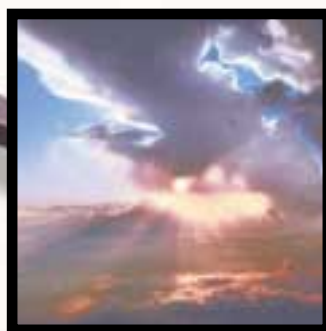


Capital Senior Living Corporation
1999 Annual Report



Capital Senior Living Corporation is committed to providing quality housing and services based on the highest standards of excellence in the industry. Our goal is to enrich the daily lives of our senior residents by providing an environment that stimulates them physically, mentally, and emotionally. Therefore, each community offers a relaxed atmosphere of warmth and caring that promotes companionship among residents and staff. Each community's employees are personally committed to serving residents and treating them with dignity and respect.

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At Capital Senior Living Corporation, it's a time of great opportunity. As one of the nation's leading operators and developers of independent and assisted living communities for senior adults, we're witnessing population trends that will result in continued demand for our services. With the population of 65 to 74 year olds expected to more than double from 18 million in 1990 to over 37 million by 2030, and the 85-plus population expected to nearly triple in the same time period, we believe the demand for our communities and services will continue to increase. More and more of these seniors will be seeking independent and assisted living options — the very lifestyles that we excel at providing.

Our track record is proven, our balance sheet and cash flows are strong, our debt ratio is among the lowest in our industry,

A Time of Opportunity

and we've accomplished eight consecutive years of profitability. Residents in our communities enjoy an active, social lifestyle free of the worries and chores of home ownership. And, as you'll see in this annual report, there are always fun-filled and enriching activities going on in our communities — no matter what the time of day.

Continued solid financial performance, great potential for growth, and a fulfilling lifestyle for our residents — all these elements add up to great opportunities and great times ahead for Capital Senior Living Corporation. They are great times we'll continue to share with our residents, staff, and shareholders.

The past year has been tumultuous for the senior living industry. A number of events affecting the long-term care industry have lessened investors' confidence in the senior living sector. Now is an opportune time to distinguish Capital Senior Living Corporation as one of the nation's leading operators and developers of residential communities for independent, senior adults.

While we were disappointed with our stock performance, we were pleased with our operating results. During 1999, we enjoyed solid revenue growth as a result of strong increases in same community sales and the successful integration and operation of newly acquired communities. We also continued to achieve high operating margins in our independent and assisted living communities. With the announcement of the acceleration of our strategic initiatives, we plan

To Our Fellow Shareholders:

to increase our ownership of senior living communities, enhance our cash flows from operations, and simplify our capital structure.

During 1999, we: accomplished our eighth consecutive year of profitability; reported annual net income of \$4.8 million, or basic earnings per share of 25 cents; attained annual cash earnings of \$9.5 million, or 48 cents per share; achieved an average occupancy rate of 95 percent on stabilized communities and an average occupancy rate of 90 percent on all communities (including those in lease up); increased same community revenue by 5.5 percent over 1998; improved same community operating income by 6.0 percent over 1998; achieved average operating margins of 43 percent in our independent and assisted living communities; increased our revolving credit line with Bank One to \$34 million; assisted joint ventures in obtaining

construction financing for new Waterford communities totalling \$27 million through Key Bank, \$27 million with provisions allowing a multi-bank increase to \$54 million through Bank of America, and \$19 million through Compass Bank; secured permanent financing totalling \$46 million in fixed-rate, 10-year mortgage loans obtained through Lehman Brothers to refinance five properties in California, Florida, Michigan, and Missouri; and opened new Waterford communities in Mesquite and San Antonio, Texas, and Shreveport, Louisiana.

With our highly experienced management team, our continuum of care operating philosophy and our strong balance sheet, we are well positioned to meet the increasing demand for quality, affordable, senior living residences. Thank you for growing with us.



James A. Stroud and Lawrence A. Cohen

Respectfully,

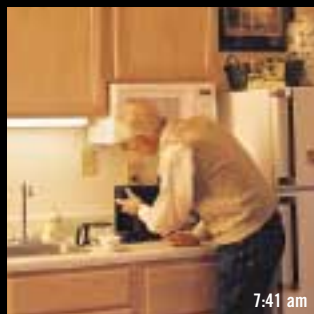
James A. Stroud
James A. Stroud, Chairman of the Company

Lawrence A. Cohen
Lawrence A. Cohen, Chief Executive Officer

March 30, 2000

Time, Too, For Better Understanding Since our initial public offering in October 1997, Capital Senior Living Corporation has been compared to companies in the assisted living and nursing home industries. Such comparisons underestimate the Company's advantages. We operate and develop retirement communities for senior adults. More than four-fifths of our residents live independently and, through our continuum of care philosophy, we provide them the opportunity to age in place.

Our Philosophy. We believe residents should be able to choose an affordable lifestyle that's best suited for them. That's why we offer the following levels of service: (1) independent living for residents who do not require assistance with many activities of daily living ("ADLs"), but who desire a residential community that offers meals, housekeeping, transportation, 24-hour staffing, a wide array of social and recreational activities, and wellness programs; (2) assisted living for residents who need extra help with ADLs (such as medication



Virginia is always
on time for her
Friday afternoon
beauty parlor
appointment.

Elvin and Winifred
like to begin
their day with an
exercise class.



management, bathing, grooming, dressing, and ambulation), but who do not require the more acute medical care traditionally provided in nursing homes; and (3) access to home care that expands the range of services offered to bridge the gap between independent and assisted living services.

Residents benefit from our continuum of care advantage because they pay only for the services they require. As needs change with age and health, residents often can receive additional services without moving to different facilities. As a result, we are able to attract residents at an earlier age and provide them with extended services for longer periods

**Capital Senior Living Corporation is financially strong,
having been profitable each year for the last eight years.**

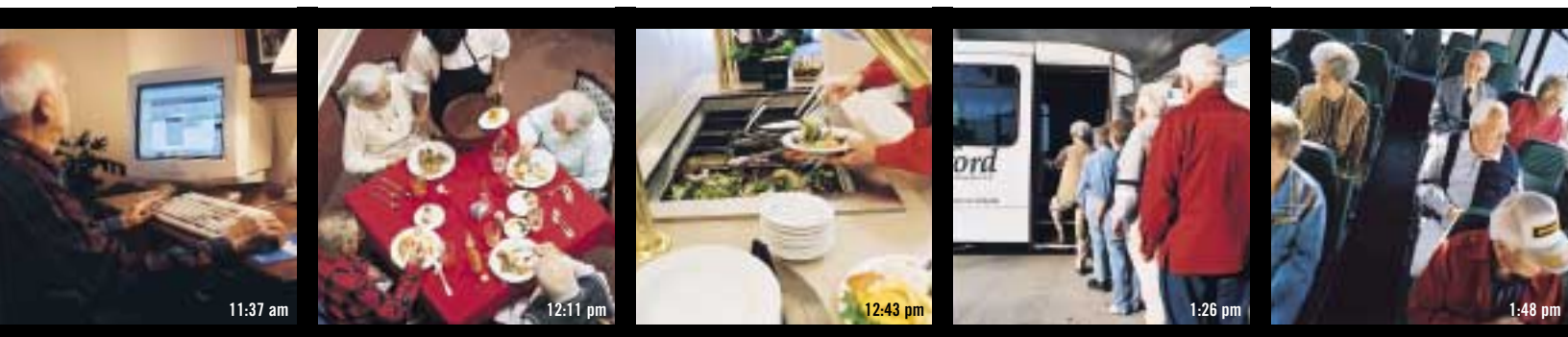


Madge and her grandchildren stay in touch through e-mail, which Madge sends using the computer in the community's library.

of time than many other senior living alternatives. In our communities, the average resident entry age is 80 and the average length of stay is four years.

Naturally, the Company also benefits from this philosophy, as well as from the accelerating growth of America's senior population. Simply put, the number of senior adults is increasing every year. According to U.S. government estimates, there will be 8.8 million adults age 85 or older by 2030. As a result, we believe the demand for our communities and services will continue to increase. And we are well positioned to translate this demand into high quality, affordable communities for our residents and value for our shareholders.

Our Growth Strategy. The cornerstones of our growth strategy are: (1) development of new communities; (2) expansion of existing communities; (3) strategic acquisitions that bring geographic or operating leverage to our portfolio; and (4) internal growth generated from continued profitability and increasing rates of return from our communities.



Our National Platform. Capital Senior Living Corporation has a well-positioned national platform from which to grow. The Company currently owns and/or operates 36 communities in 18 states, with a total capacity of approximately 6,100 residents. In the communities operated by the Company, 83 percent of residents live independently and 17 percent of residents require assistance with activities of daily living.

At year-end, 23 communities were under construction or development, which will have a total capacity of approximately 3,200 residents. In addition, three existing communities were being expanded to accommodate approximately 200 residents. Upon completion of these

Capital Senior Living Corporation currently has 26 properties under construction, development, or expansion, which will increase our total capacity to 9,500 residents.



Our residents play an active role in shaping their communities. For example, Alta and Paul are leaders in their community's Residents' Association.



developments and expansions, the Company is expected to increase its total capacity to approximately 9,500 residents.

Our Communities. Capital Senior Living Corporation provides some of the highest quality housing and retirement services available in the industry, and at affordable prices. We build beautifully appointed communities, manage them well, and, above all, make them feel like home.

Our communities feature: relaxed, friendly atmospheres of warmth and caring; tastefully decorated common areas and dining amenities; studio, one- and two-bedroom apartments, including kitchens; social and recreational programs; nutritious, restaurant-style meals; maid service; flat linen service; complimentary laundry rooms; on-site barber/beauty salon; scheduled courtesy transportation; 24-hour staffing; and emergency call systems.

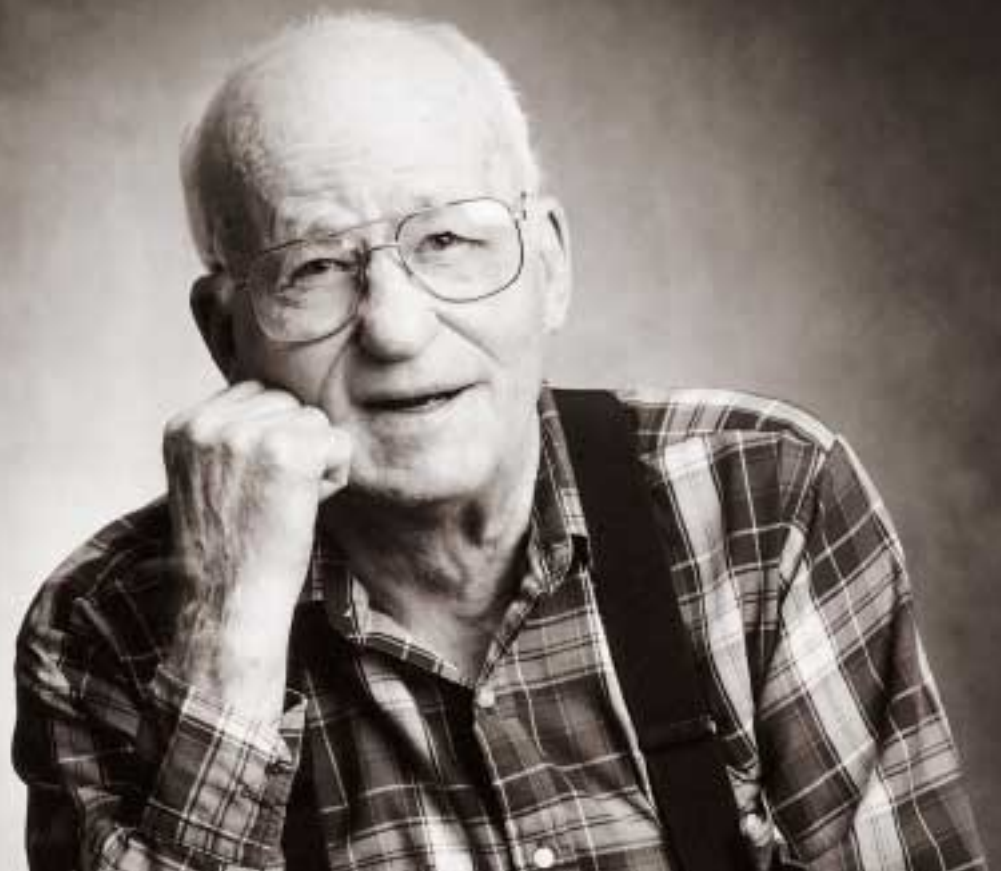
Capital Senior Living Corporation has a national presence, with 36 communities either owned or operated in 18 states across the country.

Our Waterford communities, which are designed to accommodate 136 to 174 residents, take approximately 12 months to build. Marketing efforts begin six to nine months before new communities open, and stabilized occupancies are expected to be achieved within 14 to 18 months after communities open. The Company's stabilized occupancy rate averaged 95 percent during 1999, and the average monthly rent for a one-bedroom apartment plus daily meals and/or retirement services is \$1,750.

Our Management Team. Capital Senior Living Corporation's management team and key employees have served their time in the senior housing industry. In fact, there's more than 135 years' combined industry experience leading the Company.

