



Sunwest Management CRO Report

Week of April 6-10, 2009

Investor Relations

Following up on the three investor meetings of last week, we held a telephone-only conference attended by approximately 100 investors. Between the three meetings and related phone calls we estimate that we reached over 700 investors. Bill Bryan, chair of the Management Committee, hosted the call, and CRO Clyde Hamstreet and Michael Grassmueck, the court-appointed Receiver, also participated. A recording of the call is available to investors by going to the Investor Information page of the Sunwest website. We plan to hold regular calls at least once a month to give investors a continuing opportunity to ask questions about the restructuring.

In conjunction with the Management Committee, we have been updating investors regularly via mail and email. The much-anticipated list of properties that will and will not form part of the restructuring is due out very soon and will be distributed to investors.

Asset Disposition

Ninety properties have been listed for sale, including 40 senior living and 50 non-senior-living. Announcements were sent to investors notifying them of the need to determine fair market value and informing them that the listing of a property does not mean it will be sold. Many investors have heard rumors about possible sales and are confused about the marketing effort. An additional explanation and investor update was sent today to help clarify this process. The SEC reviewed the letter and will also review future investor communications.

In other respects the asset disposition process has not moved forward as much as we would like. The CRO and Receiver plan to issue a new set of guidelines in the near future and may seek Court approval to start acting on them.

Withdrawal of the Reference

On Monday Judge Hogan heard a motion to withdraw Jon Harder's Chapter 11 case from the Bankruptcy Court to the District Court. His ruling in favor of the motion will consolidate the issues and professional efforts in the case by bringing all the activity into one court. His ruling on the motion to withdraw the reference in the individual entity Chapter 11 cases is still pending.

Professional Fees

CDs with copies of restructuring-related professional invoices from April 2008 up to the appointment of the Receiver have been distributed to several parties, including the SEC, the Receiver, the US Trustee, counsel for Jon Harder, and the TIC and Unsecured Creditor Committees.

Gathering and analyzing the invoices was a laborious process that began several weeks ago in response to inquiries regarding professional fees.

All professional fees paid by the CRO or Receiver post-Receivership will be submitted for Court approval and be available for review by interested parties. Professional fees attributable to Jon Harder's bankruptcy case will also be submitted to the Court for review and approval.

Mediation

A mediation session was held on April 8th with Judge Lyle Velure to address several issues:

- A disagreement has arisen between Jon Harder and the CRO over the location and control of Harder's portion of the Lone Star funds. Under the CRO Agreement the CRO has ownership and control of the funds, but under the Stipulation he was to bring a portion of the funds into Harder's estate. The SEC strongly opposes the CRO moving funds into Harder's estate. This issue may require direction from the Court, but first the parties will meet in hopes of achieving an agreed resolution prior to April 24.
- The mediating parties (which did not include the SEC) agreed to monthly allowances for Jon Harder, Darryl Fisher, and Wally Gutzler in the amounts of \$22,000, \$10,000, and \$5,000 respectively. The agreement provides that Mr. Fisher and Mr. Gutzler will continue to receive their regular monthly salaries and that \$20,000 will be placed each month in a trust account held by Mr. Fisher's counsel to be used to satisfy claims if the SEC is successful in proving the funds were ill-gotten gains; otherwise the money is to be distributed to creditors and investors in accordance with the restructuring plan.

The agreement provides for the allowances to be paid for the period January through October, 2009, at which time they are subject to renegotiation. A reconciliation of amounts paid to the parties will be included in next week's report.

Strategy Session

We are in the process of gathering and analyzing property and investment data in preparation for the two-day meeting to be held April 15-16 to develop a potential restructuring vehicle. An agenda will be distributed on Tuesday the 14th.

Management Committee

Due to conflicts of interest arising out of priority issues related to payments owed to him from his interests in the Lone Star sale, Dan Whitaker has resigned from the Management Committee. He worked hard for the benefit of investors while serving on the Committee and was an important asset to it as it began its work. The loss of Mr. Whitaker's involvement in the restructuring effort is unfortunate.

