



Our Story

Capital Senior Living has a long-term strategy founded on solid operating principles, supported by unexcelled management strength and fueled by unquestionable demographic trends that will drive demand for our senior living properties. In 2002, we enter a time of opportunity and potential growth. While our industry has recently experienced a period of capital constraint and consolidation, we have used this time wisely and have prepared well to take advantage of the opportunities now before us.

This is an exciting time for our Company.

America's senior population continues its rapid expansion, and Independent Living continues to surpass both Skilled Nursing and Assisted Living as the leading housing preference for seniors. As such, demand for our services continues to rise. Our Company is strong. Our prospects are promising.

Here is our story.



LAWRENCE A. COHEN – *Chief Executive Officer (left)* JAMES A. STROUD – *Chairman of the Company (right)*



My

mom taught me how to quilt, just like her mother had taught her. Since all my children were boys, I never expected to have anyone to teach. So I was really excited when my granddaughter said she'd like to learn, and I'm proud to have the first quilt she made all by herself. —Edith, age 82

Our properties offer a high-quality living environment complete with 24-hour staffing, housekeeping, social activities, delicious restaurant-style meals and numerous other amenities for the enjoyment and well-being of our residents.



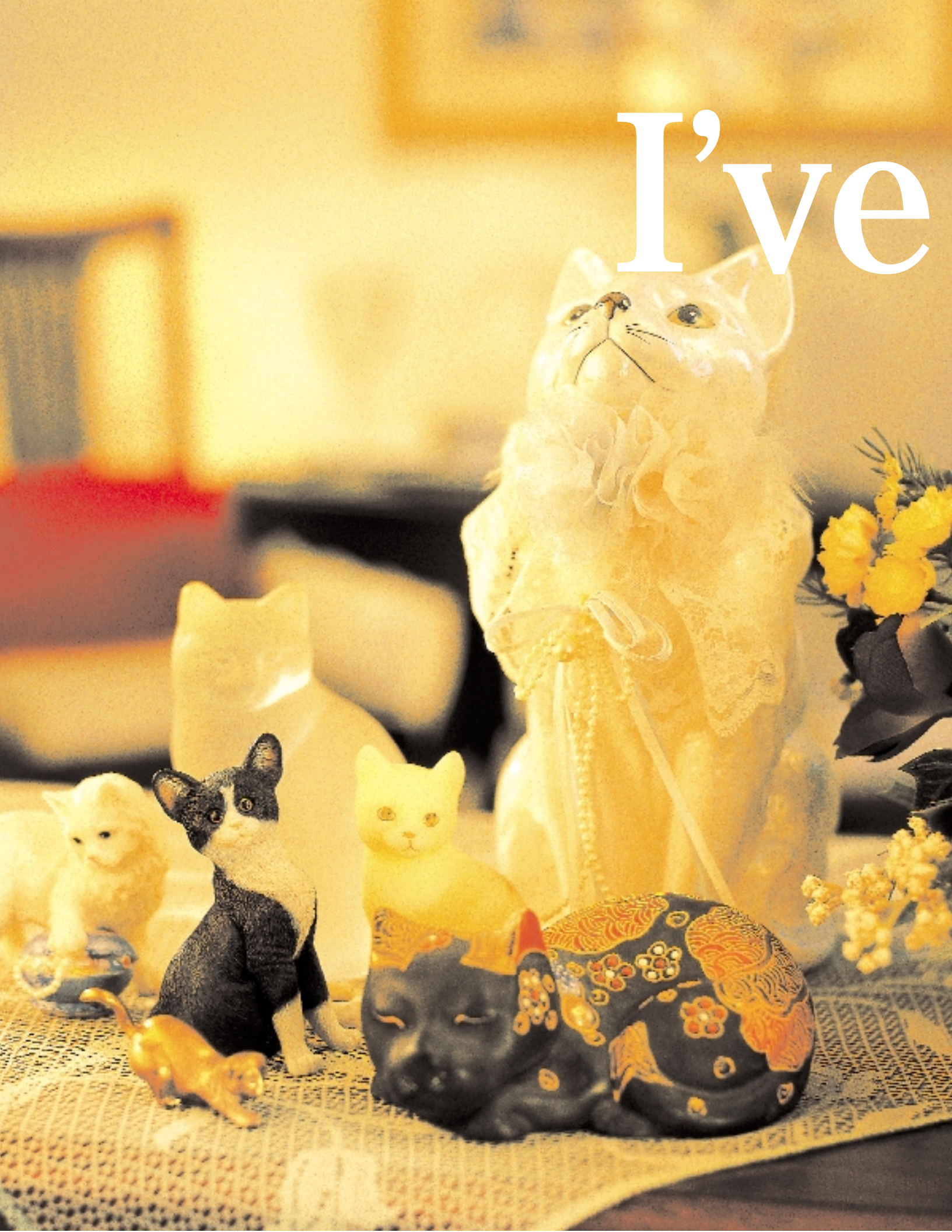
About 85 percent of our residents live independently and require minimal assistance with activities for daily living.

