



Sunwest Management CRO Report

June 29-July 17, 2009

I. Ordinary Course Business

A. Operations

Occupancy. Sunwest ended the first week of July with a net census decline of -63, consistent with the pattern of first week declines in past months due to month-end move-outs. Net census change for the second and third weeks was +10.

June and second quarter occupancy results for the 169 Sunwest-managed communities are shown below.

	June 08	June 09	Δ	2Q08	2Q09	Δ
Assisted Living	79.6%	80.7%	+112 bps	79.0%	80.5%	+156 bps
Memory Care	71.8%	72.9%	+106 bps	71.5%	71.9%	+41 bps
Independent	73.3%	70.0%	-330 bps	72.6%	69.8%	-285 bps
Cottages	70.8%	62.2%	-863 bps	70.8%	62.1%	-865 bps
Sunwest--Overall	76.6%	76.2%	-33 bps	76.0%	76.0%	-5 bps

Average occupancy for the period on a "same community" basis.

Through the second quarter, occupancy grew in the Assisted Living and Memory Care sectors, but resident losses in the Independent and Cottage portfolios constrained overall census growth.

Quality care. Quality metrics remain at acceptable levels, with resident service planning 99.41% current through July 10.

Deferred maintenance. We recently appointed a Sunwest community administrator with good construction experience to lead a company-wide project to address deferred maintenance. Four regional asset managers have been assigned to visit all communities to define required maintenance. As of July 10, these managers had visited 83 communities and completed 65 reports. The assessment phase will continue until mid-September. In the meantime, our new maintenance project director has begun scoping work in communities with critical maintenance needs.

Performance audit. A recently completed audit performed by MediLegal comments on Sunwest's California operations that: "The hours per day of direct care to residents was greatly improved this audit period as compared to the prior audits." Later the report adds: "The hours per day of direct care to residents in the Oregon facilities was also was greatly improved this audit period as compared to the prior audits."

B. Finance

May 2009 financial results for Holdco facilities¹ were favorable to the budgets prepared for restructuring discussions with lenders. Results are on a same-community basis.

<i>\$ in Millions</i>	May 09 Actual	May 09 Budget	\$ Fav (Unfav)	% Fav (Unfav)	May 08 Actual
Revenue	\$ 26.9	27.1	(0.2)	-0.7%	25.7
NOI	\$ 7.6	7.5	0.1	0.8%	6.9

The management company likewise had favorable results. Net income from operations is based upon recurring operating costs and excludes professional fees and other non-recurring costs.

<i>\$ in Millions</i>	May 09 Actual	May 09 Budget	\$ Fav (Unfav)	% Fav (Unfav)
Revenue	\$ 2.0	2.0	(0.0)	-0.6%
NOI	\$ 0.3	0.2	0.2	51.9%

Funds attributable to Harder/Fisher/Gutzler from the Lonestar transaction have been utilized as follows since May 25:

<i>\$ in Millions</i>	Actual	Budget	\$ Fav (Unfav)	% Fav (Unfav)
Transferred to facilities	\$ 0.9	1.6	0.7	78%
Advance to Receiver	\$ 1.5	1.5	-	0%
Payment of professional fees	\$ 4.2	4.5	0.3	7%
Totals	\$ 6.6	7.7	1.1	16%

Five year projections for Holdco facilities that were recently made available to lenders and investors online showed "#REF" errors due to glitches in the conversions from Excel to PDF. The projections will be re-posted this week. A summary of the five-year projections is attached to this report.

¹ Holdco facilities with receivers are only included if Sunwest has received timely financial information.

II. Restructuring Update

A. Mediation and Plan Development

The CRO and Receiver's financial and legal team spent the first two weeks of July finalizing the reorganization and distribution plan outline for use in the large mediation sessions held in Eugene during the week of July 13. The hard work of Judge Velure and many of the parties, and the strict discipline of Judge Hogan, led to a number of revisions to the plan followed by a significant amount of support. With most, though not all, parties on board, the CRO believes the course is clearly set to revise the plan along the lines mediated in Eugene and proceed with submission to the Court by August 1st.

B. Asset Disposition

Status. So far the judge has signed orders allowing abandonment of 18 properties and assignments to TICs of five others. Seven more abandonment orders and five assignments await his signature. Three purchase and sale agreements have gone hard, two others have been signed, and eleven more are in process of negotiation. Most of these 51 properties are senior living facilities. The Asset Disposition Team continues to meet to review properties for divestment and prepare the supporting paperwork.

The CRO and Receiver are in active and constructive communication with lenders regarding disposition of nearly all Divestco properties. Many future dispositions involve sales through the District Court, requiring negotiation of a purchase and sale agreement and due diligence by the parties. As a result, the sale process takes significantly longer than other forms of disposition, and prolongs the period of time needed for all dispositions to be complete. Lenders on the particular properties going through this process are aware and generally supportive of the timelines involved.

