relieved of any further stay under Section 362 of the Bankruptcy Code, or other restriction on enforcement of its pre- and post-petition liens and security interests in the Prepetition Collateral and the Post-Petition Bond Collateral, all without further order of this Court.

17. Release and Waiver. Subject to the rights of a Committee pursuant to Paragraph 24 below, upon entry of this Interim Order, the Debtor waives, releases and discharges the Secured Creditors and all holders of the Bonds, and their respective affiliates, agents, attorneys, participants, officers, directors and employees, from any and all claims and causes of action arising out of, based upon or related to, in whole or in part, the Bonds and the Bond Documents, any aspect of the prepetition relationship between the Secured Creditors and/or the holders of the Bonds, and the Debtor, and any other prepetition acts or omissions by the Secured Creditors or holders of Bonds in connection with either the Bond Documents or such parties' prepetition relationship with Debtor. Further, pursuant to this Interim Order, but subject to the rights of a Committee pursuant to Paragraph 24 below, the Debtor waives any and all rights to object to or contest to the amount of the Bond Claim or the amount, validity, extent, priority, perfection, or enforceability of the Master Trustee's Prepetition Liens on the Prepetition Collateral and agrees that all such claims and security interests have been duly perfected and are in all respects valid

and enforceable first priority security interests and liens, subject only to the rights of residents in the Resident Deposits and the Permitted Encumbrances.

18. Failure of Adequate Protection. Nothing herein shall constitute a waiver, release or modification of the rights of the Master Trustee to assert a claim under sections 364(c).

19. Deemed Request for Stay Relief. This Interim Order shall be deemed to constitute a request by the Master Trustee for relief from the automatic stay with respect to the Prepetition Collateral as of the Petition Date and for adequate protection for the use of cash collateral as of the Petition Date.

20. Carve Out. In consideration of Debtor's acknowledgement of the Prepetition Indebtedness and Debtor's waiver of any claims under section 506(c) upon the entry of a final order authorizing the use of cash collateral, and in exchange for the agreement that after the entry of a final order authorizing the use of cash collateral, Debtor, Debtor's professionals and other professionals retained in the Chapter 11 Case shall not seek any further reduction in, carve out from, or lien waivers with respect to the Prepetition Collateral or the Postpetition Bond Collateral, the Master Trustee consents to the terms of the Carve Out, as hereinafter defined. For the purposes hereof, "Carve Out" shall mean:

- (a) the aggregate allowed (regardless of when allowed) and unpaid fees and expenses of professionals retained in the Chapter 11 Case by the Borrower (other than ordinary course professionals), to the extent consistent with the Budget, allowed by a final order of the Bankruptcy Court, and accrued on or before the earlier to occur of (1) five (5) business days after written notice of the occurrence of a Termination Event is sent by the Master Trustee to the Debtor, the DIP Lender, any Committee and the U.S. Trustee unless the Court determines that no such Termination Event has occurred or such Termination Event is cured during such five (5) business day period and (2) the date on which the DIP Lender is entitled to take enforcement actions (other than the termination of commitments, the acceleration of the obligations under the DIP Loan Agreement or the sending of any notice in connection with an

anticipated enforcement action) pursuant to the terms of the Interim DIP Order and the DIP Loan Agreement (such earlier date, the "Termination Date");

- (b) the allowed (regardless of when allowed) and unpaid fees and expenses of professionals retained in the Chapter 11 Case by any committee appointed in the Chapter 11 Case, to the extent consistent with the Budget, allowed by a final order of the Bankruptcy Court, and accrued on or before the Termination Date (as defined in clause (a) above);
- (c) the aggregate allowed (regardless of when allowed) and unpaid fees and expenses of professionals retained in the Chapter 11 Case by the Borrower (other than ordinary course professionals) incurred after the Termination Date to wind-down the Debtor's estate to the extent necessary to protect the interests of the residents up to a maximum amount of (1) until the entry of a final order authorizing the use of cash collateral, \$100,000 and (2) thereafter, the amount set forth in clause (c) of the definition of Carve Out contained in such final order authorizing the use of cash collateral the Final Order, and allowed by a final order of the Bankruptcy Court;
- (d) all accrued and unpaid fees of the clerk of the Bankruptcy Court or District Court, as applicable, and of the United States Trustee pursuant to 28 U.S.C. § 1930(a) and (b); and
- (e) reasonable fees and expense incurred by a trustee under 726(b) of the Bankruptcy Code not to exceed \$50,000.

