



## Sunwest Management CRO Report

June 14-26, 2009

### I. Ordinary Course Business

#### A. Operations

As with May, Sunwest will end the month of June with positive net census growth. As of June 29, the month's census change stood at +71. Emphasis on sales continued with geographical staffing adjustments and new recruiting in the South and Southeast. The company is also reworking its advertising programs, downplaying Yellow Page ads and shifting to more Internet exposure. We expect annual net cost savings in excess of \$500,000 over the next year from these changes, with improved customer targeting.

June rent collections improved modestly, with current rent due as of June 26 at 2.1%, down from 2.6% uncollected at the end of May.

Preliminary May financial results, on a same-community basis, for communities managed by Sunwest are shown below:

<i>Amounts in millions</i>	May 2008	May 2009	Δ
<b>Revenue</b>	\$ 28.07	\$ 28.87	+ 2.86%
<b>Net Operating Income</b>	6.91	7.17	+ 3.71%
<b>Margin</b>	24.61%	24.82%	+ 20 bps

The company continues to make progress in nearly all expense categories. Only "Maintenance & Repair" and "Employee Overhead" (from administrator salaries and bonuses and employee vacation expense) grew faster than the 2.9% rate of revenue growth.

Quality metrics (i.e., resident service planning and quality review completion) continued at or within acceptable levels, with service plans now 99.54% current.

#### B. Finance

Financial reporting. May financials are essentially complete, excepting entities where Sunwest does not get timely information from the facility receiver. Sunwest has the ability to compare actual financial results with the 2009 financial forecasts prepared in conjunction with the restructuring plan. We will begin reporting on the overall monthly comparison in the next report.

In our last report, we indicated that the Lone Star entities had been brought into the Receivership Estate. The transfer of funds to Michael Grassmueck has now been completed for those entities.

Cash Management: As of June 5, facilities (excluding those in receivership) had \$23.8 million in cash, compared to a budgeted amount of \$15.1 million, which was based on conservative assumptions. The \$8.7 million difference is due to the following timing differences:

Resident receipt collections earlier than budgeted	4.9
Debt service payments all budgeted first week of month, payments made throughout month	2.3
Management fees budgeted as paid first week of month, difference of	0.8
Other, net	0.7
<b>Total difference</b>	<b>8.7</b>

Of the total projected use of Lone Star funds from May 25 through June 19, \$5.2 million was budgeted and we have actually utilized \$4.7 broken down as follows:

Transferred to senior living facilities	\$0.2 million
Advanced to the Federal Equity Receiver	1.0
Payment of Professional fees	<u>3.5</u>
	<b>\$4.7 million</b>

Payment of professional fees covers multiple months.

## II. Restructuring Update

### A. Plan Development

The CRO and Receiver intend to submit a restructuring and distribution plan by August 1<sup>st</sup>, in accordance with Judge Hogan's directive at the status conference on June 15<sup>th</sup>. The recommended plan will provide for the creation of a unitary enterprise that owns all retained properties; TICs transferring into the entity would not experience a taxable event in doing so. We are meeting with investor lawyers, the TIC Committee, the Unsecured Creditors Committee, and secured lenders next week for input and suggestions before the plan is submitted to the Court.

We are preparing an information package for parties to study and use in evaluating the plans. Financial packages will be sent to the TIC Committee, investor attorneys, and the Unsecured Creditors Committee early this week (of June 29<sup>th</sup>). Secured lenders will receive three-year projections no later than Monday, July 6<sup>th</sup>, and individual investors will receive packets with specific information about their properties and a general explanation of plan principles, valuation methodologies, and other details on July 7<sup>th</sup>.

Announcements for a series of meetings during the week of July 6<sup>th</sup> have begun to go out. Those meetings in turn will help prepare for and facilitate the mediation sessions scheduled for Eugene during the week of July 13<sup>th</sup>.

## **B. Mediation Updates**

Due to the Court's requirement that a plan be filed by August 1, most mediations of individual facility issues have been or will be rescheduled to sometime after that date. However, agreements have been reached in connection with the sale of Middlefield Oaks and the financing of Moses Lake.

## **C. Asset Disposition**

The Management Committee and Asset Disposition Team continue to meet and approve dispositions. The number of properties so far approved for disposal by the MC and CRO is 55, with Receiver sign-off on 47. The disposition process continues to be slow but we are making progress. We anticipate that the plan will provide a streamlined process for assets that need to be disposed of quickly, while allowing the estate to hold certain properties with limited cash requirements until markets improve.

## **D. Investor Relations**

Management Committee Chairman Bill Bryan recently sent a substantive communication to investors about his take on the unitary enterprise plan. The CRO has continued to provide brief updates about the case and to post information for investors online, including Mr. Bryan's memo, a Q&A from the TIC Committee, CRO reports, and materials used at the Court status conference on June 15. Following upon the release of detailed financial information as described above, we are planning a communications-intensive week starting July 6<sup>th</sup>, with two meetings scheduled with investor representatives and four meetings in Salem, Portland, and LA for investors to attend in person or by telephone.

## **E. Lender Negotiations**

Mediations with Columbia Pacific took place on June 16 and 17. We reached agreement with respect to 27 facilities in one of their two portfolios, providing for an extension of financing for three years with two one-year extensions. Discussions continue on the second portfolio with 20 facilities.

Mediation with Charter Bank concluded successfully on June 22 bringing the total facilities with restructured debt to 52. We have both mediations and direct meetings with lenders scheduled to continue the restructuring efforts.