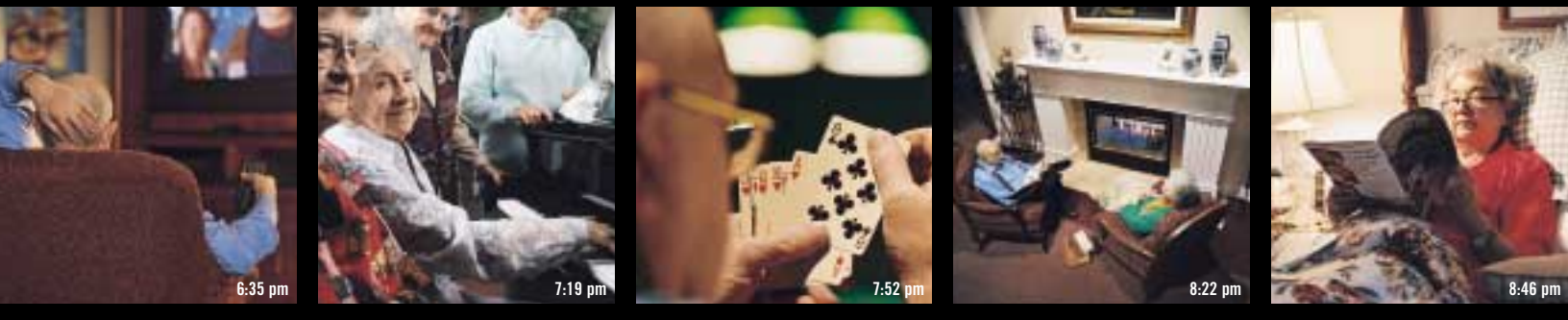


If it's Thursday morning, George will be on board the community van for that week's scenic drive.



**Capital Senior Living Corporation's management team
has more than 135 combined years of industry experience.**

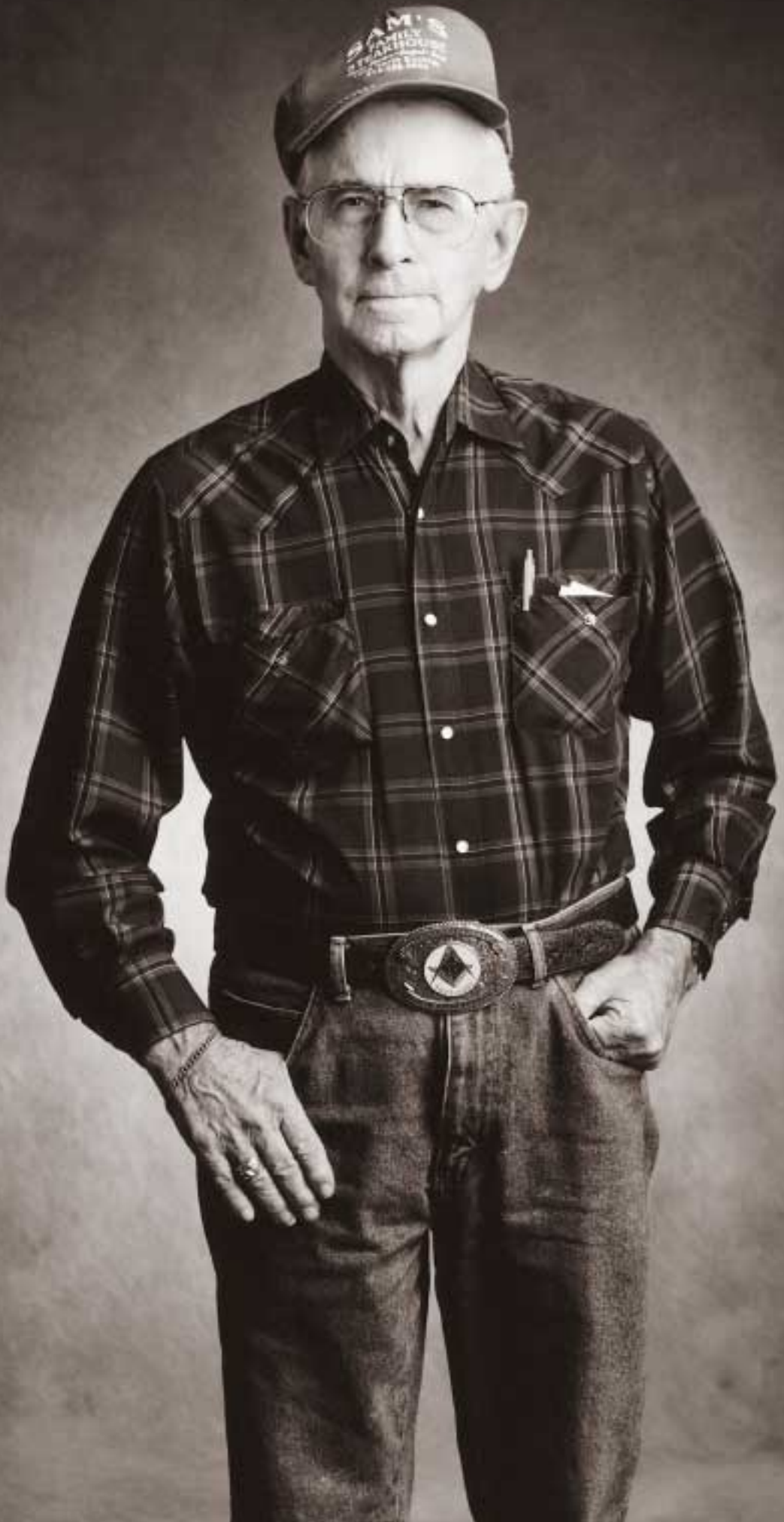
			<i>Experience</i>
James A. Stroud	Chairman of the Company		15 years
Lawrence A. Cohen	Chief Executive Officer		15 years
Keith N. Johannessen	President, Chief Operating Officer		21 years
Rob L. Goodpaster	Vice President, National Marketing		23 years
David G. Suarez	Vice President, Development		21 years
David W. Beathard	Vice President, Operations		24 years
Glen H. Campbell	Vice President, Development		17 years
			136 years



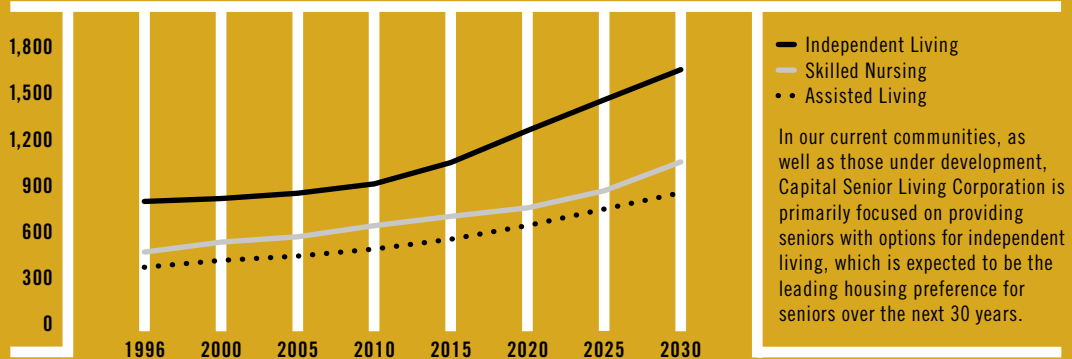
Our industry veterans provide guidance to seasoned regional managers and community executive directors. Through sophisticated systems and controls and comprehensive financial reports, corporate staff assist local management in developing and executing marketing programs and cost-saving strategies. Budgets and activities are then developed at the local level to meet the unique needs and tastes of residents in each community.

Our mission is clear. We are committed to providing quality housing and services based on the highest standards of excellence in the industry. We strive to enrich the daily lives of our residents. It's a time of opportunity, and we look forward to the future with great anticipation.

It's always
game time for
Grover, his
community's
billiards champ.

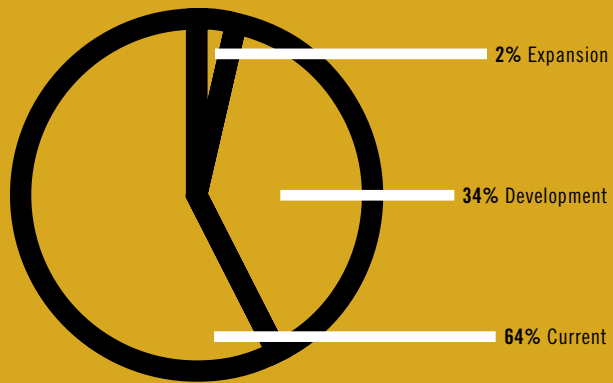


Growth in Demand for Key Segments of the Senior Housing Market (beds in thousands)

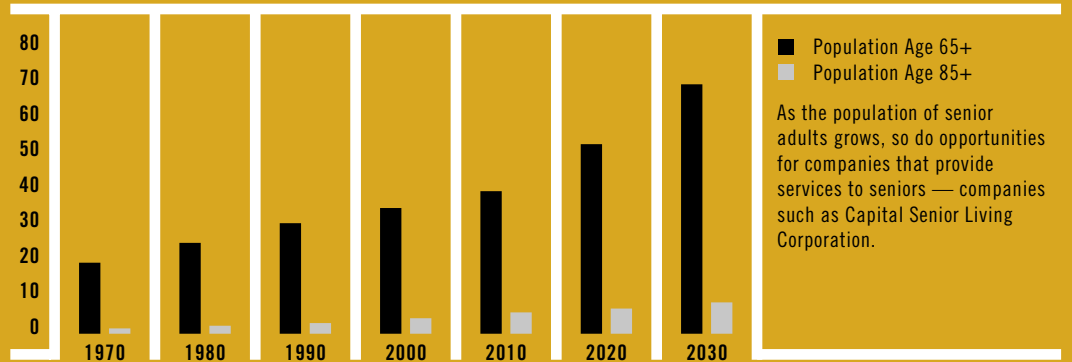


Company Growth

Over the next year, Capital Senior Living Corporation will increase its capacity to approximately 9,500 residents.



Population Growth for the Elderly (millions)



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Financial Review

Selected Financial Data

CAPITAL SENIOR LIVING CORPORATION

The following table sets forth selected financial data of the Company. The selected financial data for the years ended December 31, 1999, 1998, 1997, 1996 and 1995 are derived from the audited consolidated financial statements of the Company.

	Year Ended December 31,				
	1999	1998	1997	1996	1995
(\$ in thousands, except per share data)					
<i>Statements of Income Data:</i>					
Revenues:					
Resident and health care revenue	\$ 41,071	\$ 25,988	\$ 22,159	\$14,616	\$14,109
Rental and lease income	4,304	4,281	4,276	1,101	1,231
Unaffiliated management services revenue	2,695	2,465	1,920	801	—
Affiliated management services revenue	456	1,327	1,378	2,708	2,778
Unaffiliated development fees	1,341	1,234	804	673	—
Affiliated development fees	14,085	7,473	173	—	—
Total revenues	63,952	42,768	30,710	19,899	18,118
Expenses:					
Operating expenses	24,470	17,067	16,701	10,656	10,287
General and administrative expenses ⁽¹⁾	9,212	6,094	7,042	5,613	4,293
Provision for bad debts	15,896	500	43	22	71
Depreciation and amortization	4,671	2,734	2,118	1,481	1,776
Total expenses	54,249	26,395	25,904	17,772	16,427
Income from operations	9,703	16,373	4,806	2,127	1,691
Other income (expense):					
Interest income	5,822	4,939	3,186	432	368
Interest expense	(7,089)	(1,922)	(2,022)	(221)	(278)
Gain on sale of properties	748	422	—	438	—
Equity in earnings on investments	—	—	—	459	—
Other	—	—	440	42	—
Income before income taxes and minority interest in consolidated partnerships	9,184	19,812	6,410	3,277	1,781
(Provision) benefit for income taxes ⁽²⁾	(2,992)	(7,476)	(793)	—	(18)
Income before minority interest in consolidated partnerships	6,192	12,336	5,617	3,277	1,763
Minority interest in consolidated partnerships	(1,354)	(379)	(1,936)	(1,224)	(760)
Net income	\$ 4,838	\$ 11,957	\$ 3,681	\$ 2,053	\$ 1,003
Net income per share:					
Basic	\$ 0.25	\$ 0.61	\$ 0.33		
Diluted	\$ 0.24	\$ 0.61	\$ 0.33		
Weighted average shares outstanding:					
Basic	19,717	19,717	11,150		
Diluted	19,806	19,717	11,150		
Pro forma net income data (unaudited) ⁽³⁾ :					
Net income			\$ 3,681	\$ 2,053	
Pro forma income taxes			(965)	(811)	
Pro forma net income			\$ 2,716	\$ 1,242	
<i>Balance Sheet Data:</i>					
Cash and cash equivalents	\$ 32,988	\$ 35,827	\$ 48,125	\$10,819	\$10,017
Working capital	46,973	(9,026) ⁽⁴⁾	44,690	9,567	6,784
Total assets	221,876	205,267	117,371	33,203	29,747
Long-term debt, excluding current portion	92,416	32,671	7,575	201	337
Equity	109,549	104,516	92,560	17,201	14,447

(1) General and administrative expenses include officers' salaries of \$914,000, \$670,000, \$3,342,000, \$3,372,000 and \$2,976,000 for the years ended December 31, 1999, 1998, 1997, 1996 and 1995, respectively. Prior to November 1997, these amounts were primarily composed of salaries and bonuses paid to the founders and were based in part on federal income tax regulations regarding distributions of closely held corporations and S corporations. Effective with the Company's initial public offering, these federal income tax regulations no longer applied to the Company. Compensation of the founders since October 1, 1997 has been based on the founders' employment agreements.

(2) A provision for income taxes was recorded by the Company from inception through February 1, 1995. No provision for income taxes has been recorded from February 1, 1995 through completion of the Formation Transactions as the operating companies included in the historical financial statements, prior to the Company's initial public offering, were S corporations or partnerships and accordingly were not subject to income taxes during the period.

(3) Pro forma income taxes have been calculated based on the assumption that the S corporations and partnerships were subject to income taxes. Pro forma income tax expense has been calculated using statutory federal and state tax rates, estimated at 39.5%.

(4) The Company refinanced \$47,700,000 of mortgage loans reflected as short-term debt in fiscal 1998 to long-term fixed rate mortgage loans in fiscal 1999.

