



HAMSTREET  
& associates

## Sunwest Management CRO Report

July 20-August 14, 2009

### I. Ordinary Course Business

#### A. Operations

Operationally, Sunwest shows increasingly strong performance in its most important realm: providing quality care to residents. Company initiatives to improve management quality, management processes, and accountability are beginning to bear fruit.

Financial results for the quarter ended June 30, 2009 were encouraging, with revenue up 4.4 percent over the previous year, NOI gaining 10.1 percent, and operating margin up 1.4 percent. In addition, through July, Sunwest Management has experienced three consecutive months of positive occupancy growth. The company's occupancy results compare favorably to publicly-reported senior living providers who showed a decline over the quarter. An exhibit comparing Sunwest's second quarter occupancy results with public companies is attached to this report.

Additional indicators of positive operational performance include:

- At the end of the month, Sunwest had collected 98.6% of July's current rent due, with 63 communities at 100%. This figure has improved steadily every month since April, when it came in at 97.0%.
- For the past several months, more than 99% of our trade payables have been paid when due.

In direct response to the random employee opinion survey conducted this spring, Sunwest is launching an "Operations Improvement Project" with emphasis in four key areas:

- Resident satisfaction;
- Property maintenance and capital improvements;
- Employee satisfaction; and
- Operations management and communications.

Employees at all levels of the company will be involved in leading and completing each of the projects.

Two facilities turned in deficiency-free state surveys since the last CRO report: Meadowlark in Yreka, CA, and Canterbury Court in Harlingen, TX.

## B. Finance

June 2009 financial results for Holdco facilities<sup>1</sup> were favorable to budgets prepared for restructuring discussions with lenders. Results are on a same community basis.

<i>\$ in 000's</i>	<b>June 09 Actual</b>	<b>June 09 Budget</b>	<b>\$ Fav (Unfav)</b>	<b>% Fav (Unfav)</b>	<b>June 08 Actual</b>
<b>Revenue</b>	\$ 27,263	\$ 26,358	\$ 906	3.3%	\$ 26,233
<b>NOI</b>	\$ 7,918	\$ 7,556	\$ 362	4.6%	\$ 7,368

Management company net income from operations includes recurring operating costs and excludes professional fees, restructuring costs and other non-recurring costs. June results are summarized in the following table.

<i>\$ in 000's</i>	<b>June 09 Actual</b>	<b>June 09 Budget</b>	<b>\$ Fav (Unfav)</b>	<b>% Fav (Unfav)</b>
<b>Revenue</b>	\$ 2,016	\$ 2,042	\$ (26)	-1.3%
<b>NOI</b>	\$ 356	\$ 248	\$ 109	30.5%

We continue to update the 5-year projections for the Sunwest entities based upon information as we receive it. These projections are currently posted online in the Sunwest Investor Information Center. As noted in our last report, regional asset managers continue to visit communities to define the amount of deferred maintenance needed to bring each community up to standard. Rate changes related to our recent renewal of insurance contracts will be updated as soon as they are available, although we have already included estimates of those changes in the projections.

The Sunwest and facilities insurance renewal was completed last week and coverage has been bound. General economic conditions, last year's large property losses, and perceived uncertainty surrounding the future of Sunwest entities presented difficult challenges to the insurance renewal. Sunwest's risk manager, Steve Stradley, worked diligently with the CRO and senior management to address those challenges. We hope to be able to report on the overall change in insurance premium costs in the next report. In general, the property and workers' compensation lines saw increases, while liability and auto saw decreases.

The IRS has asserted 2008 past due payroll taxes including penalties and interest of \$2.2 million relating primarily to 4Q08 (prior to the appointment of the CRO). We have identified many errors with the reporting of payroll tax liabilities and are working cooperatively with the IRS to correct those errors and to minimize penalties. The proposed Plan of Reorganization will provide for the treatment of taxes and penalties.

