



Sunwest Management CRO Report

Week of April 13-17, 2009

Strategy Session

On April 15-16, the CRO held a two-day strategy and planning session to bring key constituencies into the same room to discuss how the Sunwest restructuring should proceed. Representatives of all parties, including the SEC, the Receiver, the Management Committee, the Sunwest principals, and the CRO, participated in one or more of the sessions. In addition, a 1031 tax expert and other professionals with business and restructuring expertise participated.

The sessions were constructive both for the ideas presented and for the opportunity afforded the parties to talk face to face. In light of the history, issues, and roles of the parties, there remains real potential for conflict, and that conflict could derail the restructuring. At the same time, everyone recognizes the value of restructuring to achieve maximum recovery for investors and creditors. While the potential for conflict is real, the restructuring team is now in place and striving toward the same goal.

Some highlights from the session were:

- **Unitary enterprise.** Most agree that if feasible, a single business structure is the one most likely to provide the highest return to investors and creditors. There are many possibilities for the form of such a structure, e.g., a corporation, a real-estate investment trust, or a TIC structure with modifications of current contracts. Alternatives to a unitary enterprise will also be explored; these would most likely involve moving lower-tier TICs into the equity interests of Harder, Fisher, and Gutzler in better properties. Court approval will be required for any plan to become final.
- **Tax issues.** Considerable attention is being given to finding ways to help TICs avoid taxable events as the company goes through the asset disposition process.
- **Motions.** A number of motions will be filed in the District Court, including motions to:
 1. Bring the Lone Star entities into the Receivership estate. This motion will also expand the stay and asset freeze to include other defendants, and include findings about Sunwest's prior use of funds on a unitary enterprise basis to help clarify and support the CRO's powers to divest of assets, raise cash, and use Lone Star cash on interim basis.
 2. Establish a protocol for asset dispositions.
 3. Allow TICs who spend money to protect their properties (e.g., to prevent code violations or to preserve entitlements) to have priority status for repayment in the event the property is later sold.

4. Use cash collateral.
 5. Employ professionals and provide for their compensation, including limits on certain kinds of services and amounts to be paid from the Receivership estate. Professionals will be submitting budgets to the CRO to help manage restructuring costs.
- **Property disposition.** Strategically, the asset disposition process has been and remains straightforward. There are three main reasons to sell assets: i) they drain cash from operations; ii) they will raise cash needed for restructuring; and iii) they do not fit Sunwest's core business model as a senior living provider.

Mechanically, the asset disposition process has now been clarified. Sunwest will complete the marketing effort. Paul Rundell will summarize the offers for the Asset Disposition Team (ADT) and Management Committee (MC) by May 3rd.

Properties that Sunwest wants to dispose of to save or raise cash will be classed according to whether or not they have equity value (i.e., whether the highest offer is more or less than the secured debt), and further subdivided according to who is interested in acquiring the property. As a general rule:

- Current investors in a property with no equity value may be able to acquire it if they assign their claims to the Receiver and if the lender waives any deficiency claims.
- Investors interested in acquiring a property with equity value may be able to do so through the bidding process—just like any other buyer—but they will not be able to credit their original investment toward the new transaction as that would amount to a premature distribution.

Due to poor market conditions Sunwest will not hurry to sell non-core properties that neither drain cash nor serve as an opportunity to raise funds for restructuring. The CRO will time these divestments to balance the goals of the restructuring with market considerations.

- **Cash flow budget.** Participants reviewed a summary cash flow budget through July. We are getting additional input from professional firms to finalize those projected costs.

Lender Negotiations

The CRO is arranging business-to-business meetings with the four to six largest lenders to discuss the restructuring effort and attempt to win their cooperation, including abandonment of the lenders' appeal of the SEC injunction. On April 23, we will meet with Columbia Pacific regarding the CS-20 and CS-27 loan portfolios. We are also contacting other appellants who hold significant debt, including GE, Nebraskaland, Royal Bank of Scotland, Ventas, and Wells Fargo, about a meeting during the week of April 27. At the meetings we will provide a case update, address adequate protection, discuss debt restructuring, and seek cooperation on the injunction.