Operations Update

This past week Sunwest provided its VPs and Regional Managers with operating P&Ls consolidated by division and region for the first time. This practice will continue on a monthly basis.

The company is currently conducting an employee satisfaction survey. Hamstreet staff members are calling a random selection of 300 Sunwest employees, inviting them to participate in a 7-minute confidential opinion survey. Results will be tabulated and summarized by a third-party research consultant when the calls are complete.

Operations recently converted smoothly to the latest release of Vitals, the system used to manage the communities. The new Vitals system will improve standardization and provide a platform for future systems development and integration.

Finance Department Update

Weekly cash forecasts through July have been completed and will be distributed this week. The forecasts cover operations (facilities), Sunwest Management, and professional fees.

Chris Ridge – The fire alarm system is not functioning properly and must be replaced. The facility has hired additional staff to do fire watch every 15 minutes at an additional estimated cost of \$2500 per week. Two bids were received and the estimated cost to replace the system is \$400k. Chris Ridge is financed by MMA and there is money available in a replacement reserve to fund the work in the amount of \$200-\$250k. The lender is expected to review bids and approve funding early this week. Estimated time to complete the work is approximately 4 weeks.

Glen Ellen – There are approximately \$600k of buy-in refunds either currently due or coming due in the very near term. When this facility was purchased in 2006, the buy-in liability was not funded, and Glen Ellen does not have funds to repay the buy-in deposits. The company is developing a strategy to communicate with the claimants and with the existing residents of this facility.

We have previously reported that **inter-facility borrowing** ceased in January. Last week, GE approved borrowing within the obligated group to cover debt service payments, and the TICs through their attorney concurred. Transfers within obligated groups have since been made to fund current debt service (GE4 \$60k, GE6 \$35k; and ML2 \$10k, for a total of \$105k).

Lender meetings are being scheduled for the week of April 20 with the largest lenders to discuss the stay and restructuring plans.

The CRO met with **Columbia Pacific Distressed Funds** (lender to CS 20 and CS27) last week. The parties have reached an agreement to extend the time in which a plan of reorganization is due. The facilities will continue to operate as they are in Chapter 11 until there is more clarification as to the global restructuring of Sunwest.

Chapter 11 Updates

A summary of DIP budget-to-actuals for the Chapter 11 facilities is attached to this report.