Management's Discussion and Analysis

CAPITAL SENIOR LIVING CORPORATION

Overview

The following discussion and analysis addresses the Company's results of operations on a historical consolidated basis for the years ended December 31, 1999, 1998, and 1997. The following should be read in conjunction with the Company's historical consolidated financial statements and the selected financial data contained elsewhere in this report.

The Company is one of the largest operators and developers of senior living communities in the United States in terms of resident capacity. The Company's operating strategy is to provide high-quality senior living services at an affordable price to its residents, while achieving and sustaining a strong, competitive position within its chosen markets, as well as to continue to enhance the performance of its operations. The Company provides a wide array of senior living services to the elderly at its communities, including independent living, assisted living (with special programs and living units at some of its communities for residents with Alzheimer's and other forms of dementia), skilled nursing, and home care services.

The Company completed its initial public offering in October 1997 in conjunction with a series of transactions that resulted in the Company acquiring various companies, partnership interests and assets from the Company's founders and entities affiliated with its founders. These transactions are collectively called the "Formation Transactions." Because certain of the entities and assets acquired in the Formation Transactions were subchapter S corporations, partnership interests or other flow-through entities for tax purposes, and because certain debt obligations were assumed in the Formation Transactions and subsequently repaid with some of the proceeds from the Company's initial public offering, the year-to-year changes in the Company's financial statements are not directly comparable.

During the years 1990 through 1999, the Company acquired interests in and continues to own 21 communities and expanded its senior living management services by entering into management service contracts on 15 communities for three independent third-party owners and commenced providing development and construction management services for new residence properties in addition to adding a home care service agency.

The Company generates revenue from a variety of sources. For the year ended December 31, 1999, the Company's revenue was derived as follows: 64.2% from the operation of 11 owned communities that were operated by the Company; 6.7% from lease rentals from triple net leases of three skilled nursing facilities and four physical rehabilitation centers; 4.9% from management fees arising from management services provided for four affiliate owned senior living communities and 15 third-party owned senior living communities; and 24.1% from development fees earned for managing the development and construction of new senior living communities for third parties.

The Company believes that the factors affecting the financial performance of communities managed under contracts with third parties do not vary substantially from the factors affecting the performance of owned and leased communities, although there are different business risks associated with these activities.

The Company's third-party management fees are primarily based on a percentage of gross revenues. As a result, the cash flow and profitability of such contracts to the Company are more dependent on the revenues generated by such communities and less dependent on net cash flow than for owned communities. Further, the Company is not responsible for capital investments in managed communities. While the management contracts are generally terminable only for cause, in certain cases the contracts can be terminated upon the sale of a community, subject to the Company's rights to offer to purchase such community.

The Company's triple net leases extend through the year 2000 for three of its owned communities and through the year 2001 for four of its owned communities. The payments under these leases are fixed and are not subject to change based upon the operating performance of these communities. Following termination of the lease agreements, unless the operators extend their leases, the Company may either convert and operate the communities as assisted living and Alzheimer's care facilities, sell the facilities or evaluate other alternatives.

The Company's current management contracts expire on various dates through September 2009 and provide for management fees based generally upon rates that vary by contract from 4% of net revenues to 7% of net revenues. In addition, certain of the contracts provide for supplemental incentive fees that vary by contract based upon the financial performance of the managed community. The Company's development fees are generally based upon a percentage of

Management's Discussion and Analysis

CAPITAL SENIOR LIVING CORPORATION

construction cost and are earned over the period commencing with the initial development activities and ending with the opening of the community. As of December 31, 1999, development fees have been earned for services performed for 44 communities under development or expansions for third parties.

During 1998, 1997, 1996, and 1995, the Company made various purchases of limited partnership interests in HealthCare Properties, L.P. ("HCP"). HCP owns and operates a skilled nursing facility and owns and leases to third-party operators (under triple net leases) three skilled nursing facilities and three physical rehabilitation centers (two of which have been sold). During 1998, 1997, 1996, and 1995, the Company paid approximately \$145,000, \$5,605,000, \$3,201,000, and \$309,000, respectively, for partnership interests in HCP. The Company changed its method of accounting for its investment in HCP from the cost method in 1995 to the equity method in 1996. As a result of additional purchases, the Company's ownership interest in HCP exceeded 50% on June 26, 1997 and was 57% at December 31, 1999. Accordingly, this partial acquisition has been accounted for by the purchase method of accounting, and the assets, liabilities, minority interest, and the results of operations of HCP have been consolidated in the Company's financial statements since January 1, 1997.

The Company acquired, on November 1, 1997, the National Housing Partners I Limited Partnership ("NHP") Notes owned by Capital Senior Living Communities, L.P. ("CSLC") in the Formation Transactions for \$18,664,128. The NHP Notes bear simple interest at 13% per annum and mature on December 31, 2001. Interest is currently paid quarterly at a rate of 7%, with the remaining 6% interest deferred. From November 1, 1997 through September 30, 1998, the Company recorded interest income at 10.5% of the purchase price paid, which was determined based on the discounted amount of principal and interest payments to be made following the maturity date (December 31, 2001) of the NHP Notes (using a six-month lag between maturity and full repayment), due to uncertainties regarding the ultimate realization of the accrued interest. On September 30, 1998, the Company purchased four properties from NHP. In turn, NHP redeemed \$7,500,000 of the Company's investment in the NHP Notes and distributed approximately \$5,300,000 of deferred interest not previously paid on such notes. From October 1, 1998 through December 31, 1998, the Company reevaluated its investment in the NHP Notes and began recording additional income after giving consideration to current payment of interest, partial redemption of the NHP Notes with accrued interest and the estimated residual value in NHP. This change in estimate resulted in \$579,278 of additional income in 1998. In the fourth quarter of fiscal 1999, the Company reevaluated the assumptions related to its investment in the NHP Notes, and as a result reduced the income expected to be earned from the NHP Notes. This change in estimate resulted in a \$1,206,000 reduction in interest income in the fourth quarter. In addition, future interest income is expected to decrease by approximately \$1,253,842 and \$1,687,705 in 2000 and 2001, respectively.

The Company will continue to develop and acquire senior living communities. The development of senior living communities typically involves a substantial commitment of capital over an approximate 12-month construction period during which time no revenues are generated, followed by a 14- to 18-month lease-up period. The Company anticipates that newly opened or expanded communities will operate at a loss during a substantial portion of the lease-up period. The Company's growth strategy may also include the acquisition of senior living communities, home care agencies, and other properties or businesses that are complementary to the Company's operations and growth strategy.

Management's Discussion and Analysis

CAPITAL SENIOR LIVING CORPORATION

Results of Operations

The following tables set forth, for the periods indicated, selected historical consolidated statements of income data in thousands of dollars and expressed as a percentage of total revenues.

	Year Ended					
	December 31, 1999		December 31, 1998		December 31, 1997	
	\$	%	\$	%	\$	%
Revenues:						
Resident and health care revenue	\$41,071	64.2%	\$25,988	60.8%	\$22,159	72.2%
Rental and lease income	4,304	6.7%	4,281	10.0%	4,276	13.9%
Unaffiliated management services revenue	2,695	4.2%	2,465	5.8%	1,920	6.3%
Affiliated management services revenue	456	0.7%	1,327	3.1%	1,378	4.5%
Unaffiliated development fees	1,341	2.1%	1,234	2.9%	804	2.6%
Affiliated development fees	14,085	22.0%	7,473	17.5%	173	0.6%
Total revenues	63,952	100.0%	42,768	100.0%	30,710	100.0%
Expenses:						
Operating expenses	24,470	38.3%	17,067	39.9%	16,701	54.4%
General and administrative expenses	9,212	14.4%	6,094	14.2%	7,042	23.1%
Bad debt expense	15,896	24.9%	500	1.2%	43	0.0%
Depreciation and amortization	4,671	7.3%	2,734	6.4%	2,118	6.9%
Total expenses	54,249	84.8%	26,395	61.7%	25,904	84.4%
Income from operations	9,703	15.2%	16,373	38.3%	4,806	15.6%
Other income (expense):						
Interest income	5,822	9.1%	4,939	11.5%	3,186	10.4%
Interest expense	(7,089)	(11.1%)	(1,922)	(4.5%)	(2,022)	(6.6%)
Gain on sale of properties	748	1.2%	422	1.0%	-	0.0%
Other	-	0.0%	-	0.0%	440	1.4%
Income before income taxes and minority interest in consolidated partnerships	9,184	14.4%	19,812	46.3%	6,410	20.9%
Provision for income taxes	(2,992)	(4.7%)	(7,476)	(17.5%)	(793)	(2.6%)
Income before minority interest in consolidated partnerships	6,192	9.7%	12,336	28.8%	5,617	18.3%
Minority interest in consolidated partnerships	(1,354)	(2.1%)	(379)	(0.9%)	(1,936)	(6.3%)
Net income	\$ 4,838	7.6%	\$11,957	28.0%	\$ 3,681	12.0%

Management's Discussion and Analysis

CAPITAL SENIOR LIVING CORPORATION

Year Ended December 31, 1999 Compared to the Year Ended December 31, 1998

Revenues. Total revenues were \$63,952,000 in 1999 compared to \$42,768,000 in 1998, representing an increase of \$21,184,000, or 49.5%. Resident and health care revenue increased \$15,083,000, of which \$14,441,000 is related to owning the six communities purchased in the third and fourth quarters of fiscal 1998 for the full year in 1999, along with an increase in revenue at the HCP properties. Affiliated management services revenue decreased \$871,000 due to the Company's acquisition of four NHP properties that the Company managed in 1998. Affiliated development fee revenue increased \$6,612,000, reflecting the addition of 15 new development contracts for managing the development and construction of new senior living communities owned by joint ventures with third parties in which the Company owns interests of 10% to 19% (Triad Entities).

Expenses. Total expenses were \$54,249,000 in 1999 compared to \$26,395,000 in 1998, representing an increase of \$27,854,000, or 105.5%. This increase primarily results from \$15,896,000 in bad debt expenses along with additional expenses related to the acquisition of six communities in 1998. The bad debt expenses primarily relate to writing off or reserving \$10,482,000 in development fees, \$1,598,000 in pursuit cost from affiliates, and \$3,927,000 in notes receivable from joint ventures. These joint ventures were in various stages of developing 19 Waterford communities and they were unable to secure financing on attractive terms for completion of these communities. Operating expenses increased \$7,403,000 primarily due to expenses associated with the six properties acquired in 1998 and an expansion of one of the Company's communities. General and administrative expenses increased \$3,118,000 due to additional salary expenses, office rent, legal expenses and expenses relating to the six communities that were acquired.

Other Income and Expenses. Other income and expense decreased \$3,958,000 to a net expense of \$519,000 in 1999 compared to a net income of \$3,439,000 in 1998. Interest income increased \$883,000 primarily due to an increase of \$2,023,000 in interest income on loans to various Triad partnerships ("Triad Entities") offset by a decrease of \$1,108,000 in interest income from cash balances available for investing and a \$32,000 reduction in interest income relating to the NHP Notes. In the fourth quarter, the Company changed its estimate relating to the value of its investment in the NHP Notes resulting in a write down of approximately \$1,206,000. Interest expense increased \$5,167,000 due to financing of the acquisition of the six properties in the fourth quarter of 1998 along with funding of loans made to the Triad Entities. Gain on the sale of properties increased \$326,000 resulting from the gain on the sale of one community owned by HCP of \$748,288 in 1999 compared to a gain of \$422,000 on the sale of two properties in the fourth quarter of 1998.

Provision for Income Taxes. The provision for income taxes in 1999 was \$2,992,000, or 38.2% of income before taxes, compared to \$7,476,000, or 38.5% of income before taxes in 1998. The effective tax rates for 1999 and 1998 differ from the statutory tax rates because of state income taxes and permanent tax differences.

Minority Interest. Minority interest increased \$975,000 primarily due to the sale of one of the HCP communities and an increase in net income at HCP. The sale of the one HCP community increased minority interest by approximately \$329,000.

Net Income. As a result of the foregoing factors, net income decreased \$7,119,000 to \$4,838,000 for 1999, as compared to \$11,957,000 for 1998.

Management's Discussion and Analysis

CAPITAL SENIOR LIVING CORPORATION

Year Ended December 31, 1998 Compared to the Year Ended December 31, 1997

Revenues. Total revenues were \$42,768,000 in 1998 compared to \$30,710,000 in 1997, representing an increase of \$12,058,000, or 39.3%. Resident and health care revenue increased \$3,584,000, of which \$4,015,000 is a result of purchasing the four NHP properties, Gramercy Hill and Tesson Heights, along with a decrease of \$190,000 relating to the HCP properties. Unaffiliated management services revenue increased \$545,000 due to a significant improvement in the performance at the property level resulting in incentive payments and one additional third-party management contract added in the first quarter of 1998. Unaffiliated development fees increased \$430,000, of which \$894,000 is a result of two additional third-party development contracts and the continuation of four projects that earned fees for seven months in 1998 as compared to two months for 1997 and a decrease of \$464,000 resulting from one development project completed on December 31, 1997 and three development projects terminated by a third party. Affiliated development fees increased \$7,300,000, resulting from fees earned on 29 projects in 1998 compared to one in 1997.

Expenses. Total expenses were \$26,395,000 in 1998 compared to \$25,904,000 in 1997, representing an increase of \$491,000, or 1.9%. Operating expenses increased \$366,000 due to an increase of \$1,954,000 as a result of acquiring six properties in the fourth quarter of 1998, along with a decrease of \$1,361,000 related to the termination of a lease on Maryland Gardens and offset by an overall decrease in operating expenses. General and administrative expenses decreased \$491,000 due to a decrease in officers' salaries of \$2,670,000 offset by a \$325,000 increase due to the acquisition of six properties in the fourth quarter of 1998, a \$185,000 increase in development expenses due to the increase in development projects, a \$200,000 increase in professional fees that relate to legal fees, a \$100,000 increase in license and fee expense, a \$289,000 increase in HCP general and administrative expenses, along with an overall increase in general and administrative expenses. Depreciation and amortization increased \$616,000 due to an increase of \$424,000 as a result of the acquisition of the six properties in the fourth quarter of 1998, an \$80,000 increase for the expansion of Cottonwood and an increase of \$37,000 in the amortization of goodwill for 12 months in 1998 as opposed to two months in 1997.