Funds attributable to Harder/Fisher/Gutzler from the Lonestar transaction have been utilized as follows from May 25 through July 31:

<sup>1</sup> Holdco facilities with receivers are only included in the comparison if Sunwest has received timely financial information. The definition of Holdco facilities continues to be under review by the CRO.

<i>\$ in Millions</i>	<b>Actual</b>	<b>Budget</b>	<b>\$ Fav (Unfav)</b>	<b>% Fav (Unfav)</b>
<b>Transferred to facilities</b>	\$ 1.5	2.3	0.8	56%
<b>Advance to Receiver</b>	\$ 1.5	2.0	0.5	33%
<b>Payments to professionals</b>	\$ 4.9	5.9	0.3	6%
<b>Totals</b>	\$ 7.9	10.3	2.4	30%

Both “Actual” and “Budgeted” amounts for professionals reflect amounts net of the 20% holdback on professional fees. While we believe professional fees are running within budget, there are a number of fees budgeted for which we have not received fee applications for work performed through July 31, and therefore are not included in this analysis. In addition, \$500k of amounts due to the Receiver have not yet been transferred as of July 31, which represents a timing difference.

## **II. Restructuring Update**

### **A. Mediation and Plan Development**

Since the last report, the CRO and Receiver’s team has devoted the bulk of its efforts to drafting, negotiating, and finalizing the distribution plan and related Chapter 11 plan of reorganization. A plan revised after the mediations in mid-July was circulated to the Court and all parties in interest on July 31, along with a proposed scheduling memorandum and an explanation of the contemplated REIT/MLP structure.

During the week of August 3, further mediations were held in Eugene to resolve the treatment of insiders, modify the proposed plan treatment of investors in bare land, and meet with secured lender representatives. An agreement reached with Harder, Fisher, and Gutzler was read into the record on August 6. At this point the CRO believes that most parties in interest accept the basic outline of the plan, i.e., the REIT/MLP structure and distribution provisions.

During the week of August 17, we will be resolving and finalizing outstanding plan issues, including bare land provisions, composition of the Holdco list, unsecured creditor distribution options, and management company structure. We intend to circulate the revised plan one last time on Wednesday, August 19, prior to a collective wordsmithing session in Eugene on the 20<sup>th</sup>. The resulting plan will be formally filed with the Court no later than August 25.

### **B. Asset Disposition**

Asset dispositions have continued on the course established over the past few months. Since the last CRO report, the Court has issued approximately 8-10 orders granting relief from stay. About 20 purchase and sale agreements remain in the works; two sales have

closed and two more are scheduled to close at the end of August. The list of Divestco properties will be finalized during the week of August 17 prior to filing of the plan.

### **C. Lender Negotiations**

During mediations in Eugene on August 6, the CRO and Receiver met with 11-12 attorneys representing about 25 lenders. We have been providing the information requested during those meetings and have engaged in additional discussions to pursue loan restructurings.

We anticipate that lenders with whom we do not reach an agreement prior to confirmation of the plan of reorganization in the contemplated Chapter 11 case will be treated as provided in that plan.