My

wife gave me this watch on our wedding day. With care, both my marriage and my watch have kept on ticking for over 50 years. Every day you have to take care of the things that matter—that's what makes them last. —George, age 84

I've

never been able to have a real cat since I was allergic to them. Now I have a whole collection of cats, each precious for a different reason. I used to teach school, and one of my students gave me the first one. It's more than a collection of cats—it's a collection of special memories. —Lucille, age 79



Our management team has 134 combined years of industry experience.



Most

Our national platform provides a solid foundation for growth and is an important factor in attracting management contracts.

people remember vacations by looking at photo albums. I just look in the cabinet at my plates. Some are from trips we took with the children; others were trips for the two of us. You really get a sense for the things that make this country great when you travel to all those places. —Margaret, age 86



For

awhile, I think, I held most of the records at my school for all the sports that I played. But it was the team accomplishments that mattered to me the most. There's no joy in playing your best on a day when the team loses. —Silas, age 81

Capital Senior Living has a successful record of achieving growth through multiple avenues: fulfilling the leasing potential of existing properties, acquiring new properties, expanding existing properties and attracting management contracts.



The strength of our management team, the quality of our properties and a long-term strategy based on substantiated demand have delivered our 10th consecutive year of profitability.

To our fellow shareholders

If the past prepares you for the future, then our company, Capital Senior Living, is well established for the exciting opportunities we see before us. A seasoned company with nearly a decade of continuous profitability, we entered 2001 with specific strategic initiatives. These initiatives were focused on strengthening our company during a period of industry-wide capital constraint and restructuring. Having expanded our resident capacity in previous years, we focused on leasing our existing properties, and emphasized earnings from recurring operations. The successful results of these

initiatives are clearly demonstrated in our 2001 results.

With similar resident capacity in 2001 to what we had in 2000, we increased revenues over 18 percent to \$70.5 million, compared to \$59.7 million in 2000. Our net income in 2001 was \$2.8 million or 14 cents a share compared to six cents per share in 2000. The 2001 earnings included approximately three cents from the disposition of non-core assets, part of our initiative to increase our liquidity. The remaining 11 cents per share, or an 83 percent increase over 2000 earnings, was directly a result of progress toward our financial and operating goals. During the year, our same community revenue increased 6.1 percent. We are extremely proud

of the Capital Senior Living team that made these results possible.

Our Philosophy

Capital Senior Living provides some of the highest quality housing and retirement services available in the industry. Our beautifully appointed and affordable communities provide an environment that is physically, mentally and emotionally stimulating for our residents. Our continuum of care philosophy is based on the belief that seniors should be able to choose an affordable lifestyle that best suits them.

Understanding that our residents' needs change as they age, we provide

different levels of care and services to meet those needs. The vast majority of our residents, 85 percent, live in independent living communities. These communities are ideal for seniors who do not require assistance with activities of daily living (ADLs), but who enjoy the availability of meals, house-keeping and transportation, as well as a variety of social, recreational and wellness programs.