Tax Impacts. On July 6, Judge Hogan entered an order authorizing the creation of SWP Holdings, LP, for the purpose of providing an interim measure for TICs in properties that are being divested. Several TICs whose interests were slated for foreclosure on July 7 exchanged into the new partnership in an effort to avert negative tax consequences. It is not certain whether this strategy will be successful, but it provides an option to TICs with no better alternative.

C. Investor Relations

The CRO and Receiver made a significant amount of information available for investors during the week of July 6, prior to holding four well-attended meetings in Salem, Portland, and Los Angeles (estimated in-person attendance of 400, web participation of 220). The informational materials and meetings presented the CRO and Receiver's recommended plan and supporting rationale. Spreadsheets with property valuations as of March 2, 2009, were posted online, along with an explanatory packet that included an outline of the CRO's guiding principles, the recommended business plan and rationale, TIC tax treatment, the

distribution plan, and estimated claims and recoveries for different classes of creditors and investors.

These materials will be updated by August 1, along with the plan itself. In the meantime, they continue to be available on the investor website, along with the presentation used at the investor meetings, recordings of all four meetings, and drafts of the reorganization and distribution plans.

D. Lender Negotiations

Since the last CRO report dated June 26, we have met, mediated, or held discussions with 10 lenders representing 25 properties. To date, we are in discussions with lenders on 108 senior living facilities, representing 70% of the potential Holdco properties in number, and 63% or \$660 million of the combined debt of those facilities.

A copy of the Settlement Term Sheet we have been using for discussions with lenders is attached. To the extent we are able to get agreements with lenders prior to confirmation of the distribution plan, the plan will incorporate the specific terms agreed to. Otherwise, debt will be treated in accordance with the plan of reorganization prepared in conjunction with the projected Chapter 11 filing.

DISCLAIMER: THIS PRESENTATION IS PROVIDED ONLY AS A GENERAL GUIDELINE TO ESTIMATED POTENTIAL PERFORMANCE, GIVEN THE ASSUMPTIONS DOCUMENTED, AND CANNOT BE RELIED UPON TO REFLECT ACTUAL CIRCUMSTANCES OR RESULTS. IT IS BASED UPON HISTORICAL DATA, MANAGEMENT'S ESTIMATES AND ASSUMPTIONS MADE BY HAMSTREET & ASSOCIATES. THE INFORMATION IS PROVIDED SOLELY FOR PURPOSES OF SETTLEMENT IN ACCORDANCE WITH ORE 408 AND FRE 408. THE MATERIAL IS PROVIDED AS AN ACCOMODATION, AND NO REPRESENTATIONS OR WARRANTIES ARE MADE IN CONNECTION WITH THE FACTS OR CONCLUSIONS THEREIN.

SUNWEST MANAGEMENT, INC.

Hold Co Facility Summary

	BUDGET 2009 TOTAL	BUDGET 2010 TOTAL	BUDGET 2011 TOTAL	BUDGET 2012 TOTAL	BUDGET 2013 TOTAL
OCCUPIED UNITS - FACILITY	9,050	9,147	9,242	9,620	9,905
UNITS AVAILABLE - FACILITY	11,759	11,759	11,759	11,759	11,759
PERCENTAGE OCCUPIED UNITS - FACILITY	77	78	79	82	84
REVENUE	350,047,652	353,097,452	362,695,305	378,171,052	396,104,576
PAYROLL	145,875,080	146,610,274	148,524,869	151,880,290	155,786,817
FOOD	15,762,281	15,842,150	16,129,111	16,666,977	17,299,206
PROPERTY TAXES	11,694,834	11,750,072	11,831,779	11,913,582	11,995,482
INSURANCE	7,253,984	7,294,597	7,346,848	7,399,144	7,451,487
MGMT FEES	24,299,752	24,174,212	21,792,288	22,721,365	23,797,766
OTHER OPEX	45,183,006	45,358,611	45,685,242	46,007,309	46,328,580
NOI BEFORE DEPR & AMORT	99,978,715	102,067,535	111,385,168	121,582,386	133,445,238
DEPRECIATION & AMORTIZATION	36,816,712	36,679,591	36,679,591	36,679,591	36,679,591
CONTINGENCY (% OF OP EXP)	5,546,203	8,335,499	8,340,416	8,514,229	8,710,865
NET OPERATING INCOME FROM OPERATIONS	57,615,800	57,052,444	66,365,160	76,388,566	88,054,782
ADD: DEPRECIATION & AMORTIZATION	36,816,712	36,679,591	36,679,591	36,679,591	36,679,591
RESTRUCTURE FEE	6,662,683	8,562,670	-	-	-
DEFERRED MAINTENANCE	8,084,625	10,315,039	5,057,520	-	-
REPLACEMENT RESERVE (\$350/Annum)	2,743,708	4,115,563	4,115,563	4,115,563	4,115,563
CF AVAILABLE FOR DEBT SERVICE	76,941,496	70,738,763	93,871,669	108,952,595	120,618,810