Except for the Carve Out, no costs or expenses of administration shall be imposed against the Secured Creditors or the Prepetition Collateral or the Post-Petition Bond Collateral under sections 105, 506(c) or 552(b) of the Bankruptcy Code or otherwise; notwithstanding the foregoing, the section 105, 506(c) and 552(b) waivers contained in this Paragraph 20 shall not be effective until entry of a final order authorizing the use of cash collateral.

21. Payment of Professional Fees from Collateral. The Debtor shall be permitted to pay compensation and reimbursement of expenses to professionals employed under section 327 or 1103 of the Bankruptcy Code, as the same may be due and payable, subject to the restrictions

set forth herein (the “Budgeted Professional Expenses”). If, at any time (i) the Debtor has used the proceeds of the Prepetition Collateral or the Post-Petition Bond Collateral to pay Budgeted Professional Expenses, (ii) the Bond Claim has not been paid in full, (iii) all amounts owed to the DIP Lender under the DIP Loan Agreement have been paid in full, and (iv) the Debtor has funds that are neither proceeds of Prepetition Collateral nor otherwise subject to Post-Petition Bond Liens or Priming Liens (the “Available Funds”), then the Debtor shall seek to disgorge the payment of the Budgeted Professional Expenses and shall reimburse the Master Trustee from such Available Funds to the extent of such disgorged payments or payment.

22. Modification of Stay. The automatic stay imposed by virtue of Section 362 of the Bankruptcy Code is hereby vacated and modified insofar as necessary to permit the Master Trustee to take any action authorized or contemplated by this Interim Order or the Bond Documents (as the same may be modified by this Interim Order) and to carry out the terms thereof, including, without limitation the application, allocation or payment from any of the funds or accounts maintained by the Master Trustee in accordance with the terms of the Bond Documents, including the Trustee Held Funds. Any of the aforementioned actions may be taken without further order of this Court.

23. Preservation of Rights. If any or all of the provisions of this Interim Order are, at any time, modified, vacated or stayed, such stay, modification or vacation shall not affect the validity, extent, priority and enforceability of any lien, priority, or other benefit conferred under this Interim Order prior to such stay, modification or vacation.

24. Binding Effect. This Interim Order shall be binding on all parties in this case, including, but not limited to, (w) the Debtor and any successors thereto, (x) pending entry of a

final order, any Chapter 11 or Chapter 7 trustee that is appointed or elected in this case, (y) the Committee, or (z) any other party that may have standing to be heard; provided, however, that this Interim Order is without prejudice to the rights of a Committee to challenge the validity, amount, perfection, priority, extent or enforceability of the Bond Claim, the Bond Documents, the pre-petition security interests of the Master Trustee, or the rights of such Committee to, on behalf of such estate, assert any other claims or causes of action that have been otherwise released under Paragraph 17 of this Interim Order (a "Committee Claim"); provided that any Committee Claim (i) may only be made and appropriately filed with this Court within 60 days after the earlier of the appointment of such Committee, or 75 days from the Petition Date, and (ii) may only be made if such Committee has acquired legal standing to assert such claims. Unless a Committee Claim is made in accordance with the procedural and time limitations set forth above, all such challenges shall be deemed finally and conclusively barred and otherwise waived; and provided further that if a Committee Claim is timely made and properly filed, all potential claims and causes of actions are hereby deemed forever waived and relinquished by all parties including, but not limited to the party that filed such claim, except for those claims or causes of actions expressly asserted in accordance with this Paragraph 24. Furthermore, nothing in this Interim Order shall amend, modify, impair or otherwise affect the Ground Lease or the Leasehold Mortgage or the rights of the Landlord under or in relation to the Ground Lease or the Leasehold Mortgage, and no summary, characterization or other description in this Interim Order of the Ground Lease, the Leasehold Mortgage or the Leased Premises, or of the rights and obligations of the Debtor, the Landlord or the Master Trustee under or in relation to the Ground Lease, the Leasehold Mortgage or the Leased Premises, shall be binding upon the Landlord (or

any of its affiliates, successors and/or assigns); provided, that the foregoing does not modify the rights of the DIP Lender under the Interim DIP Order, the DIP Loan Agreement or the Lease Estoppel Agreement (as defined in the DIP Loan Agreement).

25. No Competing Liens. Except as set forth herein, the Interim DIP Order and any final order authorizing the obtaining of post-petition financing, the Debtor shall not grant liens on, or security interests in, the Prepetition Collateral or the Post-Petition Bond Collateral to any other party, pursuant to Section 364 of the Bankruptcy Code or otherwise.