The CRO and Receiver have worked out their respective roles in negotiating with lenders:

- Routine inquiries from business representatives of lenders will go to the CRO;
- Routine inquiries from lender lawyers will go to Greg Yates (divestment) or Al Kennedy (debt restructuring);

- Inquiries about the SEC investigation or the Receivership will go to the Receiver or his counsel.

The CRO and Receiver will communicate regularly and will jointly develop decision and action plans regarding pursuit of any viable claims against lenders.

Taxes

About 97 LLC tax returns were completed prior to the April 15 deadline, leaving about 500 more for which extensions were filed. We did not file all of the completed returns (submitting extensions instead) due to the decisions by Harder, Fisher, and Gutzler that they would not sign a return while the SEC investigation is ongoing. It appeared that we might include a statement on the returns and K-1's to the effect that "amounts reported are subject to change based upon the ongoing SEC investigation," and find another signatory. But this issue is not yet resolved, and we intend to raise it with the Receiver.

Garden Way (Eugene)

We are evaluating proposals received from prospective third-party management companies. The lender, Sterling/Intervest, has recently disbursed the February construction draw request, but is not presently willing to fund soft costs for furniture & fixtures, much of which is sitting at the transfer station awaiting delivery to the project.

Parkway Village (Spokane, WA)

This assisted living facility has a 26-unit expansion in progress to add to the existing 54 units. The lender, Community Bank, has ceased funding due to \$325,000 in construction liens filed by KDA Construction and subcontractors. We are working with the bank to resolve the issues.

Operations

We saw continued progress in service and care quality: In resident service planning the number of "NO plans" has declined from 69 at the end of February to 25; in the same period the number of "LATE plans" has fallen from 204 to 168 and the mean time between quality reviews is down from 6.0 to 3.7 months.

Sales and marketing efforts, however, failed to yield the hoped for bump in census during the second week of the month. Results were essentially flat (net census change of -1 for the week). We are seeing a decline in traffic (defined for internal measurements as a telephone or walk-in inquiry) more or less across the board. Given the broad nature of the decline we still suspect the economy is a dominant factor. We are now re-emphasizing the need for referral sources to visit communities and asking all our administrators to get more involved in community visits.

Last week we expanded the "Focus Project" to include 60 communities. Previously, we had two sales and marketing specialists supporting the marketing and sales focus on 16 communities that we hoped to raise from tier 3 to tier 2. These efforts were yielding results, so we brought two additional regional sales specialists into the Salem office for temporary assignment on the expanded Focus Project.