SETTLEMENT TERM SHEET - _____(Lender)

This Settlement Term Sheet ("Term Sheet") has been prepared to facilitate settlement and, if necessary or appropriate, mediation, concerning loans held by _____ and its participants ("Lender" or "Lenders") to certain entities that are Receivership Entities as that term is defined in that certain Order Granting Preliminary Injunction and Appointing Receiver entered by the United States District Court for the District of Oregon on March 10, 2009 (the "Receiver Order"). This Term Sheet is to facilitate settlement and mediation, and is for discussion purposes only. Nothing in this Term Sheet is binding on any party and no party will be bound to any agreement until such time, if any, as a formal written agreement shall have been executed and delivered among the parties.

The goal of this Term Sheet is to facilitate a transaction (the "Transaction") extending and restructuring each Loan. The date on which the Transaction becomes effective is the "Closing Date," which shall be the Effective Date of a plan of distribution and restructuring.

- Borrowers. The existing Borrowers shall remain as Borrowers until a plan of restructuring and distribution is approved by the Court. Transfers of ownership or control by the existing Borrowers to other entities or persons as provided in a plan of distribution and restructuring approved by the Court shall be allowed.
- Term. The term for each Loan shall be three years from the Closing Date. In addition, each Loan may be extended, at the option of the Borrower, for two additional one-year terms, provided there is no default existing and continuing as of the maturity date and Borrower pays an extension fee of 25 basis points, which fee will be capitalized and added to the principal balance of the Loan.
- Interest Rate. The interest rate for the initial three-year term of the Loans shall be a fixed rate equal to 4.75 percent. In the event Borrowers exercise their right to extend the Loan, then the interest rate shall be adjusted to a fixed annual interest rate for the term of the extension equal to the prime rate as of the first day of each extension plus 150 basis points; provided, however, that the interest rate will not increase by more than 150 basis points for the term of any extension. The default rate will be 200 basis points in excess of the non-default rate.
- Amortization; Payments. Monthly payments shall be payable on the 10th day of each month, with a five-day grace period. During the first year following the Closing Date, payments shall be interest-only, with no principal amortization. Thereafter, monthly payments shall be in an amount necessary to amortize all principal and interest owing on the loan in 300 equal, monthly payments of principal and interest.
- Principal Balance. The principal balance at the Closing Date will be equal to the principal owing on the Loan, together with any accrued and unpaid interest calculated at the non-default rate plus reasonable fees incurred by Lender in connection with the negotiation of this Transaction.

- Reserves. Borrowers will make monthly payments of reserves for taxes and capital expenditures. All such reserves shall be available to be drawn on by Borrowers as needed.
- Financial Projections. Borrowers will deliver to Lender financial projections that will include projections for capital expenditures and real estate taxes. The amounts of the expenditure reserves and tax reserves, together with the terms of any financial covenants, will be determined from such financial projections.
- Management. Sunwest Management, Inc. (“Sunwest”) shall continue to serve as property manager through the date of approval by the Court of a plan of distribution and restructuring. The management fee shall increase to cover the cost of restructuring to 10% of facility revenue (7% management fee plus 3% restructuring costs) until twelve months from the date of the approval by the Court of a plan of distribution and restructuring and reduce to 6% thereafter. Thereafter, Sunwest or its successor will serve as property manager according to the plan of distribution and restructuring.
- Financial Covenants. The loan documents will contain a debt service coverage ratio covenant. The financial covenant will be negotiated after preparation of the financial projections.
- Releases. It is contemplated that this Transaction will be approved by an Order entered by the Court. The Order will include a release of Lender from all claims, known and unknown, by the Receiver, and all Receivership Entities, unless such claims are asserted within 90 days following the entry of the Order. In the event a claim is asserted by the Receiver within the 90-day period, then the claims of the Receiver will be submitted to mediation. Absent a mediated resolution, the Transaction will be deemed void and of no further force and effect on the 120th day following the entry of the Order.
- Guaranties. Lender and all guarantors will execute mutual releases.

By its signature below, each party indicates that it approves this Term Sheet. Signature below does not bind any party, but indicates the intent of each such party to proceed to documentation of definitive agreements memorializing the Transaction. It is understood that the Transaction is not binding until definitive documents have been executed and delivered by all parties and the Court has entered its Order approving the definitive agreements and the transactions contemplated thereby.

_____ (LENDER)

CLYDE HAMSTREET, CRO

By _____

By _____

Its _____

Its _____