Other Income and Expenses. Interest and other income increased \$1,835,000, primarily as a result of a \$1,365,000 increase in income associated with investment of cash reserves, a \$1,600,000 increase in NHP Notes interest due to a partial redemption of the notes and payment of accrued interest, a \$308,000 increase in interest earned from the Triad Entities' unsecured credit facilities, which is offset by a \$1,400,000 decrease in interest due to the divestment of an investment from June 1997 through October 1997 by CSLC. Interest expense decreased \$100,000 due to a decrease of \$1,267,000 of interest related to the debt incurred in the Formation Transactions and a decrease of \$44,000 in HCP interest expense due to refinancing. These decreases are offset by an increase of \$1,201,000 in interest expense due to the acquisition of the six properties in the fourth quarter of 1998. A gain of \$422,000 was recorded on the sale of two properties in the fourth quarter of 1998. In connection with the sale of its investment in HCP to the Company immediately following completion of the Company's initial public offering, CSLC incurred short swing profits, as defined by the Securities and Exchange Commission ("SEC"), and was, accordingly, required to remit such profits to HCP, which recorded the remittance of \$440,000 as other income in 1997.

Management's Discussion and Analysis

CAPITAL SENIOR LIVING CORPORATION

Minority Interest. Minority interest in limited partnerships decreased \$1,557,000, primarily due to the CSLC minority interest being included in 1997 through October and not included in 1998.

Provision for Income Taxes. The provision for income taxes was approximately \$7,476,000 in 1998 compared to \$793,000 in 1997. As a result of the Formation Transactions, the Company and its consolidated subsidiaries were converted from S corporations that are taxed at the shareholder level to C corporations that are subject to corporate income taxes. Accordingly, a provision for federal and state taxes was provided on the earnings for 12 months in 1998 compared to two months in 1997.

Net Income. As a result of the foregoing factors, net income increased \$8,276,000 to \$11,957,000 for 1998 from \$3,681,000 for 1997.

Quarterly Results

The following table presents certain quarterly financial information for the four quarters ended December 31, 1999 and 1998. This information has been prepared on the same basis as the audited Consolidated Financial Statements of the Company appearing elsewhere in this report and include, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the quarterly results when read in conjunction with the audited Consolidated Financial Statements of the Company and the related notes thereto.

	1999 Calendar Quarters			
	First	Second	Third	Fourth
(\$ in thousands, except per share amounts)				
Total revenues	\$15,467	\$15,957	\$16,560	\$ 15,967
Income from operations	\$ 6,273	\$ 6,551	\$ 7,017	\$(10,137)
Net income (loss)	\$ 3,852	\$ 3,983	\$ 4,386	\$ (7,384)
Net income (loss) per share, basic	\$ 0.20	\$ 0.20	\$ 0.22	\$ (0.37)
Net income (loss) per share, diluted	\$ 0.20	\$ 0.20	\$ 0.22	\$ (0.37)
Weighted average shares outstanding, basic	19,717	19,717	19,717	19,717
Weighted average shares outstanding, diluted	19,720	19,917	19,871	19,717

	1998 Calendar Quarters			
	First	Second	Third	Fourth
(\$ in thousands, except per share amounts)				
Total revenues	\$ 8,354	\$ 9,234	\$10,556	\$ 14,624
Income from operations	\$ 2,330	\$ 3,397	\$ 4,906	\$ 5,740
Net income	\$ 1,926	\$ 2,511	\$ 3,506	\$ 4,014
Net income per share, basic	\$ 0.10	\$ 0.13	\$ 0.18	\$ 0.20
Net income per share, diluted	\$ 0.10	\$ 0.13	\$ 0.18	\$ 0.20
Weighted average shares outstanding, basic	19,717	19,717	19,717	19,717
Weighted average shares outstanding, diluted	19,717	19,717	19,717	19,717

Management's Discussion and Analysis

CAPITAL SENIOR LIVING CORPORATION

Liquidity and Capital Resources

In addition to approximately \$32,988,000 of cash balances on hand as of December 31, 1999, the Company's principal source of liquidity is expected to be cash flows from operations. Of the \$32,988,000 in cash balances, \$13,724,000 relate to cash held by HCP. The Company expects its available cash and cash flows from operations to be sufficient to fund its short-term working capital requirements. The Company's long-term capital requirements, primarily for acquisitions, development and other corporate initiatives, will be dependent on its ability to access additional funds through the debt and/or equity markets. There can be no assurance that the Company will continue to generate cash flows at or above current levels or that the Company will be able to obtain the capital necessary to meet the Company's long-term capital requirements.

The Company had net cash provided by operating activities of \$3,103,000 in fiscal 1999 compared to \$6,689,000 and \$9,684,000 in fiscal 1998 and 1997, respectively. In fiscal 1999, the net cash provided by operating activities was primarily derived from net income of \$4,838,000 along with net noncash charges of \$22,733,000 offset by increases in accounts and interest receivables of \$14,120,000, an increase in other assets of \$1,504,000, a reduction in federal and state income taxes of \$7,704,000. In fiscal 1998, the net cash provided by operating activities was primarily derived from net income of \$11,957,000, noncash charges of \$3,054,000 offset by increases in accounts and interest receivable of \$8,978,000. In fiscal 1997, the net cash provided by operating activities was primarily derived from net income of \$3,681,000, along with noncash charges of \$4,115,000 and increases in accounts payable and income taxes payable of \$2,667,000 and \$832,000, respectively, offset by an increase in accounts receivable of \$1,371,000.

The Company had net cash used in investing activities of \$16,527,000, \$86,501,859 and \$81,502,000 in fiscal 1999, 1998 and 1997, respectively. In fiscal 1999, the Company's net cash used in investing activities was primarily the result of advances to Triad Entities of \$22,794,000 and capital expenditures of \$1,887,000 offset by the proceeds from the sale of the HCP property of \$2,740,000 and a distribution from a limited partnership of \$5,414,000. In fiscal 1998, the Company's net cash used in investing activities was primarily from acquisitions of \$67,728,000, advances to Triad Entities of \$11,728,000, capital expenditures of \$6,027,000 and investments in a limited partnership of \$1,694,000.

The Company had net cash provided by financing activities of \$10,585,000, \$67,514,000 and \$109,125,000 in fiscal 1999, 1998 and 1997, respectively. For fiscal 1999 the net cash provided by financing activities was primarily the result of increases in debt outstanding under the Company's line of credit and notes payable. For fiscal 1998, the net cash provided by financing activities was primarily the result of increases in debt used to finance the Company's acquisitions. For fiscal 1997, the net cash provided by financing activities was primarily the result of the issuance of common stock.

The Company derives the benefits and bears the risks related to the communities it owns. The cash flows and profitability of owned communities depends on the operating results of such communities and are subject to certain risks of ownership, including the need for capital expenditures, financing and other risks such as those relating to environmental matters.

The cash flows and profitability of the Company's owned communities that are leased to third parties depend on the ability of the lessee to make timely lease payments. At December 31, 1999, HCP was operating one of its properties and had leased seven of its owned properties under triple net leases to third parties until year 2000 or 2001. Three of these properties are leased until year 2001 to HealthSouth Rehabilitation Corp. ("HealthSouth"), which provides acute spinal injury intermediate care at the properties that are still operating. HealthSouth closed one of these communities in 1994 and closed another community in February of 1997 due to low occupancy. HealthSouth has continued to make lease payments on a timely basis for all four properties. Effective August 5, 1999, HealthSouth agreed to transfer control of the two closed communities to HCP. HealthSouth agreed, however, to continue making its full lease payments to HCP with no reduction in payment. Effective September 20, 1998, the main campus of one of those communities was sold to an independent third-party buyer for \$2,825,000. HCP will explore its options with regard to the remainder of the community as well as the other community, including the possibility of a sale of these assets. Should the operators of the leased properties default on payment of their lease obligations prior to termination of the lease agreements, five of the six lease contracts contain a continuing guarantee of payment and performance by the parent company of the operators, which the Company intends to pursue in the event of default. Following termination of these leases,

Management's Discussion and Analysis

CAPITAL SENIOR LIVING CORPORATION

unless the operators extend their leases, the Company will either convert and operate the communities as assisted living and Alzheimer's care communities, sell the communities or evaluate other alternatives. HCP communities' lessees are all current in their lease obligations to HCP. The lessee for another property (other than HealthSouth) continues to fund a deficit between the required lease payment and operator's cash flows. Additionally, on January 11, 2000 the Cane Creek facility in Martin, Tennessee, was sold to HealthSouth Corporation for \$2,350,000. HealthSouth agreed, however, to continue making its full lease payments to HCP with no reduction in payments.

The cash flows and profitability of the Company's third-party management fees are dependent upon the revenues and profitability of the communities the Company manages. While the management contracts are generally terminable only for cause, in certain cases contracts can be terminated upon the sale of a community, subject to the Company's rights to offer to purchase such community.

The Company plans to continue to develop and acquire senior living communities. The development of senior living communities typically involves a substantial commitment of capital over an approximate 12-month construction period during which time no revenues are generated, followed by a 14- to 18-month lease-up period.

The Company has entered into development and management agreements with the Triad Entities set out below for the development and management of new senior living communities. The Triad Entities will own and finance the construction of the new communities. These communities are primarily Waterford communities. The Company typically receives a development fee of 4% of project costs, as well as reimbursement of expenses and overhead not to exceed 4% of project costs. The Company typically receives management fees in an amount equal to the greater of 5% of gross revenues or \$5,000 per month per community, plus overhead reimbursement not to exceed 1%. The Company holds a 10% to 19% limited partnership interest in each of the Triad Entities and has the option to purchase the partnership interests of the other partners in each Triad Entity for an amount equal to the amount paid for the partnership interest by the other partners, plus noncompounded interest of 12% per annum, except Triad Senior Living I, L.P. ("Triad I"). In addition, each management agreement entered into with the Triad Entities, except Triad I, provides the Company with an option to purchase the community developed by the applicable partnership upon its completion for an amount equal to the fair market value (based on a third-party appraisal but not less than hard and soft costs and lease-up costs) of the community. In December 1999, Triad I completed a recapitalization in which Lehman Brothers purchased from third parties 80% of the limited partnership interest in Triad I for an investment of \$12,000,000. Lehman Brothers affiliate's investment enabled Triad I to repay the Company approximately \$9,000,000 in loans. The Company increased its equity contribution in Triad I to \$3,000,000 and continues to own a 19% limited partnership interest in Triad I. The Company has the option to purchase the Triad I communities for an amount specified on the partnership agreement. The Company will continue to develop and manage the communities in Triad I. The Company has made no determination as to whether it will exercise any of these purchase options. The Company will evaluate the possible exercise of each purchase option based upon the business and financial factors that may exist at the time those options may be exercised.

Each Triad Entity finances the development of new communities through a combination of equity funding, traditional construction loans and permanent financing with institutional lenders secured by first liens on the communities and unsecured loans from the Company. The chart below sets forth information about the financings from institutional lenders and the Company loans. The Company loans may be prepaid without penalty. The financings from institutional lenders are secured by first liens on the communities, as well as by assignment to the lenders of the construction contracts and the development and management agreements with subsidiaries of the Company. Each development and management agreement assigned to an institutional lender is also guaranteed by the Company and those guarantees are also assigned to the lenders. In certain cases, the management agreements contain an obligation of the Company to make operating deficit loans to the Triad Entities if the other financing sources of the Triad Entities have been fully utilized. These operating deficit loan obligations, which are guaranteed by the Company, include making loans to fund debt service obligations to the lenders.

Management's Discussion and Analysis

CAPITAL SENIOR LIVING CORPORATION

Set forth below is information regarding the Company's loans to the Triad Entities, as well as information on the construction loan facilities entered into by each of the Triad Entities.

Entity	Company Loans ⁽¹⁾				Construction Loan Facilities		
	Committed Amount	Outstanding on Dec. 31, 1999	Maturity	Interest Rate	Amount	Type	Lender
(\$ in thousands)							
Triad Senior Living I, L.P.	⁽²⁾	\$30	⁽²⁾	— %	\$50,000 \$50,000	construction; take-out	Bank One GMAC
Triad Senior Living II, L.P.	\$15,000	\$11,510	September 25, 2003	10.5%	\$26,800	construction; mini-perm	Key Bank
Triad Senior Living III, L.P.	\$10,000	\$ 9,810	February 8, 2004	10.5%	\$56,300	construction; mini-perm	Guaranty Federal
Triad Senior Living IV, L.P.	\$10,000	\$ 5,178	December 30, 2003	10.5%	\$18,600	construction; mini-perm	Compass Bank
Triad Senior Living V, L.P.	\$10,000	\$ 3,467	June 30, 2004	12.0%	\$27,000	construction; mini-perm	Bank of America
Triad Senior Living VI, L.P.	\$ 3,000	\$ 600	October 1, 2004	12.0%	—	—	—

(1) The Company has operating deficit loan obligations in management agreements in addition to the committed amounts shown relating to unsecured loans from the Company.

(2) The amount shown was funded by the Company pursuant to operating deficit loan obligations.

Financing of the ILM Mergers

The Company has entered into definitive Amended and Restated Agreements and Plans of Merger with ILM Senior Living, Inc. ("ILM I") and ILM II Senior Living, Inc. ("ILM II") to acquire these companies for a combined cash consideration of approximately \$172,000,000, and the assumption of liabilities. The primary assets of ILM I and ILM II collectively are 13 senior living communities that have been managed by the Company under management agreements since 1996. The Company received a term sheet from GMAC to provide acquisition financing for the purchase of these 13 senior living communities and to provide interim financing on three senior living communities currently owned by the Company. The financing is expected to provide up to \$180,000,000, subject to certain terms and conditions.