About 15 percent of our residents utilize assisted living services. These services include assistance with medication management, bathing, grooming, dressing and ambulation. Many of our communities have assisted living facilities in place or have the ability to add them in the future. As residents' needs increase from independent living to assisted living, they can take advantage of these services within the same community. This also means that residents are attracted to Capital Senior Living facilities at an earlier age and remain for a longer time.

Our Communities

At the end of 2001, Capital Senior Living owned and/or operated 48 communities in 20 states, a geographic dispersion that closely mirrors the population centers of the United States. These communities are grouped into five regions that are structured for administrative efficiency and potential expansion.

There are 20 of our senior living communities, with a capacity of nearly 3,000 residents, which are currently in lease-up. These communities, 14 of which have opened since the fourth quarter of 2000, are leased to 60 percent as of the end of 2001. One additional new community will open at the end of the first quarter 2002. The leasing potential of these communities represents a major aspect of the Company's growth strategy and one for which the capital investments have already been made.

The demand for our stabilized communities exceeds industry averages. Our portfolio of stabilized communities has an average occupancy of 93 percent as of December 31, 2001. The industry average for independent living is 90 percent and for assisted living, 85.5 percent. With the elderly

population more affluent than any time in history, and representing the fastest growing demographic group in the United States, demand for our well-appointed and affordable communities should continue to rise, and we anticipate that our occupancy rates will increase accordingly.

2001 Financial Accomplishments

During 2001 we had significant financial accomplishments that will serve as a backdrop to our operational and growth objectives in 2002 and beyond.

We maximized our liquidity and simplified our balance sheet. We extended the maturities on approximately \$91 million of affiliate construction financing. Further, we generated \$12 million in proceeds for the sale of investment properties and land parcels.

A very significant accomplishment came at the end of 2001 when we announced our joint venture with Blackstone Real Estate Advisors, an affiliate of the Blackstone Group, a leading global investment and advisory

firm. This joint venture joins Blackstone's financial strength with Capital Senior Living's management and operational expertise. The goal of the joint venture is to seek to acquire in excess of \$200 million in senior housing properties, which will be owned 90 percent by Blackstone and 10 percent by Capital Senior Living. Additionally, Capital Senior Living will earn management fees under long-term contracts and potential incentive payments. With the goal of becoming one of the more active acquirers of senior housing during 2002, the joint venture's first acquisition was announced on January 4.

The Future

After an extended, difficult period in our industry, we see exceptional potential in 2002 and beyond. There are three major strategies that should fuel our growth.

First, we are focused on increasing our occupancy levels in our communities. In recent years, new development has been severely curtailed in our industry. This has both decreased our competition

and increased demand for high-quality existing senior communities. In combination with the unquestioned growth of an affluent senior population, these trends will continue to drive demand for our communities and provide the momentum to increase our stabilized occupancy rates and generate significant revenue growth. Second, the recent industry consolidation and restructuring is providing the opportunity for leveraging Capital Senior Living's management strength. A respected operator with a strong track record and an established national platform, Capital Senior Living has the strength, structure and experience to take over management contracts for under performing portfolios.

Both of these growth strategies have two significant features. The first is that there is minimal, if any, capital requirement required for execution. Therefore, we have the potential of increasing income while maintaining a strong balance sheet. Second, these strategies use our existing infrastructure and therefore enhance our initiative of improving our operating margins.

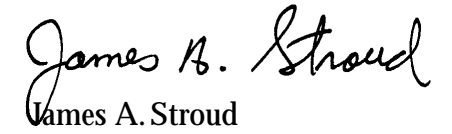
The third strategy is growth through acquisition. Growth through our new joint venture with

Blackstone should expand our national presence and provide additional revenue through long-term management contracts and incentive payments. In addition to the financial strength of our joint venture, we have the geographic diversity and the agility to pursue high-potential properties that may not be considered by other purchasers.

In Conclusion

It has been a challenging few years for our industry. The strength of our management team, the quality of our properties and a long-term strategy based on substantiated demand has helped us complete our 10th consecutive year of profitability. As tested by this down cycle, we have emerged a stronger company, poised for growth and return for our stakeholders. Thank you for your continued support.