26. Further Relief. Nothing herein shall prevent or preclude the Master Trustee or the Bank from (i) seeking any other relief that they may deem appropriate, including relief from the automatic stay, (ii) asserting at some later time that the Master Trustee's liens and security interests in the Prepetition Bond Collateral are not being adequately protected within the meaning of Section 361 of the Bankruptcy Code, (iii) asserting their rights and rights under the Bankruptcy Code, all of which are expressly preserved; (iv) asserting any rights in connection with an order seeking to make this Interim Order a final order, including that the adequate protection granted hereunder is not sufficient to protect the Master Trustee; or (v) contesting the Proposed DIP Financing on a further interim or final basis.

27. No Control. The Secured Creditors shall not be deemed by virtue of this Interim Order to be in control of the operations of Debtor or to be acting as a "responsible person," "managing agent" or "owner or operator" (as such terms or any similar terms are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, as amended, or any similar Federal or state statute) with respect to the operation or management of

the Debtor, notwithstanding its consent to this Interim Order and extending financial accommodations of any type, kind or nature under this Interim Order.

28. No Third Party Beneficiaries. No rights are created hereunder for the benefit of any third party, any creditor, or any direct, indirect or incidental beneficiary, other than the DIP Lender.

29. Effectiveness; Notice of Stay Relief. The rights and obligations of the parties under this Interim Order shall be effective and enforceable as of the expiration date of the First Interim Order. This Interim Order shall be deemed effective immediately and, for the avoidance of doubt, Federal Rule of Bankruptcy Procedure 6004(h) shall not apply hereto. If any or all of the provisions of this Interim Order are hereafter reversed, modified, vacated or stayed, such reversal, modification, vacatur or stay shall not affect (i) the validity, extent, priority or enforceability of any obligations incurred prior to the actual receipt of written notice by the Master Trustee of the effective date of such reversal, modification, vacatur or stay or (ii) the validity, extent or enforceability of the liens and claims granted hereunder.

30. Notices. All notices, requests, demands, waivers and other communications required or permitted to be given under this Interim Order shall be in writing and shall be deemed to have been duly given if (a) delivered personally, (b) mailed by first-class, registered or certified mail, return receipt requested, postage prepaid, or (c) sent by next-day or overnight mail or delivery.

(a) If to Debtor to:

Clare Oaks
801 West Bartlett Road
Bartlett, Illinois 60103-4401

Attention: President
mike@chicagolegal.com

with a copy to:

Ungaretti & Harris LLP
Three First National Plaza
70 West Madison – Suite 3500
Chicago, IL 60602
Attn: George Mesires and Robert Drobnak
Email: grmesires@uhlaw.com; radrobnak@uhlaw.com

(b) If to the Master Trustee to:

Wells Fargo Bank, National Association
MAC N9311-115
625 Minneapolis, MN 55479
Attention: Michael G. Slade
Email: Michael.G.Slade@wellsfargo.com

with a copy to:

Daniel S. Bleck, Esq.
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
One Financial Center
Boston, MA 02111
Fax: 617-542-2241
Email: dsbleck@mintz.com

(c) If to the Bank to:

Sovereign Bank
75 State Street, 4th Floor
Boston, Massachusetts 02109
Attention: Naomi O'Dell
Email: nodell@sovereignbank.com

with a copy to:

John R. Weiss
Duane Morris LLP
190 North LaSalle Street, Suite 3700
Chicago, IL 60603-3433
Email: jrweiss@duanemorris.com

(d) If to the DIP Lender:

Senior Care Development, LLC
500 Mamaroneck Avenue, Suite 406
Harrison, New York 10528
Attn: David Reis
Email: dreis@seniorcaredevelopment.com

with a copy to:


William S. Fish, Jr.
Sarah M. Lombard
Hinckley, Allen & Snyder LLP
20 Church Street
Hartford, Connecticut 06103
Email: wfish@haslaw.com; slombard@haslaw.com

