



Sunwest Management CRO Report

Week of March 30-April 3, 2009

This is the first of what will become a series of weekly reports on the CRO's activities and issues faced in the restructuring of Sunwest. With the District Court stay and use of the Lone Star funds, stability has increased dramatically over the past few weeks. We are in a much better position to proceed with the restructuring. Confusion over appropriate and inappropriate asset disposition, however, continues to interfere with our progress. A brief review follows of the important events and issues dealt with during the week of March 30-April 3.

Investor Meetings

We held three investor meetings at the beginning of the week:

Date	Location	Approximate attendance in person	Attendance by phone
March 30	Los Angeles	80	110
March 31	Portland	250	0 (technical problems)
March 31	Portland	70	135

Speakers were Bill Bryan, chairman of the management committee, Clyde Hamstreet, the CRO, and Michael Grassmuck, the Receiver. The CRO delivered a PowerPoint presentation. Each meeting included an active and lengthy question and answer period, followed by continuing talks in the hallways. A PDF of the presentation and an MP3 audio file of the presentation portion of the LA meeting have been posted on a new "Investor Information" page on the Sunwest Management website.

Asset Disposition

Following discussions with the Receiver's attorneys, the CRO drafted and distributed internally a set of guidelines intended to govern the asset disposition process. The guidelines assume that the CRO can dispose of properties free and clear of liens and without obtaining the TIC and member approvals normally required outside the Receivership. Subsequent discussions with the Receiver's counsel have cast that ability, and therefore the entire asset distribution process, into doubt. Further discussions are needed to bring clarity to this important issue.

Administrative Expenses and Professional Engagements

The magnitude of professional fees in the case is a significant issue and has attracted the attention and dismay of all parties. This will never be an inexpensive case, but we can do a better job of managing and reducing administrative expenses. On Wednesday, Steve English hosted a no-charge

meeting of professionals representing key parties to address this issue. Representatives from Bullivant, Schnader, Tonkon Torp, the Receiver, the SEC, Hamstreet, Perkins Coie, Ater Wynne, and the TIC Committee attended.

The group made progress in defining the roles of some of the lawyers, but there is still additional work to do in this area. We generally agreed that regular communication among all the counsel would reduce cost and that a set of protocols among the lawyers would be helpful. The meeting was also useful in obtaining a better understanding of the SEC's concerns and the Receiver's thoughts.

The Management Committee and CRO have determined that it is in the best interest of the case to continue with Steptoe as general counsel representing Sunwest and the restructuring effort. In addition, the responsibilities of Al Kennedy and Tonkon Torp, who already represent several Sunwest entities in bankruptcy, are being expanded to include service as lead restructuring counsel for overall strategic purposes. Mr. Kennedy is drafting a protocol to clarify the respective roles of Steptoe, himself, and the Receiver's attorneys when it comes to defending the stay, filing motions in District Court, responding to lenders, disposing of properties, and other matters.

The CRO and the Receiver are in the process of defining the scope of accounting and forensic accounting work to be undertaken by Moss Adams and Financial Forensics to provide accounting services for both the Receiver and for the restructuring. Shirley Dunn from Hamstreet and Geoffrey Winkler from the Grassmuck Group will supervise this effort. In general it is thought the work will be done in stages, with stage one being an analysis of the accuracy of the current records and the development of the scope of work needed for the second stage.

Strategy Session

A two-day meeting will take place in Portland on April 15th and 16th at the Marriott Hotel for the purpose of creating and vetting potential global plans. A smaller group will meet the first day to work on plan details with legal specialists; on the second day a larger group will convene to test and develop ideas further. Details will be sent at the beginning of next week, followed by an agenda prior to the meeting.

Lone Star

At the request of the U.S. Trustee in Harder's bankruptcy case, a meeting was held to review the Lone Star transaction. Present were Shirley Dunn, acting Sunwest CFO, Carla McClurg and Allen Painter from the U.S. Trustee's office, the Receiver and two colleagues, Eric Smith from Schnader, and Greg Yates from Steptoe. The meeting reviewed:

- The timeline leading up to the transaction
- Leverage exerted by GE and the signing parties
- The effect of Harder's bankruptcy
- The sources and uses
- Cash disbursed

The Receiver and Harder's attorneys showed interest in cooperating to analyze potential claims. Materials from the meeting will be shared with the UCC attorney and other parties as requested.

A letter is going out shortly to Lone Star to demand that it return Medicaid collections it has retained in contravention of the sale agreement. Resident discharge payments and refunds held by the Purchaser will also be demanded.

Cash

For the first time in four months, the 25th payroll was made with no disruptions.

Garden Way (Eugene)

Garden Way is a facility under construction and due to be completed in April. We have reviewed our ability to launch the facility successfully in light of the current financial situation, and have decided that we will appoint a third-party manager to do the launch.

Neawanna By the Sea

The senior living facility held by this entity was sold as part of the Lone Star transaction. Subsequently a dispute arose between the Seller and Purchaser over the ownership of certain escrowed funds, which required the immediate filing of Neawanna By the Sea under Chapter 11. If necessary, other entities may also be filed, or we may seek to add them to the list of Receivership properties for purposes of protecting their remaining assets.

Operations

The Oregon Department of Human Services filed a Notice of Regulatory Action in the SEC case. Attached to the notice are three separate Notices of Assessment of Civil Penalty, two of which relate to W/E Specialized Care, LLC, and the other to Mountain View Village Assisted Living and Retirement Cottages, LLC. The fines are for the following:

Not following procedures relating to a patient with a fall risk history (\$200)

Failure to monitor a resident with a history of altercations, which led to a series of altercations with a second resident and resulted in two incidents of injury to the second patient (\$250)

Failure to protect two residents from theft, resulting in one resident reporting a theft of \$20 and a second resident reporting a theft of eight narcotic pain pills (\$250).

Occupancy increased slightly in March after a decline in January and February. Since declines have been reported by other senior living operators it is believed the economy is the dominant factor, as opposed to any Sunwest-specific issues.

- **End of Report** -