Year 2000 Issue

The Year 2000 issue results from the historical use in computer software programs and operating systems of a two-digit number to represent the applicable year. Concerns arose as to whether certain software and hardware would fail to properly function when confronted with dates that contain "00" as a two-digit year. To address the potential risk of disruption of operations, the Company developed and implemented a program to replace certain software and hardware, so that its systems would properly recognize and utilize dates beyond December 31, 1999. The Company also upgraded its general ledger and reporting software to avoid compatibility issues with certain of the reporting tools used in conjunction with the general ledger. The costs to the Company to achieve Year 2000 readiness were approximately \$100,000.

To date, the Company has not experienced any material problems relating to the Year 2000 issue. The Company will continue to monitor and evaluate internal Year 2000 compliance and the compliance of key suppliers.

Management's Discussion and Analysis

CAPITAL SENIOR LIVING CORPORATION

Impact of Inflation

To date, inflation has not had a significant impact on the Company. However, inflation could affect the Company's future revenues and results of operations because of, among other things, the Company's dependence on senior residents, many of whom rely primarily on fixed incomes to pay for the Company's services. As a result, during inflationary periods, the Company may not be able to increase resident service fees to account fully for increased operating expenses. In structuring its fees, the Company attempts to anticipate inflation levels, but there can be no assurance that the Company will be able to anticipate fully or otherwise respond to any future inflationary pressures.

Forward-Looking Statements

Certain information contained in this report constitutes "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The Company cautions readers that forward-looking statements, including, without limitation, those relating to the Company's future business prospects, revenues, working capital, liquidity, capital needs, interest costs, and income, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to several important factors herein identified, among others, and other risks and factors identified from time to time in the Company's reports filed with the SEC.

Report of Ernst & Young LLP, Independent Auditors

CAPITAL SENIOR LIVING CORPORATION

The Shareholders
Capital Senior Living Corporation

We have audited the accompanying consolidated balance sheets of Capital Senior Living Corporation as of December 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of HealthCare Properties, L.P. and subsidiaries, a 57% owned subsidiary, which statements reflect total assets of \$32,055,252 and \$32,758,958 as of December 31, 1999 and 1998, respectively, and total revenues of \$9,499,819, \$8,787,575 and \$8,977,628 for the years ended December 31, 1999, 1998 and 1997, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for HealthCare Properties, L.P., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital Senior Living Corporation as of December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles in the United States.

Ernst & Young LLP

Dallas, Texas
February 4, 2000

Consolidated Balance Sheets

CAPITAL SENIOR LIVING CORPORATION

	December 31,	
	1999	1998
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 32,988,024	\$ 35,827,270
Accounts receivable, net	3,391,803	2,955,507
Accounts receivable from affiliates	9,054,970	7,217,127
Interest receivable from affiliates	834,209	189,482
Federal and state income taxes receivable	6,035,032	—
Deferred taxes	909,939	287,040
Prepaid expenses and other	508,410	448,790
Total current assets	53,722,387	46,925,216
Property and equipment, net	104,723,216	118,943,953
Deferred taxes	9,516,051	10,108,715
Notes receivable from affiliates	30,595,610	11,728,162
Investments in limited partnerships	9,122,850	14,536,972
Assets held for sale	9,549,084	—
Other assets, net	4,646,561	3,023,717
Total assets	\$221,875,759	\$205,266,735
<i>Liabilities and Shareholders' Equity</i>		
Current liabilities:		
Accounts payable	\$ 2,512,202	\$ 2,780,513
Accrued expenses	2,127,374	2,231,895
Current portion of notes payable	1,199,299	48,419,050
Customer deposits	910,693	851,375
Federal and state income taxes payable	—	1,668,602
Total current liabilities	6,749,568	55,951,435
Deferred income from affiliates	1,784,600	792,240
Deferred income	—	115,062
Notes payable, net of current portion	58,415,956	13,696,797
Line of credit	34,000,000	18,974,186
Minority interest in consolidated partnership	11,376,972	11,220,836
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value:		
Authorized shares — 15,000,000; no shares issued or outstanding	—	—
Common stock, \$.01 par value:		
Authorized shares — 65,000,000		
Issued and outstanding shares — 19,717,347 in 1999 and 1998	197,173	197,173
Additional paid-in capital	91,934,811	91,740,251
Retained earnings	17,416,679	12,578,755
Total shareholders' equity	109,548,663	104,516,179
Total liabilities and shareholders' equity	\$221,875,759	\$205,266,735

See accompanying notes.

Consolidated Statements of Income

CAPITAL SENIOR LIVING CORPORATION

	Year Ended December 31,		
	1999	1998	1997
Revenues:			
Resident and health care revenue	\$ 41,070,673	\$ 25,987,776	\$22,159,515
Rental and lease income	4,303,739	4,281,603	4,275,611
Unaffiliated management services revenue	2,694,887	2,464,677	1,919,618
Affiliated management services revenue	455,636	1,327,019	1,378,444
Unaffiliated development fees	1,341,102	1,234,050	803,767
Affiliated development fees	14,085,547	7,472,501	172,927
Total revenues	63,951,584	42,767,626	30,709,882
Expenses:			
Operating expenses	24,469,798	17,067,451	16,701,127
General and administrative expenses	9,212,250	6,093,810	7,041,732
Provision for bad debts	15,895,566	500,000	43,254
Depreciation and amortization	4,671,076	2,733,658	2,117,288
Total expenses	54,248,690	26,394,919	25,903,401
Income from operations	9,702,894	16,372,707	4,806,481
Other income (expense):			
Interest income	5,822,277	4,938,989	3,185,815
Interest expense	(7,089,229)	(1,921,897)	(2,022,494)
Gain on sale of properties	748,288	421,718	–
Other	–	–	440,007
Income before income taxes and minority interest			
in consolidated partnership	9,184,230	19,811,517	6,409,809
Provision for income taxes	(2,991,723)	(7,475,771)	(792,524)
Income before minority interest in consolidated partnership	6,192,507	12,335,746	5,617,285
Minority interest in consolidated partnership	(1,354,583)	(379,187)	(1,936,122)
Net income	\$ 4,837,924	\$ 11,956,559	\$ 3,681,163
Net income per share:			
Basic	\$ 0.25	\$ 0.61	\$ 0.33
Diluted	\$ 0.24	\$ 0.61	\$ 0.33
Weighted average shares outstanding – basic	19,717,347	19,717,347	11,150,087
Weighted average shares outstanding – diluted	19,806,341	19,717,347	11,150,087
Pro forma net income (unaudited):			
Net income			\$ 3,681,163
Pro forma income taxes			(964,776)
Pro forma net income			\$ 2,716,387

See accompanying notes.

Consolidated Statements of Shareholders' Equity

CAPITAL SENIOR LIVING CORPORATION

	Partners' Capital	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Total
		Shares	Amount			
Balance at January 1, 1997	\$17,257,778	1,680,000	\$ 16,800	\$ 26,558	\$ (100,612)	\$ 17,200,524
Purchase of Beneficial Unit						
Certificates of CSLC	374,867	—	—	—	—	374,867
Distributions prior to						
Offering	—	—	—	—	(457,647)	(457,647)
Issuance of stock resulting						
from the Formation	—	7,687,347	76,873	(76,873)	—	—
Issuance of stock in						
Offering, net	—	10,350,000	103,500	110,227,415	—	110,330,915
Equity not retained in						
Asset Purchase	(20,133,353)	—	—	(18,436,849)	—	(38,570,202)
Net income	2,500,708	—	—	—	1,180,455	3,681,163
Balance at December 31, 1997	—	19,717,347	197,173	91,740,251	622,196	92,559,620
Net income	—	—	—	—	11,956,559	11,956,559
Balance at December 31, 1998	—	19,717,347	197,173	91,740,251	12,578,755	104,516,179
Noncash compensation	—	—	—	194,560	—	194,560
Net income	—	—	—	—	4,837,924	4,837,924
Balance at December 31, 1999	\$ —	19,717,347	\$197,173	\$ 91,934,811	\$17,416,679	\$109,548,663

See accompanying notes.

Consolidated Statements of Cash Flows

CAPITAL SENIOR LIVING CORPORATION

	Year Ended December 31,		
	1999	1998	1997
<i>Operating Activities</i>			
Net income	\$ 4,837,924	\$ 11,956,559	\$ 3,681,163
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	4,567,172	2,639,883	1,894,665
Amortization	103,904	93,775	222,623
Amortization of deferred financing charges	518,842	163,708	—
Minority interest in consolidated partnership	1,354,583	379,187	1,936,122
Deferred interest	—	(679,619)	(173,456)
Deferred income from affiliates	992,360	792,240	—
Deferred income	(115,062)	(116,194)	231,256
Deferred income taxes	(30,235)	(296,478)	(39,158)
Gain on sale of property	(748,288)	(421,718)	—
Noncash compensation	194,560	—	—
Provision for bad debts	15,895,566	500,000	43,254
Changes in operating assets and liabilities, net of acquisitions:			
Cash, restricted	—	—	186,416
Accounts receivable	(1,011,705)	(1,481,883)	(1,556,965)
Accounts receivable from affiliates	(12,463,743)	(7,190,431)	90,955
Interest receivable from affiliates	(644,727)	(306,108)	—
Prepaid expenses and other	(59,620)	4,110	(373,006)
Other assets	(1,503,759)	(1,059,034)	(11,454)
Accounts payable	(268,311)	311,734	2,667,158
Accrued expenses	(871,927)	525,944	23,529
Federal and state income taxes payable	(7,703,634)	836,920	831,682
Customer deposits	59,318	36,812	28,955
Net cash provided by operating activities	3,103,218	6,689,407	9,683,739
<i>Investing Activities</i>			
Capital expenditures	(1,887,448)	(6,027,361)	(2,441,106)
Cash paid for acquisitions	—	(67,728,438)	—
Proceeds from sale of property	2,740,217	676,036	—
Advances to affiliates	(22,794,299)	(11,728,162)	—
Cash acquired upon acquisition of HCP	—	—	8,995,455
Investment in restricted cash equivalents	—	—	(64,202,763)
Cash paid for Asset Purchase and cash not retained	—	—	(8,244,077)
Proceeds from (investments in) limited partnerships	5,414,122	(1,693,934)	(15,609,034)
Net cash used in investing activities	(16,527,408)	(86,501,859)	(81,501,525)

Consolidated Statements of Cash Flows

CAPITAL SENIOR LIVING CORPORATION

	Year Ended December 31,		
	1999	1998	1997
<i>Financing Activities</i>			
Proceeds from notes payable and line of credit	61,506,256	67,039,026	78,663,883
Repayments of notes payable and line of credit	(48,981,034)	(791,214)	(77,363,736)
Repayments of notes payable to affiliates	—	—	(1,166,481)
Proceeds from notes payable to affiliates	—	—	500,000
Distributions to minority partners	(1,198,447)	—	(224,795)
Distributions prior to Offering	—	—	(457,647)
Issuance of common stock, net	—	—	110,330,915
Cash received for redemption of NHP limited partnership interest	—	1,997,280	—
Repurchase of HCP limited partnership interests by HCP	—	(144,791)	—
Repurchase of Beneficial Unit Certificates of CSLC	—	—	(960,752)
Deferred financing charges paid	(741,831)	(585,804)	(196,888)
Net cash provided by financing activities	10,584,944	67,514,497	109,124,499
(Decrease) increase in cash and cash equivalents	(2,839,246)	(12,297,955)	37,306,713
Cash and cash equivalents at beginning of year	35,827,270	48,125,225	10,818,512
Cash and cash equivalents at end of year	\$32,988,024	\$35,827,270	\$48,125,225
<i>Supplemental Disclosures</i>			
Cash paid during the year for:			
Interest	\$ 6,475,989	\$ 1,956,812	\$ 2,041,366
Income taxes	\$10,275,592	\$ 6,935,330	\$ —

See accompanying notes

Notes to Consolidated Financial Statements

CAPITAL SENIOR LIVING CORPORATION

Note 1. Organization and Formation

Capital Senior Living Corporation, a Delaware corporation, was incorporated on October 25, 1996. The accompanying financial statements include the consolidated financial statements of Capital Senior Living Corporation (“Corporation”); Capital Senior Living, Inc. (“Living”); Capital Senior Development, Inc. (“Development”); Capital Senior Management 1, Inc. (“Management 1”); Capital Senior Management 2, Inc. (“Management 2”); Capital Senior Living Trust I (“Trust I”); Quality Home Care, Inc. (“Quality”); Capital Senior Living Properties, Inc., including HCP and Capital Senior Living Properties 2, Inc. (“Properties 2”), which includes Capital Senior Living Properties 2-Gramercy, Inc. (“Gramercy”), Capital Senior Living Properties 2-NHPCT, Inc. (“NHPCT”) and Capital Senior Living Properties 2 – NHPT, Inc. (“NHPT”) (collectively referred to with Capital Senior Living Corporation as the “Company”). The accompanying financial statements are presented on a combined basis prior to November 5, 1997, and include Capital Senior Living Communities, L.P. (CSLC) through that date. CSLC included the accounts of CSLC and HCP. All material intercompany balances and transactions have been eliminated in consolidation.

The Company is a provider of senior living services. The Company owns, operates, develops and manages senior living communities throughout the United States.

The Company completed the registration of its common stock in an initial public offering (“Offering”) on November 5, 1997. Simultaneously with the closing of the Offering, the Corporation acquired Living, Quality, Development, Management 1, and Management 2 (“Formation”) in exchange for 7,687,347 shares of common stock and a note payable for \$18,076,380 (“Formation Note”) to Jeffrey L. Beck and James A. Stroud or a related trust (collectively, the “Stockholders”) and Lawrence A. Cohen, all officers of the Company. Additionally, the Corporation purchased substantially all of the assets, other than working capital items, of CSLC (the “Asset Purchase”) for the assumption of a \$70,833,752 note payable and a cash payment of \$5,782,927. The Stockholders owned 46% of the common stock of the Company after the Offering.