- **End of Report** -

Summary - Budget to Actual DIP Budget
Chapter 11 Facilities

Facility	Beg Date	End Date	Budget					Actual					Difference	% Diff
			Beginning		Ending		Beginning		Actual		Ending			
			Week Of	Week Of	Cash	Receipts	Disburse-ments	Debt Service	Cash	Cash	Receipts	Disburse-ments		
Alpine Court	1/26/09	3/30/09	153,758	450,000	(336,290)	(54,085)	213,383	153,758	717,229	(349,742)	(55,150)	466,096	252,713	118.4%
Champlin Shores	1/26/09	3/30/09	240,137	728,894	(502,738)	(92,914)	373,379	241,787	874,110	(575,935)	(96,717)	443,245	69,866	18.7%
Cliff View	1/26/09	3/30/09	78,896	456,725	(358,420)	(62,278)	114,924	78,896	390,485	(326,883)	(68,028)	74,470	(40,454)	-35.2%
Colonial Gardens	1/26/09	3/30/09	77,600	204,161	(259,267)	(7,785)	14,709	79,186	167,732	(236,995)	-	9,923	(4,785)	-32.5%
Heartland Park	1/26/09	3/30/09	119,883	463,851	(322,344)	(78,793)	182,597	120,061	552,825	(326,003)	(82,955)	263,928	81,331	44.5%
Lakeside	1/26/09	3/30/09	118,653	340,157	(264,701)	(43,412)	150,697	84,996	317,919	(235,790)	(45,119)	122,006	(28,691)	-19.0%
Montclair Park	1/26/09	3/30/09	282,166	883,517	(583,260)	(119,892)	462,530	282,166	990,436	(592,079)	(131,666)	548,856	86,326	18.7%
Northridge	1/26/09	3/30/09	238,035	712,488	(442,539)	(152,242)	355,742	238,035	792,487	(493,225)	(156,012)	381,286	25,543	7.2%
Palm Meadows Court	1/26/09	3/30/09	100,246	287,092	(251,838)	(23,354)	112,146	74,060	295,143	(230,365)	(25,328)	113,511	1,364	1.2%
Plaza At Sun Mountain	1/26/09	3/30/09	11,728	373,500	(411,723)	(30,480)	(56,975)	23,553	453,752	(408,444)	-	68,861	125,837	-220.9%
Spring Pointe (BK Filed by Others)	1/26/09	3/30/09	260	517,500	(319,668)	(37,729)	160,363	260	477,411	(295,789)	-	181,882	21,519	13.4%
Stonebridge	1/26/09	3/30/09	160,353	596,250	(465,539)	(74,379)	216,685	142,704	556,936	(438,473)	(82,309)	178,858	(37,827)	-17.5%
The Oaks	1/26/09	3/30/09	124,976	362,250	(272,086)	(51,998)	163,143	124,976	499,394	(316,260)	(56,231)	251,879	88,736	54.4%
The Terrace At Bluegrass	1/26/09	3/30/09	76,612	358,904	(283,444)	(58,595)	93,476	76,612	407,804	(277,778)	(62,875)	143,763	50,287	53.8%
Willow Ridge	1/26/09	3/30/09	100,546	416,095	(292,225)	(83,781)	140,635	100,546	458,579	(297,506)	(89,234)	172,385	31,750	22.6%
Chehalem Springs (Mt View)	1/26/09	3/30/09	151,019	514,877	(282,263)	-	383,633	196,559	460,853	(370,524)	-	286,888	(96,745)	-25.2%
Century Fields	2/9/09	3/30/09	304,885	314,220	(312,858)	(100,217)	206,029	311,639	238,883	(275,986)	(100,216)	174,320	(31,709)	-15.4%
Briarwood	2/9/09	3/30/09	830,759	410,000	(262,847)	(61,005)	916,908	929,686	318,178	(225,356)	(61,005)	961,503	44,595	4.9%
Hawthorne Gardens	1/26/09	3/30/09	1,610,020	299,250	(279,126)	(190,246)	1,439,898	1,315,413	400,614	(295,305)	(183,490)	1,237,232	(202,666)	-14.1%
Moses Lake	3/9/09	3/30/09	287,412	87,182	(121,659)	-	252,934	291,371	155,446	(123,197)	-	323,620	70,686	27.9%
			5,067,943	8,776,912	(6,624,834)	(1,323,184)	5,896,837	4,866,264	9,526,217	(6,691,634)	(1,296,334)	6,404,512	507,676	

Comments on selected facilities:

- Cliff View Facility has had a decline in occupancy. The declining deposits has been partially offset by decrease in operating expense. Debt service exceeds amount budgeted.
- Colonial Gardens Facility manager has recently been replaced.
- Lakeside Deposits and disbursements are consistent with budget. Difference in ending cash is due to an Actual late posting of beginning cash entry.
- Plaza at Sun Mtn Facility has been listed for sale.
- Stonebridge Facility's receipts began behind budget; however, between 2/16 and 4/7, occupancy has increased from 86% to 98% and receipts have begun to exceed budget.
- Chehalem Springs Occupancy has held constant. Projected increase has not materialized. In addition, operating costs have exceeded budget.
- Century Fields Occupancy has decreased by from 88% to 82% over the period. Operating costs have also decreased, offsetting a portion of the loss. Manager has been replaced.
- Hawthorne Gardens Facility is being transferred to TICs on May 1.

General Notes: Operations is addressing issues with occupancy and other matters.

There is no budget to actual reporting requirement for seven facilities due to the presence of a state court receiver. The seven are: Medallion, Englewood Heights, Waterford at Bellevue, Crimson Ridge Meadows, Crimson Ridge Gardens, Beacon Pointe, and Quaker's Landing.