31. Final Hearing. The Final Hearing will be held by this Court on January 24, 2012 at 10:30 a.m. (prevailing Central Time) to consider entry of a final order. Any party in interest objecting to the relief sought at the Final Hearing shall file a written objection, which shall be served upon the following parties (collectively, the "Notice Parties"): (a) Ungaretti & Harris LLP, Three First National Plaza, 70 W. Madison, Suite 3500, Chicago, Illinois 60602 (Attn: Robert A. Drobnak, Esq., Donald L. Schwartz, Esq. and George R. Mesires, Esq.), counsel for the Debtor; (b) the Office of the United States Trustee for the Northern District of Illinois; (c) the Debtor's 20 largest unsecured creditors on a consolidated basis; (d) Hinckley, Allen & Snyder LLP, 20 Church Street, Hartford, CT 06103 (Attn: William S. Fish, Jr., Esq. and Sarah M. Lombard, Esq.), counsel to the DIP Lender; (e) Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111 (Attn: Daniel Bleck, Esq.), counsel for the Bond Trustee; (f) Duane Morris LLP, 190 South LaSalle Street, Suite 3700, Chicago, Illinois 60603 (Attn: John R. Weiss, Esq.), counsel for the Bank; (g) DLA Piper LLP, 203 North

LaSalle Street, Suite 1900, Chicago, Illinois 60601 (Attn: Timothy W. Brink, Esq.), counsel to the Landlord and (h) any other known lienholder as of the Petition Date, and shall be filed with the Clerk of the United States Bankruptcy Court, Northern District of Illinois, in each case to allow actual receipt by the foregoing no later than January 20, 2011 at 4:00 p.m. (prevailing Central Time).

DEC 15 2011

DATED: December __, 2011

Handwritten signature of Pamela Hollis in cursive script, followed by the initials 'H/B'.

United States Bankruptcy Judge

EXHIBIT A

DRAFT - SUBJECT TO CHANGE

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

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

Week	3		4		5		6		7		8	
	Week Ended	12/23/2011	Week Ended	12/30/2011	Week Ended	1/6/2012	Week Ended	1/13/2012	Week Ended	1/20/2012	Week Ended	1/27/2012
Beginning Book Cash Balance	\$ 979	\$ 1,806	\$ 1,806	\$ 1,554	\$ 1,163	\$ 884	\$ 879					
Receipts												
ILU	34	-	34	135	34	135	34					
ALFMS	35	-	8	67	35	67	35					
SNF	154	335	-	48	114	518	1,170					
Co-insurance	86	-	-	89	89	89	264					
Other	5	-	-	15	5	5	25					
Total Receipts	314	335	42	248	420	682	2,041					
Disbursements - Operating												
Payroll	300	150	-	300	-	300	1,050					
Trade Payables Current	157	157	196	196	196	196	1,097					
Entrance Fee Refunds	-	-	207	200	-	200	407					
Capital Expenditures	15	265	15	15	15	15	341					
Other Expenses	15	15	15	15	15	15	90					
Total Operating Disbursements	487	587	433	526	426	526	2,985					
Net Operating Cash Flow	(173)	(252)	(391)	(278)	(6)	156	(944)					
Restructuring Disbursements												
Professional Fees	-	-	-	-	-	-	-					
US Trustee Fees	-	-	-	-	-	13	13					
Utility Deposits	100	-	-	-	-	-	100					
DIP Interest and Fees	400	-	-	-	-	-	400					
Total Restructuring Disbursements	500	-	-	-	-	13	513					
Financing Disbursements												
DIP Funding	1,500	-	-	-	-	-	1,500					
Total Financing Disbursements	1,500	-	-	-	-	-	1,500					
Net Cash Flow	827	(252)	(391)	(278)	(6)	143	43					
Ending Book Cash Balance	\$ 1,806	\$ 1,554	\$ 1,163	\$ 884	\$ 879	\$ 1,021	\$ 1,021					
Beginning DIP Balance	-	-	1,500	1,500	1,500	1,500	1,500					
Accrued Professional Fee Holdback	-	-	-	-	-	-	-					
DIP Funding	1,500	-	-	-	-	-	1,500					
Ending DIP Balance	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500					

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

DRAFT -
SUBJECT TO CHANGE

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

	December	January	Total
Estimated Total Professional Fees for Clare Oaks			
(\$ in Thousands)			
Clare Oaks			
<i>Financial Advisors:</i>			
Alvarez & Marsal	100	100	200
Ziegler (1)	-	-	-
Total FA	100	100	200
<i>Legal Advisors:</i>			
Ungaretti & Harris	175	125	300
Total Legal	175	125	300
Sheila King (PR Firm)	5	5	10
Larson Allen	20	10	30
Claims Agent	30	20	50
Total Clare Oaks	330	260	590
<i>Other:</i>			
Bondholder Counsels & Advisor	100	100	200
Committee	20	20	40
Umbudsman	5	5	10
Grand Total	455	385	840

Notes: (1) Fees will be paid at closing