Due to all of these entities being under the common control of the Stockholders for all periods presented prior to the Offering, these consolidated financial statements reflect the assets and liabilities at their historical values and the accompanying consolidated statements of income, equity, and cash flows reflect the consolidated results for the periods indicated even though they have historically operated as separate entities prior to the Formation. The Formation was accounted for at historical cost in a manner similar to a pooling of interests to the extent of the percentage ownership by the Stockholders. The Asset Purchase was recorded at fair value to the extent of the minority interest. A step-up in basis of \$9,282,202 was recorded for property and equipment and \$2,692,669 for the investment in NHP Notes. Additionally, a deferred tax asset of \$10,060,119 and goodwill of \$1,264,881 was recorded. Assets that were not acquired from CSLC in the Asset Purchase that were combined in the financial statements until such date were charged to paid-in capital. CSLC’s assets included investments in HCP and NHP, which were acquired in the Asset Purchase. NHP owned a portfolio of five independent senior living communities. On September 30, 1998, the Company purchased four of the five independent senior living communities from NHP (see Note 4).

In the accompanying consolidated financial statements, HCP is consolidated as the Company had acquired a controlling financial interest in HCP during 1997. At December 31, 1999, 1998 and 1997, the Company owned approximately 57%, 57% and 56% of HCP’s limited partner units, respectively. Preacquisition earnings for 1997 applicable to HCP are included in minority interest.

HCP is a Delaware limited partnership established for the purpose of acquiring, leasing and operating existing or newly constructed long-term health care properties. One property is operated by HCP and six properties are leased to qualified operators who provide specialized health care services. Capital Realty Group Senior Housing, Inc. (“Housing”), an entity controlled by the Stockholders until June 10, 1998, is the general partner. On June 10, 1998, Housing’s parent corporation, Capital Realty Group Corporation, sold 100% of its stock in Housing to an unrelated third party.

HCP and NHP are subject to the reporting obligations of the Securities and Exchange Commission.

Notes to Consolidated Financial Statements

CAPITAL SENIOR LIVING CORPORATION

Note 2. Summary of Significant Accounting Policies

Cash and Cash Equivalents. Investments with original maturities of three months or less are considered to be cash equivalents. The Company has deposits in banks that exceed Federal Deposit Insurance Corporation insurance limits. Management believes that credit risk related to these deposits is minimal. Cash and cash equivalents, at December 31, 1999 and 1998, includes the cash and cash equivalents of the HCP partnership of \$13,723,936 and \$11,971,405, respectively.

Long-Lived Assets. Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are 30 to 40 years for buildings, 20 years for land improvements and five to 10 years for furniture, equipment and automobiles.

Management contract rights of \$516,163, included in other assets, are stated at cost and amortized on a straight-line basis over their respective contract lives. Accumulated amortization for management contract rights at December 31, 1999 and 1998, was \$368,460 and \$320,530, respectively. Goodwill of \$1,264,881, included in other assets, is the excess purchase price over the fair value of the assets acquired in the Asset Purchase to the extent of the minority interest and is amortized over 30 years on a straight-line basis. Accumulated amortization for goodwill at December 31, 1999 and 1998, was \$94,723 and \$51,005, respectively.

At each balance sheet date, the Company reviews the carrying value of its management contract rights, goodwill, and property and equipment to determine if facts and circumstances suggest that they may be impaired or that the amortization or depreciation period may need to be changed. The Company considers external factors relating to each asset, including contract changes, local market developments, and other publicly available information. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount the carrying value exceeds the fair market value, generally based on discounted cash flows, of the long-lived asset. The Company does not believe there are any indicators that would require an adjustment to the carrying value of the management contract rights, goodwill or property and equipment or their remaining useful lives as of December 31, 1999 and 1998.

Assets Held for Sale. During 1999, the Company reclassified four of its properties in HCP to assets held for sale. Two of the properties had been leased to Rebound Inc., a subsidiary of HealthSouth Corporation ("HealthSouth"), under a master lease agreement and both properties were closed prior to February 28, 1997. Effective August 25, 1999, HealthSouth agreed to transfer control of the two closed communities to the Company. The assets of one of the two communities, with the exception of two houses, were sold on September 20, 1999. The Company estimates the properties held for sale have an aggregate fair value, net of costs of disposal, of \$9,549,084 at December 31, 1999. The amounts the Company will ultimately realize could differ materially from this estimate.

Income Taxes. The Company accounts for income taxes under the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Prior to the Formation, the predecessor companies were S corporations and, consequently, were not subject to income taxes. Thus, taxable income or loss is directly allocated to the individual stockholders. Upon Formation, these corporations converted from S corporations to C corporations. A deferred tax benefit of \$41,085 was recorded in the consolidated statements of income upon conversion.

Revenue Recognition. Resident and health care revenue is recognized at estimated net realizable amounts due from residents in the period to which the rental and other services are provided.

Revenues from the Medicare and Medicaid programs accounted for 11%, 16% and 22% in 1999, 1998 and 1997, respectively, of the Company's net revenues. One community is a provider of services under the Indiana Medicaid program. Accordingly, the community is entitled to reimbursement under the foregoing program at established rates that are lower than private pay rates. Patient service revenue for Medicaid patients is recorded at the reimbursement rates as the rates are set prospectively by the state upon the filing of an annual cost report. Two communities are providers of services under the Medicare program and are entitled to payment under the foregoing programs in amounts determined based on established rates that differ from private pay rates. In 1998 and prior years, payments were based on the filing

Notes to Consolidated Financial Statements

CAPITAL SENIOR LIVING CORPORATION

of an annual cost report prepared in accordance with federal regulations, which are subject to audit and retroactive adjustments in future periods. Revenue from the Medicare program is recorded at established rates and adjusted for differences between such rates and estimated amounts payable from the program. Any differences between estimated and actual reimbursements are included in operations in the year of settlement, which have not been material. Under federal regulations, Medicare reimbursements through 1998 to these facilities were limited to routine cost limits determined on a geographical region. The Company has filed exception reports to request reimbursement in excess of its routine cost limits for the years 1997 through 1998, as of December 31, 1999, and recorded revenue of approximately \$43,000 in 1998, as a result of being granted exception requests for 1997 and approximately \$346,000 in 1997, as a result of being granted exception requests for 1992 and 1994. CSLC retained cost report exposure for cost years prior to the Offering.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Management services revenue, resident and health care revenue and development fees are recognized when earned. Management services revenue relates to providing certain management and administrative support services under management contracts, which have terms expiring through 2009. Management services revenue is shown net of reimbursed expenses. The reimbursed expenses from affiliates were \$1,655,459, \$3,486,163 and \$3,892,526, for the years ended December 31, 1999, 1998 and 1997, respectively. Reimbursed expenses from unaffiliated parties were \$12,539,616, \$11,203,790 and \$8,941,343, for the years ended December 31, 1999, 1998 and 1997, respectively.

Affiliated development fees in the accompanying statements of income represent development fees earned from the Triad Entities (see Note 3).

Credit Risk. The Company's resident receivables are generally due within 30 days and development fee receivables are due through completion of construction, which is generally one year. The Company does not require collateral. Credit losses, on resident receivables, have been within management's expectations, and management believes that the allowance for doubtful accounts adequately provides for any expected losses.

Advertising. Advertising is expensed as incurred. Advertising expenses for the years ended December 31, 1999, 1998 and 1997 were \$357,208, \$243,720 and \$336,738, respectively.

Net Income Per Share. Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share considers the dilutive effect of outstanding options calculated using the treasury stock method.

The following table sets forth the computation of basic and diluted net income per share (in thousands except for per share amounts):

	Year Ended December 31,		
	1999	1998	1997
Net income	\$ 4,838	\$11,957	\$ 3,681
Weighted average shares outstanding – basic	19,717	19,717	11,150
Effect of dilutive securities:			
Employee stock options	89	–	–
Weighted average shares outstanding – dilutive	19,806	19,717	11,150
Basic net income per share	\$ 0.25	\$ 0.61	\$ 0.33
Diluted net income per share	\$ 0.24	\$ 0.61	\$ 0.33

Stock-Based Compensation. The Company has elected to follow the intrinsic value method in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations in accounting for its employee and director stock options. In accordance with APB 25, since the exercise price of the Company's employee

Notes to Consolidated Financial Statements

CAPITAL SENIOR LIVING CORPORATION

stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Company has adopted the disclosure-only provisions for the fair value method of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FASB 123"). Stock option grants to non-employees are accounted for in accordance with the fair value method of FASB 123.

Segment Information. The Company evaluates the performance and allocates resources of its senior living facilities based on current operations and market assessments on a property by property basis. The Company does not have a concentration of operations geographically or by product or service as its management functions are integrated at the property level.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications. Certain prior year amounts have been reclassified to conform to 1999 presentation.

Note 3. Transactions With Affiliates

The Company has entered into development and management agreements with the partnerships set out below for the development and management of new senior living communities. The Triad Entities own and finance the construction of new senior living communities. These communities are primarily Waterford communities. The development of senior living communities typically involves a substantial commitment of capital over an approximate 12-month construction period, during which time no revenues are generated, followed by a 14- to 18-month lease-up period.

The Company is accounting for these investments under the equity method of accounting based on the provisions of the Triad Entities partnership agreements.

The following table sets forth the percentage ownership the Company has in each of the Triad Entities, the capital invested, information related to loans made by the Company to each Triad Entity and information on deferred income related to each Triad Entity (dollars in thousands).

Entity	LP Ownership Interest	Capital Investment	Committed Amount	Notes Receivable		Deferred Income		Development Fees
				Balance Dec. 31,	Maturity	Interest Rate	Interest	
Triad Senior Living I, L.P. (Triad I)								
1999	19.0%	\$3,000	\$ —	\$ 30	—	8.0%	\$230	\$426
1998	19.0	330		9,636		8.0	67	223
Triad Senior Living II, L.P. (Triad II)								
1999	19.0	74	15,000	11,510	September	10.5	130	197
1998	19.0	74	10,000	932	25, 2003	10.5	3	95
Triad Senior Living III, L.P. (Triad III)								
1999	19.0	143	10,000	9,810	February	10.5	111	377
1998	19.0	143	10,000	—	8, 2004	10.5	—	163
Triad Senior Living IV, L.P. (Triad IV)								
1999	19.0	143	10,000	5,178	December	10.5	73	106
1998	19.0	143	10,000	1,160	30, 2003	10.5	—	238
Triad Senior Living V, L.P. (Triad V)								
1999	10.0	—	10,000	3,467	June 30, 2004	12.0	17	80
Triad Senior Living VI, L.P. (Triad VI)								
1999	5.0	—	3,000	600	October 1, 2004	12.0	2	—

The Company typically receives a development fee of 4% of project costs, as well as reimbursement of expenses and overhead not to exceed 4% of project costs. These fees are recorded over the term of the development project on a basis approximating the percentage of completion method. In addition, when the properties become operational, the Company typically receives management fees in an amount equal to the greater of 5% of gross revenues or \$5,000 per month per community, plus overhead not to exceed 1% of gross revenue.

Notes to Consolidated Financial Statements

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The Company has the option to purchase the partnership interests of the other parties in the Triad Entities for an amount equal to the amount paid for the partnership interest by the other partners, plus a noncompounded return of 12% per annum except for Triad I. In addition, each Triad Entity except Triad I provides the Company with an option to purchase the community developed by the applicable partnership upon their completion for an amount equal to the fair market value (based on a third-party appraisal but not less than hard and soft costs and lease-up costs) of the community.

In December 1999, Triad I completed a recapitalization in which Lehman Brothers purchased from third parties 80% of the limited partnership interest in Triad I for an investment of \$12,000,000. The investment enabled Triad I to repay the Company approximately \$9,000,000 in loans. The Company increased its equity contribution in Triad I to \$3,000,000 and continues to own a 19% limited partnership interest. The Company has the option to purchase the Triad I communities for an amount specified in the partnership agreement. The Company will continue to develop and manage the communities in the Triad I partnership.

The Company has made no determination as to whether it will exercise any of these purchase options.

Each of the Triad Entities finances the development of the new communities through the combination of equity funding, traditional construction loans and permanent financing with institutional lenders secured by first liens on the communities and unsecured loans from the Company. The Company loans may be prepaid without penalty. The financings from institutional lenders are secured by first liens on the communities, as well as assignment to the lenders of the construction contracts, and the development and management agreements with the Company. Each development and management agreement assigned to an institutional lender is also guaranteed by the Company and those guarantees are also assigned to the lenders. In certain cases, the management agreements contain an obligation of the Company to fund operating deficits to the Triad Entities if the other financing sources of the Triad Entities have been fully utilized. These operating deficit funding obligations are guaranteed by the Company.

Note 4. Acquisitions

On September 30, 1998, the Company acquired four senior living communities from NHP for \$40,683,281 by entering into a \$32,300,000 mortgage loan agreement with Lehman Brothers Holdings, Inc. ("Lehman"), a cash payment of \$8,246,007 and assuming net liabilities of \$137,274. The acquisition was accounted for as a purchase. The Company's preliminary purchase price allocation was based on independent valuations from third-party valuation firms.

On October 28, 1998, the Company acquired a senior living community from Tesson Heights Enterprises, a Texas limited partnership, for \$23,051,786 by borrowing \$15,400,000 pursuant to the existing mortgage loan agreement with Lehman and \$7,376,632 under an existing line of credit, and assuming \$275,154 of net liabilities. The Company also acquired a senior living community from Gramercy Hill Enterprises, a Texas limited partnership, for \$11,036,655 by assuming a \$6,334,660 note, borrowing \$1,980,000 from WMF Washington Mortgage Corp. ("WMF") on a second lien basis and \$2,425,798 under an existing line of credit, and assuming net liabilities of \$296,197. The acquisitions were accounted for as a purchase. The Company's preliminary purchase price allocations were based on independent valuations from third party valuation firms.