# 2Q09 Trends in Senior Housing Occupancy

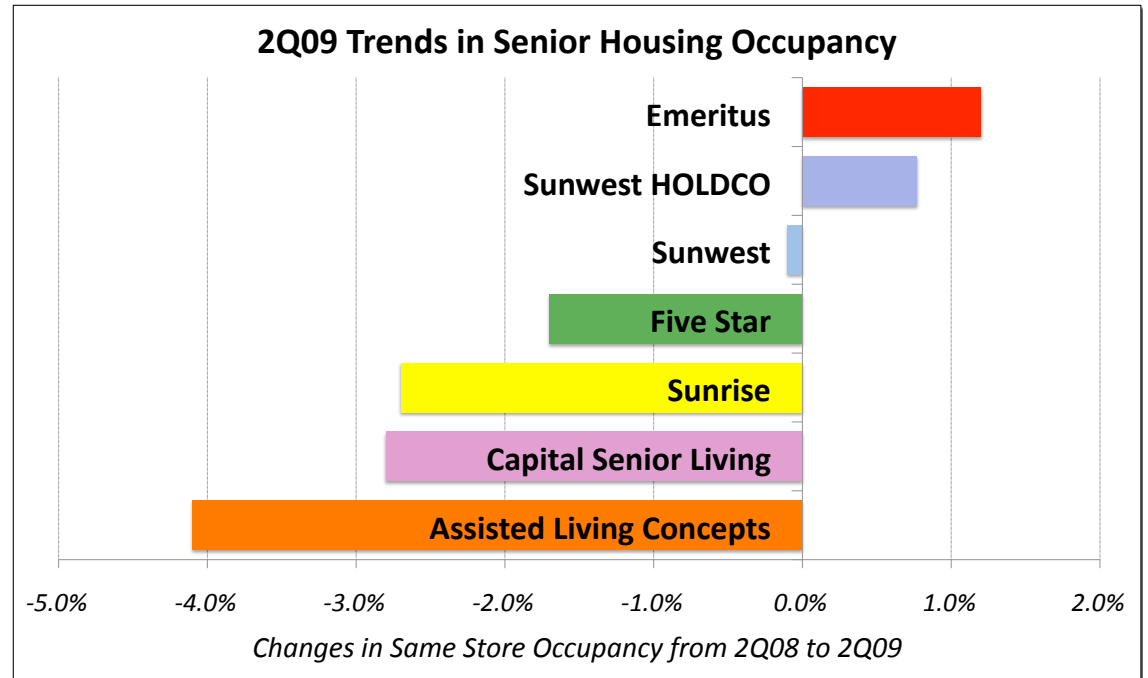
Brookdale (BKD)						Assisted Living Concepts (ALC)		Emeritus (ESC)		Sunrise (SRZ)		Five Star (FVE)		Capital Senior Living (CSU)					
For three months ending:						Company Same-Store	Company Consolidated	Company Same-Store	Company Consolidated	Company Same-Store	Company Consolidated	Company Same-Store	Company Consolidated	Company Same-Store	Company Consolidated				
<b>June 30, 2009</b>						89.6%	86.2%	88.7%	Not Reported	88.5%	65.4%	64.1%	87.7%	86.6%	86.9%	86.0%	84.9%	80.0%	
<b>June 30, 2008</b>						88.9%	88.1%	89.6%	Not Reported	88.9%	69.5%	68.8%	89.6%	86.5%	88.6%	88.6%	87.7%	86.1%	
Point Change 2Q08 to2Q09						0.7%	-1.9%	-0.9%		-0.5%	-4.1%	-4.7%	1.2%	0.1%	-2.7%	-1.7%	-2.6%	-2.8%	-6.1%

Sunwest *					
For three months ending:					
Assisted Same Store	Memory Same Store	Independent Same Store	Company Same Store	Company Consolidated	
<b>June 30, 2009</b>	80.7%	73.0%	68.3%	75.9%	75.7%
<b>June 30, 2008</b>	78.9%	72.8%	72.4%	76.0%	73.5%
Point Change 2Q08 to2Q09	1.8%	0.1%	-4.1%	-0.1%	2.3%

Sunwest HOLDCO **					
For three months ending:					
Assisted Same Store	Memory Same Store	Independent Same Store	Company Same Store	Company Consolidated	
<b>June 30, 2009</b>	83.5%	74.9%	74.4%	79.7%	Not Relevant
<b>June 30, 2008</b>	80.9%	74.2%	77.7%	78.9%	Not Relevant
Point Change 2Q08 to2Q09	2.7%	0.7%	-3.3%	0.8%	

\* Results for the 164 facilities managed by Sunwest as of June 30, 2009.

\*\* Results for the 136 HOLDCO communities managed by Sunwest as of June 30, 2009. Results for the 16 HOLDCO communities in receivership or under third-party management were omitted due to incomplete reporting data.



Source: Public company data from 2Q09 10-Q reports and earnings releases. Sunwest data from internal financial reports. Occupancy percentages reflect average occupancy over the quarter.