DIP Budgets

Facility	Beg Date	End Date	Budget					Actual					Difference	% Diff
			Beginning		Disburse-ments	Debt Service	Ending Cash	Beginning Cash	Actual Receipts	Disburse-ments	Debt Service	Ending Cash		
			Cash	Receipts										
Alpine Court	1/26/09	4/12/09	153,758	550,000	(375,349)	(54,085)	274,324	153,758	783,464	(389,248)	(55,150)	492,824	218,501	79.7%
Champlin Shores	1/26/09	4/12/09	240,137	890,871	(567,087)	(92,914)	471,007	241,787	1,026,710	(650,632)	(96,717)	521,148	50,142	10.6%
Cliff View	1/26/09	4/12/09	78,896	558,220	(402,172)	(62,278)	172,667	78,896	435,716	(370,907)	(68,028)	75,677	(96,990)	-56.2%
Colonial Gardens	1/26/09	4/12/09	77,600	249,530	(289,681)	(7,785)	29,664	79,186	239,524	(260,310)	-	58,400	28,736	96.9%
Heartland Park	1/26/09	4/12/09	119,883	566,929	(360,039)	(78,793)	247,980	120,061	642,169	(374,276)	(82,955)	304,999	57,019	23.0%
Lakeside	1/26/09	4/12/09	118,653	415,748	(296,271)	(43,412)	194,718	84,996	357,124	(263,209)	(45,119)	133,792	(60,925)	-31.3%
Montclair Park	1/26/09	4/12/09	282,166	1,079,854	(658,565)	(119,892)	583,562	282,166	1,104,040	(663,999)	(131,666)	590,540	6,978	1.2%
Northridge	1/26/09	4/12/09	238,035	870,819	(493,200)	(152,242)	463,412	238,035	925,009	(552,288)	(156,012)	454,744	(8,668)	-1.9%
Palm Meadows Court	1/26/09	4/12/09	100,246	350,890	(281,607)	(23,354)	146,176	74,060	357,555	(261,327)	(25,328)	144,960	(1,216)	-0.8%
Plaza At Sun Mountain	1/26/09	4/12/09	11,728	456,500	(464,696)	(30,480)	(26,948)	23,553	514,203	(464,246)	-	73,511	100,459	-372.8%
Spring Pointe (BK Filed by Others)	1/26/09	4/12/09	260	632,500	(368,789)	(37,729)	226,242	260	596,227	(342,380)	-	254,106	27,864	12.3%
Stonebridge	1/26/09	4/12/09	160,353	728,750	(529,015)	(74,379)	285,709	142,704	699,554	(506,156)	(82,309)	253,793	(31,916)	-11.2%
The Oaks	1/26/09	4/12/09	124,976	442,750	(302,208)	(51,998)	213,520	124,976	545,640	(351,219)	(56,231)	263,167	49,647	23.3%
The Terrace At Bluegrass	1/26/09	4/12/09	76,612	438,661	(316,956)	(58,595)	139,722	76,612	447,794	(315,025)	(62,875)	146,506	6,785	4.9%
Willow Ridge	1/26/09	4/12/09	100,546	508,560	(325,664)	(83,781)	199,661	100,546	526,776	(337,723)	(89,234)	200,365	704	0.4%
Chehalem Springs (Mt View)	1/26/09	4/12/09	151,019	561,684	(314,152)	-	398,551	196,559	554,291	(409,274)	-	341,576	(56,974)	-14.3%
Century Fields	2/9/09	4/12/09	304,885	366,590	(359,788)	(100,217)	211,469	311,639	363,352	(314,500)	(100,216)	260,274	48,805	23.1%
Briarwood	2/9/09	4/12/09	830,759	745,000	(427,167)	(122,009)	1,026,582	929,686	614,266	(407,365)	(122,010)	1,014,576	(12,006)	-1.2%
Hawthorne Gardens	1/26/09	4/12/09	1,610,020	369,750	(320,750)	(285,368)	1,373,652	1,315,413	483,714	(339,290)	(229,522)	1,230,314	(143,338)	-10.4%
Moses Lake	3/9/09	4/12/09	287,412	174,363	(160,767)	-	301,008	291,371	252,896	(163,486)	-	380,781	79,773	26.5%
			4,397,669	8,142,418	(5,619,594)	(1,183,457)	5,737,035	4,192,575	8,342,442	(5,691,489)	(1,100,521)	5,743,007	5,971	0.1%

Comments on selected facilities:

- Cliff View Facility's occupancy decline appears to have levelled off. Operating expenses continue at level of budget or less. Cash holding steady.
- Colonial Gardens Facility manager has recently been replaced; however, it is too soon to determine any resutlting changes in operations. Other CS 20 facilities paying mortgage as "indemnification portion"
- 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. Marketing efforts are moving forward. Other CS 20 facilities paying nortgage as "indemnification portion."
- Stonebridge Facility achieved 100% occupancy. Revenues continue to exceed budget while expenses stay in line with budget.
- Chehalem Springs Occupancy has held constant at 65%. Operating costs continue to exceed budget.
- Century Fields Occupancy continues to slowly erode. Operating costs continue at less than budgeted. Manager has been replaced.
- Hawthorne Gardens Facility is being transferred to TICs on May 1.