The results of operations for the above acquisitions are included in the Company's statement of income from the date of acquisition.

Pro forma results of operations as if the NHP, Tesson Heights and Gramercy Hill acquisitions had occurred on January 1, 1997 are as follows:

	Year Ended December 31,	
	1998	1997
Total revenues	\$56,559,920	\$47,082,786
Net income	11,518,250	946,143
Net income per share — basic and diluted	\$ 0.58	\$ 0.08
Shares used in computing pro forma net income per share	19,717,347	11,150,087

Notes to Consolidated Financial Statements

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The unaudited pro forma consolidated amounts are presented for informational purposes only and do not necessarily reflect the financial position or results of operations of the Company that would have actually resulted had the acquisitions occurred on January 1, 1997.

Note 5. Property and Equipment

Property and equipment consists of the following:

	December 31,	
	1999	1998
Land	\$ 9,173,178	\$ 10,641,671
Land improvements	107,232	6,400
Buildings and building improvements	101,824,613	119,759,970
Furniture and equipment	5,047,046	4,685,174
Automobiles	169,361	73,890
Construction in process	54,354	71,611
	116,375,784	135,238,716
Less accumulated depreciation	11,652,568	16,294,763
Property and equipment, net	\$104,723,216	\$118,943,953

On September 20, 1999, the Company sold one of its properties for \$2,740,000 net of sales commission, which resulted in the recognition of a gain of \$748,248. On December 7, 1998, the Company sold land on one of its properties for \$12,662, which resulted in the recognition of a \$8,545 gain and net cash proceeds of \$11,052. On November 24, 1998, the Company sold land on one of its properties for \$738,385. This sale resulted in a \$415,847 gain and net cash proceeds of \$664,984.

The Company capitalized \$0 and \$348,626 of interest as part of building and building improvements during 1999 and 1998, respectively.

Note 6. Accrued Expenses

Accrued expenses consists of the following:

	December 31,	
	1999	1998
Accrued salaries, bonuses and related expenses	\$ 936,469	\$ 847,722
Accrued property taxes	665,663	538,697
Other	525,242	845,476
	\$ 2,127,374	\$ 2,231,895

Notes to Consolidated Financial Statements

CAPITAL SENIOR LIVING CORPORATION

Note 7. Notes Payable and Line of Credit

Notes payable consists of the following:

	December 31,	
	1999	1998
WMF mortgage loan, bearing interest at 7.69%, payable in monthly installments of principal and interest of \$48,089, maturing on January 2008 secured by a certain property of Gramercy with a net book value of \$10,819,112 at December 31, 1999	\$ 6,217,055	\$ 6,312,032
WMF second mortgage loans, bearing interest at 7.08%, payable in monthly installments of principal and interest of \$14,095, maturing on January 2010 secured by a certain property of Gramercy with a net book value of \$10,819,112 at December 31, 1999	1,944,885	1,975,159
Lehman mortgage loan, bearing interest at 8.20%, payable in monthly installments of principal and interest of \$360,915, maturing on September 2009 secured by certain properties of NHPT with a net book value of \$62,378,615 at December 31, 1999	45,801,968	—
Lehman \$60 million mortgage loan, bearing interest at prime or LIBOR plus 1.875% (6.95% at December 31, 1998), payable in monthly installments of interest only, maturing on October 1, 1999, secured by the certain properties of NHPT	—	47,700,000
A.I. Credit Corp. insurance premium financing, bearing interest at 7.09%, payable in monthly installments of principal and interest of \$19,205, maturing on April 2002	478,066	—
HCP mortgage loans, bearing interest ranging from 6.2% to 10.75%, payable in monthly installments of \$99,212 including interest, maturing from 2001 to 2012, secured by certain properties of HCP with a net book value of \$8,431,900 at December 31, 1999	5,173,281	6,128,656
	59,615,255	62,115,847
Less current portion	1,199,299	48,419,050
	<u>\$58,415,956</u>	<u>\$13,696,797</u>

The aggregate maturities of notes payable at December 31, 1999, are as follows:

2000	\$ 1,199,299
2001	1,185,465
2002	1,132,665
2003	1,153,302
2004	1,255,320
Thereafter	53,689,204
	<u>\$59,615,255</u>

In August 1999, the Company repaid \$47,700,000 in outstanding short-term, variable rate debt and replaced it with \$45,970,000 of long-term, fixed rate loans. The fixed rate loans are non-recourse loans secured by certain properties owned by the Company. These loans are for 10-year terms, bear interest at 8.2% with the principal being amortized over a 25-year period. In connection with obtaining these mortgage loans, the Company incurred \$574,138 in financing charges that were deferred and amortized over the life of the loans using the straight-line method. Accumulated amortization was \$19,138 at December 31, 1999.

In connection with obtaining the 1998 Lehman and other 1998 mortgage loans, the Company incurred \$576,904 in financing charges, which were deferred and amortized over the life of the loans using the straight-line method. Accumulated amortization was \$528,985 and \$123,727 at December 31, 1999 and 1998, respectively.

Notes to Consolidated Financial Statements

CAPITAL SENIOR LIVING CORPORATION

On December 10, 1997, the Company entered into a \$20 million revolving line of credit with a bank that was to expire December 10, 2000. In April 1999, the line of credit was amended to increase the availability under the credit facility to \$34 million and extend the maturity date to April 2002. Under the terms of the line of credit, interest is due monthly and the principal is due at the end of the term of the credit agreement. Borrowings under the line of credit are secured by four senior living communities with a net book value of \$32,158,248 at December 31, 1999, and bear interest at the prime rate or LIBOR plus 1.7% (8.18% and 7.33% at December 31, 1999 and 1998, respectively). The line of credit may be used for the acquisition of additional properties, development of expansions to existing properties, acquisition of additional interests in HCP and NHP, and general working capital purposes. Amounts outstanding under the line of credit at December 31, 1999 and 1998 were \$34,000,000 and \$18,974,186, respectively. In connection with obtaining the line of credit and the subsequent amendment, the Company incurred \$160,684, \$6,847 and \$111,533 in 1999, 1998 and 1997, respectively, in financing charges that were deferred and are amortized over the life of the line of credit. Accumulated amortization was \$133,497, \$41,066 and \$3,098 at December 31, 1999, 1998 and 1997, respectively.

Under the line of credit, the Company must maintain certain levels of tangible net worth and comply with other restrictive covenants.

HCP leased four of its properties under a master lease to HealthSouth (see Note 17). Prior to February 28, 1997, HealthSouth closed two of the communities. Effective August 5, 1999, HealthSouth agreed to transfer control of the two closed communities to HCP. HealthSouth also agreed to continue making its full lease payments on all four communities. The rentals under the master lease provide additional security for one note payable used to finance one of the master lease properties. The note is due December 1, 2001.

Note 8. Equity

The Company is authorized to issue preferred stock in series, and fix and state the voting powers and such designations, preferences and relative participating, optional or other special rights of the shares of each such series and the qualifications, limitations and restrictions, thereof. Such action may be taken by the Board without stockholder approval. The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of preferred stock.

On November 5, 1997, the Company issued 10,350,000 shares of \$.01 par value common stock for cash of \$110,330,915, net of issuance costs of \$11,317,705 and payment of the Formation Note of \$18,076,380, in connection with the Offering. Additionally, the Company issued 7,687,347 shares of \$.01 par value common stock in connection with the Formation. For financial reporting purposes, the shares issued in connection with the Formation are presented as outstanding as of January 1, 1997.

Purchases of Beneficial Unit Certificates ("BUCs") of CSLC during 1997 represent additional purchases by the Stockholders and are accounted for at the book value of the BUCs and as an addition to partners' capital and a reduction in minority interest. CSLC purchased 55,316 BUCs during 1997, at an average cost of \$17.37 per unit.

Net income (loss) of HCP is generally allocated 98% to the limited partners and 2% to the general partner. The net income of HCP from the disposition of a property is allocated: (i) to partners with deficit capital accounts on a pro rata basis; (ii) to limited partners until they have been paid an amount equal to the amount of their adjusted investment (as defined); (iii) to the limited partners until they have been allocated income equal to their 12% Liquidation Preference; and (iv) thereafter, 80% to the limited partners and 20% to the general partner. The net loss of HCP from the disposition of a property is allocated: (i) to partners with positive capital accounts on a pro rata basis and (ii) thereafter, 98% to the limited partners and 2% to the general partner. Distributions of available cash flow are generally distributed 98% to the limited partners and 2% to the general partner, until the limited partners have received an annual preferential distribution, as defined. Thereafter, available cash flow is distributed 90% to the limited partners and 10% to the general partner. During 1998, HCP repurchased \$144,791 of its limited partnership interests. HCP made distributions of \$1,198,447 and \$224,795 to minority partners in 1999 and 1997, respectively.

Note 9. Stock Options

The Company adopted a stock option plan during 1997, providing for the grant of incentive and nonqualified stock options to employees and directors. This plan was amended during the year to increase the number of options available for grant under the plan from 1,565,000 to 2,000,000 shares and 2,000,000 shares of common stock are reserved for

Notes to Consolidated Financial Statements

CAPITAL SENIOR LIVING CORPORATION

future issuance. The option exercise price and vesting provisions of such options are fixed when the option is granted. The options expire four to 10 years from the date of grant and vest from zero to five years. The option exercise price is the fair market value of a share of common stock on the date the option is granted.

Following is a summary of the Company's stock option activity, and related information for the years ended December 31, 1999 and 1998.

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 1997	—	—
Granted	776,250	13.50
Exercised	—	—
Forfeited	—	—
Expired	—	—
Outstanding at December 31, 1997	776,250	\$13.50
Granted	—	—
Exercised	—	—
Forfeited	76,750	13.50
Expired	—	—
Outstanding at December 31, 1998	699,500	\$13.50
Granted	874,500	\$7.54
Exercised	—	—
Forfeited	76,000	\$11.62
Expired	—	—
Outstanding at December 31, 1999	1,498,000	\$10.13
Exercisable at December 31, 1999	421,780	\$13.42
Exercisable at December 31, 1998	258,010	\$13.50
Exercisable at December 31, 1997	121,500	\$13.50

The weighted average remaining contractual life of the options at December 31, 1999 and 1998, is approximately 8.4 years and 8.8 years, respectively. Options outstanding, as of December 31, 1999, are exercisable at prices ranging from \$7.06 to \$13.50. Unoptioned shares available for the granting of options at December 31, 1999 and 1998 was 502,000 and 865,500, respectively.

During 1999, the Company recorded compensation expense of \$194,560 relating to 52,500 options held by a former officer of the Company that became vested in conjunction with his change in employee status. These options are included in the table above.

The average daily price of the stock during 1999, 1998 and 1997 subsequent to the Offering was \$8.94, \$11.73 and \$13.04 respectively, per share. For 1998 and 1997 the options were anti-dilutive and, therefore, were not used in the calculation of diluted net income per share.

Pro forma information regarding net income per share has been determined as if the Company had accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for 1999, 1998 and 1997, respectively: risk-free interest rates of 6.5, 5.7 and 5.7 percent; dividend yields of zero percent for all years; expected lives of seven and one-half years for all years; and volatility factors of the expected market price of the Company's common stock of 58.4, 70.1 and 70.1 percent. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Notes to Consolidated Financial Statements

CAPITAL SENIOR LIVING CORPORATION

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods.

	Year Ended December 31,		
	1999	1998	1997
Net income:			
As reported	\$4,838,000	\$11,957,000	\$3,681,000
Pro forma	3,428,000	10,848,000	2,787,000
Net income per share – basic:			
As reported	\$0.25	\$0.61	\$0.33
Pro forma	0.17	0.55	0.25
Net income per share – diluted:			
As reported	0.24	0.61	0.33
Pro forma	0.17	0.55	0.25

Note 10. Income Taxes

The provision for income taxes consists of the following:

	Year Ended December 31,		
	1999	1998	1997
Current:			
Federal	\$2,523,024	\$6,308,319	\$730,184
State	498,934	1,463,930	101,498
Deferred:			
Federal	(174,264)	(240,635)	(39,404)
State	144,029	(55,843)	246
	\$2,991,723	\$7,475,771	\$792,524

The provision for income taxes differed from the amounts computed by applying the U.S. federal income tax rate to income before provision for income taxes as a result of the following:

	Year Ended December 31,		
	1999	1998	1997
Tax expense at federal statutory rates	\$2,662,080	\$6,606,992	\$1,521,053
State income tax expense, net of federal benefit	325,557	937,532	101,744
Tax expense at federal statutory rates on income earned prior to Formation and Asset Purchase	–	–	(831,026)
Conversion of S corporations to C corporation status	–	–	(41,085)
Other	4,086	(68,753)	41,838
	\$2,991,723	\$7,475,771	\$ 792,524

A summary of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	1999	1998
Deferred tax assets:		
Tax basis in excess of book basis arising from the Asset Purchase	\$ 9,377,655	\$ 9,644,505
Other	2,098,825	1,113,530
Total deferred tax assets	11,476,480	10,758,035
Deferred tax liabilities:	1,050,490	362,280
Total deferred tax assets, net	\$10,425,990	\$10,395,755

Notes to Consolidated Financial Statements

CAPITAL SENIOR LIVING CORPORATION

Note 11. Employee Benefit Plans

Effective January 1, 1999, the Company adopted a 401(k) salary deferral plan (the "Plan"). Contributions to the Plan are in the form of employee salary deferrals, which are subject to employer matching contributions of up to 2% of the employee's annual salary. All employees of the Company meeting minimum service and age requirements are eligible to participate in the Plan. The Company incurred no administrative expenses related to the Plan in 1999. Matching contributions of \$147,000 were contributed to the Plan in 1999.

Note 12. Related Party Transactions

Certain administrative and occupancy costs were incurred by an affiliate on behalf of the Company. Total costs allocated to the Company were \$0, \$0 and \$679,423 for the years ended December 31, 1999, 1998 and 1997, respectively.

Prior to the Offering, the Company paid premiums to a related party for employee medical coverage. The related party insured the Company for any claims exceeding the premiums paid. Accordingly, no amounts have been accrued at December 31, 1997, for claims incurred prior to the Offering but unpaid.

The Company manages properties for a third party, in which an officer of the Company was also a director of the third-party companies until July 1, 1998. Management fees received for the period ended June 30, 1998 and for the year ended December 31, 1997 were \$987,840 and \$1,589,703, respectively.

Upon sale of the four NHP properties on September 30, 1998, an affiliate received a \$1,219,500 brokerage fee.

Upon sale of the four CSLC properties in November 1997, an affiliate received a \$4,597,080 brokerage fee.

In October 1997, HCP paid an affiliate a refinancing fee of \$13,245.

A former officer and significant shareholder of the Company is chairman of the board of a bank where the Company holds the majority of its operating cash accounts.

Note 13. Contingencies

On or about October 23, 1998, Robert Lewis filed a putative class action complaint on behalf of certain holders of assignee interests in NHP in the Delaware Court of Chancery against NHP, the Company, NHPCT, and Housing (collectively, the "Defendants"). Mr. Lewis purchased 90 Assignee Interests in NHP in February 1993 for \$180. The complaint alleges, among other things, that the Defendants breached, or aided and abetted a breach of, the express and implied terms of the NHP Partnership Agreement in connection with the sale of four properties by NHP to NHPCT. The complaint seeks, among other relief, rescission of the sale of those properties and unspecified damages. The Company believes the complaint is without merit and is vigorously defending itself in this action. The Company has filed a Motion to Dismiss in this case, which is currently pending. The Company is unable to estimate any liability related to this claim, if any.

The Company has pending claims incurred in the normal course of business that, in the opinion of management, based on the advice of legal counsel, will not have a material effect on the financial statements of the Company.

Note 14. Fair Value of Financial Instruments

The carrying amounts and fair values of financial instruments at December 31, 1999 and 1998 are as follows:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$32,988,024	\$32,988,024	\$35,827,270	\$35,827,270
Line of credit	34,000,000	34,000,000	18,974,186	18,974,186
Notes payable	59,615,255	59,615,255	62,115,845	62,115,845

Notes to Consolidated Financial Statements

CAPITAL SENIOR LIVING CORPORATION

The following methods and assumptions were used in estimating fair value disclosures for financial instruments: Cash and cash equivalents — The carrying amounts reported in the balance sheet for cash and cash equivalents approximate fair value; and Line of credit and Notes payable — The fair value of notes payable is estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

Note 15. Investments in Limited Partnerships

The investments in limited partnerships balance consists of the following:

	December 31,	
	1999	1998
NHP pension notes	\$5,761,664	\$12,646,471
NHP limited partnership interests	2,086	1,708
Triad I limited partner interest	3,000,000	330,243
Triad II limited partner interest	74,100	74,100
Triad III limited partner interest	142,500	142,500
Triad IV limited partner interest	142,500	142,500
Triad V limited partner interest	—	—
Triad VI limited partner interest	—	—
	\$9,122,850	\$13,337,522

During 1999, 1998 and 1997, the Company paid \$0, \$144,791, and \$5,604,944, respectively, for partnership interests in HCP and as of December 31, 1999 and 1998, the Company had a 57% ownership in HCP.

The Company acquired, on November 1, 1997, the NHP Notes owned by CSLC in the Formation Transactions for \$18,664,128. The NHP Notes bear simple interest at 13% per annum and mature on December 31, 2001. Interest is currently paid quarterly at a rate of 7%, with the remaining 6% interest deferred. From November 1, 1997 through September 30, 1998, the Company recorded interest income at 10.5% of the purchase price paid, which was determined based on the discounted amount of principal and interest payments to be made following the maturity date (December 31, 2001) of the NHP Notes (using a six-month lag between maturity and full repayment), due to uncertainties regarding the ultimate realization of the accrued interest. On September 30, 1998, the Company purchased four properties from NHP. In turn, NHP redeemed \$7,500,000 of the Company's investment in the NHP Notes and distributed approximately \$5,300,000 of deferred interest on such notes. From October 1, 1998 through December 31, 1998, the Company began recording additional income, after giving consideration to current payment of interest, partial redemption of the NHP Notes with accrued interest and the estimated residual value in NHP. This change in estimate resulted in \$579,278 of additional income in 1998. In the fourth quarter of fiscal 1999, the Company reevaluated the assumptions related to its investment in the NHP Notes and, as a result, is reducing the income expected to be earned from the NHP Notes. This change in estimate resulted in a \$1,206,000 reduction in interest income in the fourth quarter. In addition, future interest income is expected to decrease by approximately \$1,253,842 and \$1,687,705 in 2000 and 2001, respectively (the NHP Notes redemption is December 31, 2001).

During 1999 and 1998, the Company paid \$378 and \$344, respectively, increasing the ownership of limited partnership units in NHP to 4.8% from 3.9%. In addition, the Company invested \$13,500 in NHP Notes during 1999, bringing the Company's ownership of NHP Notes to 33.1%. The Company classifies its investment in NHP Notes as held to maturity.

Notes to Consolidated Financial Statements

CAPITAL SENIOR LIVING CORPORATION

Summary financial information regarding the financial position and results of operations of NHP as of December 31 and for the years then ended is as follows:

	December 31,	
	1999	1998
Cash	\$ 5,553,357	\$ 5,821,300
Property and equipment, net	18,392,872	18,849,354
Other assets	387,343	592,146
Total assets	\$24,333,572	\$25,262,800
Pension notes	\$20,157,826	\$20,157,826
Interest payable	14,879,063	13,142,864
Other liabilities	471,532	633,817
Partnership deficit	(11,174,849)	(8,671,707)
Total liabilities and partnership deficit	\$24,333,572	\$25,262,800

	Year Ended December 31,		
	1999	1998	1997
Net revenue	\$ 5,322,600	\$13,746,088	\$15,548,138
Net income (loss)	(2,474,347)	3,409,569	(3,522,917)

Note 16. Allowance for Doubtful Accounts

The components of the allowance for doubtful accounts are as follows:

	December 31,		
	1999	1998	1997
Balance at beginning of year	\$ 801,042	\$301,042	\$164,822
Provision for bad debts	15,895,566	500,000	43,254
Write-offs and other	(14,352,728)	—	(17,474)
Recoveries	700,000		
Allowances not assumed in Asset Purchase	—	—	(145,602)
Allowance arising from consolidation of HCP	—	—	256,042
Balance at end of year	\$ 3,043,880	\$801,042	\$301,042

In the fourth quarter of fiscal 1999, the Company wrote off notes receivable and development fees receivable from Triad Entities that were unable to secure financing on favorable terms for the development of their senior living communities. These joint ventures were in various stages of developing 19 Waterford communities. In addition, the Company will be acquiring six sites currently owned by these joint ventures and will receive the contractual rights to the remaining 13 sites that were being developed by these joint ventures. Recoveries relate to a settlement with the Bankruptcy Trustee for NCA Cambridge on rental income written off prior to August 1996.

Note 17. Leases

The Company leases its corporate headquarters under an operating lease expiring in 2002. Additionally, the senior living communities have entered into various contracts for services for duration of five years or less and are on a fee basis as services are rendered. Rent expense under these leases was \$297,662, \$266,590 and \$188,986 for 1999, 1998 and 1997, respectively. Future commitments are as follows:

2000	\$ 441,217
2001	447,465
2002	284,858
2003	4,695
2004	1,600
	\$1,179,835

Notes to Consolidated Financial Statements

CAPITAL SENIOR LIVING CORPORATION

HCP leases its property and equipment to tenants under noncancelable operating leases. The lease terms range from nine to 12 years with options to renew for additional five-year terms and options to purchase the leased property at the current fair market value at the end of the initial lease term. The leases generally provide for contingent rentals based on the performance of the property. Contingent rentals aggregated \$332,411, \$310,275 and \$271,340 in 1999, 1998 and 1997, respectively.

Minimum rentals for the HCP leases are \$3,761,262 and \$2,858,619 per year in 2000 and 2001, respectively, subject to change based on changes in interest rates. There are no minimum rentals thereafter. Property and improvements less accumulated depreciation attributable to such rentals amounted to \$15,354,292 and \$18,329,061 at December 31, 1999 and 1998, respectively.

Three of HCP's senior living communities are subject to a master lease with a single operator, HealthSouth. This master lease, as amended, contains a nine-year renewal option and provides for contingent rentals equal to 4% of the revenue differential, as defined, effective January 30, 1997. As of December 31, 1999 and 1998, no contingent rentals have been accrued on the master lease. HealthSouth has agreed to continue making its full lease payments on all three communities.

Note 18. Pro Forma Income Taxes (Unaudited)

The income taxes on earnings of the S corporations and partnerships for the period from January 1, 1997 through October 31, 1997 are the responsibility of the Stockholders and partners. The pro forma adjustments reflected on the statements of income assume these S corporations and partnerships were subject to income taxes. Pro forma income tax expense has been calculated using statutory federal and state tax rates, estimated at 39.5%.

Note 19. Pro Forma Results of Operations (Unaudited)

Shown below are unaudited pro forma consolidated amounts for the year ended December 31, 1997 representing the results of operations of the Company for such period after giving effect to the adjustments relating to the Offering and the Formation, as if the transactions had occurred as of January 1, 1997. The unaudited pro forma consolidated amounts are presented for informational purposes only and do not necessarily reflect the financial position or results of operations of the Company, which would have actually resulted had the Offering and the Formation occurred as of January 1, 1997, or the future results of operations of the Company.

Total revenues	\$30,709,882
Net income	4,991,288
Net income per share	\$0.25
Shares used in computing pro forma net income per share	19,717,347

Note 20. Pending Mergers

On October 19, 1999, the Company executed Amended and Restated Agreements of Plans of Merger with ILM I and ILM II for a combined purchase price of \$172,000,000 cash plus assumed liabilities. The primary assets of ILM I and ILM II collectively are 13 senior living communities that have been managed by the Company under Management Agreements since 1996. Under the two amended merger agreements, both ILM I and ILM II will separately merge with and into a wholly owned direct subsidiary of the Company with the aggregate issued and outstanding shares of ILM I and ILM II common stock receiving 100% of the merger consideration in cash. The Amended and Restated Agreements and Plans of Merger amend and restate the Agreements and Plans of Merger dated February 7, 1999. The outside termination date of the amended merger agreements was extended to September 30, 2000. Both mergers had been previously approved by the boards of directors of each company. Each transaction requires the approval of two-thirds of the applicable shareholders of either ILM I or ILM II. The mergers are also subject to certain other customary conditions including regulatory approvals and are expected to be completed during the first half of 2000. Forms 8-K were filed by the Company on October 25, 1999 with copies of the Amended and Restated Agreements and Plans of Merger attached thereto.

During 1999, the Company received management and incentive fees of \$1,202,966 and \$790,281 from ILM I and ILM II, respectively. ILM I and ILM II are subject to the reporting requirements of the SEC.

Company Management

James A. Stroud
Chairman of the Company

Lawrence A. Cohen
Chief Executive Officer

Keith N. Johannessen
President and
Chief Operating Officer

Ralph A. Beattie
Executive Vice President
and Chief Financial Officer

Rob L. Goodpaster
Vice President,
National Marketing

David W. Beathard
Vice President, Operations

David G. Suarez
Vice President, Development

Glen H. Campbell
Vice President, Development

David R. Brickman
Vice President
and General Counsel

Paul T. Lee
Vice President, Finance

Jerry D. Lee
Corporate Controller

Robert F. Hollister
Property Controller

Board of Directors

James A. Stroud¹
Chairman of the Board
Capital Senior Living Corporation
Dallas, Texas

Lawrence A. Cohen¹
Vice Chairman of the Board
Capital Senior Living Corporation
New York, New York

Keith N. Johannessen
Capital Senior Living Corporation
Dallas, Texas

Gordon I. Goldstein, M.D.^{2,3}
Chairman,
Dallas Anesthesiology Associates
Dallas, Texas

James A. Moore^{1,2,3}
President,
Moore Diversified Services, Inc.
Fort Worth, Texas

Victor W. Nee, Ph.D.²
Professor, Department of Aerospace
and Mechanical Engineering,
University of Notre Dame
South Bend, Indiana

¹ Member of the Board's Executive Committee

² Member of the Board's Compensation Committee

³ Member of the Board's Audit Committee

Corporate Information

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(402) 926-2891 fax

Western Regional Office
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Carmichael, California 95608
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(916) 486-4375 fax

Shareholder Information

Stock Exchange Listing
Capital Senior Living Corporation
Common Stock is listed on
the New York Stock Exchange and
trades under the symbol CSU.

Shares Outstanding
19.7 million

Transfer Agent and Registrar
ChaseMellon Shareholder
Services LLC
85 Challenger Road
Ridgefield, New Jersey 07660
(800) 635-9270

Auditors
Ernst & Young LLP
2121 San Jacinto, Suite 1500
Dallas, Texas 75201
(214) 969-8000

Annual Meeting of Shareholders
May 19, 2000 at 10 a.m. Central Time
Holiday Inn Select – North Dallas
2645 LBJ Freeway
Dallas, Texas 75234
(972) 243-3363

Form 10-K

A copy of Capital Senior Living Corporation's 1999 annual report to the SEC on Form 10-K is available without charge upon written request to the Investor Relations Department at corporate headquarters. It can also be found on the SEC's website, <http://www.edgar.com>.



Capital Senior Living Corporation

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