Sincerely,



James A. Stroud
Chairman of the Company

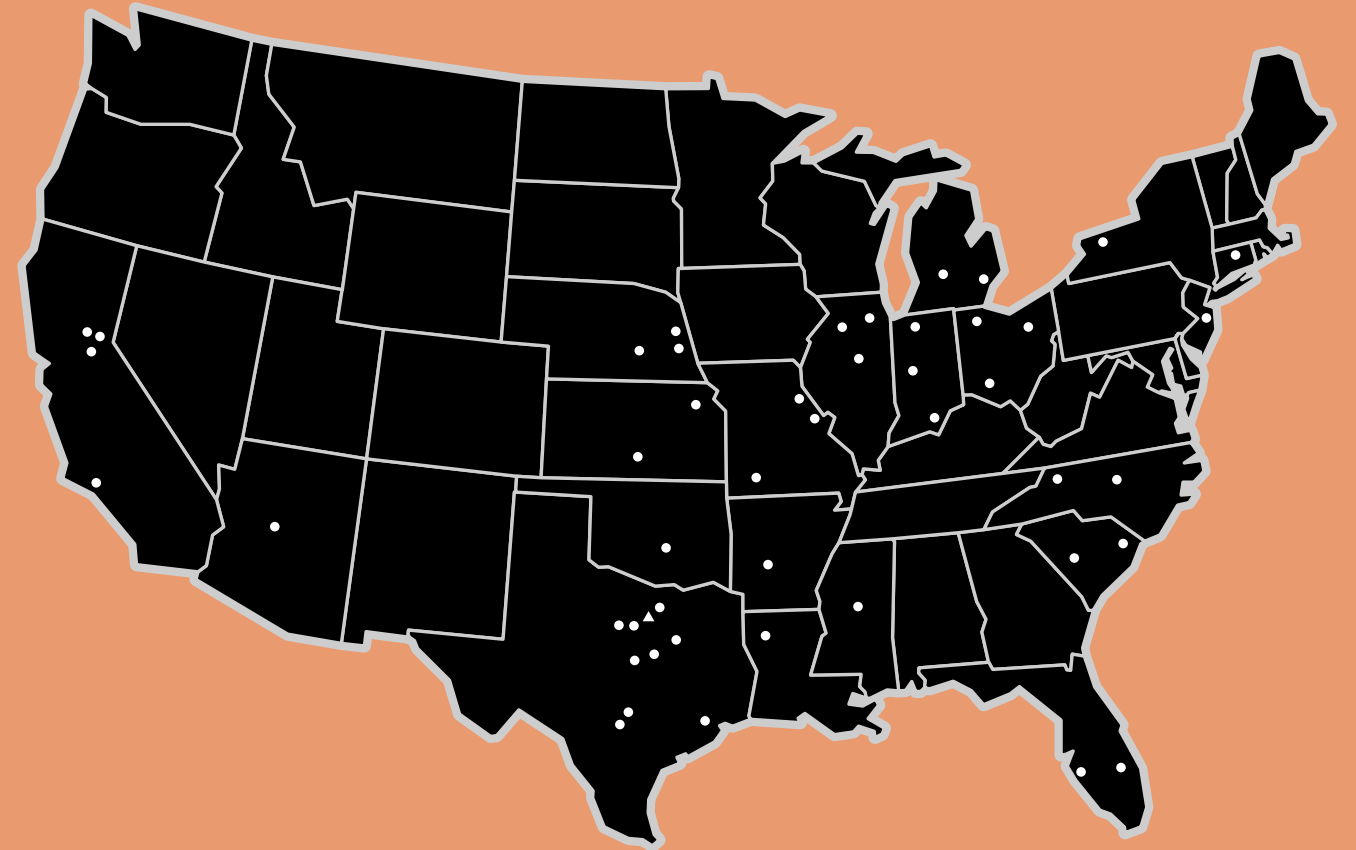


Lawrence A. Cohen
Chief Executive Officer



Our Review

Strategic Geographical Locations



- Existing Communities
- ▲ Under Construction

The Board of Directors and Shareholders
Capital Senior Living Corporation

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheets of Capital Senior Living Corporation at December 31, 2001 and 2000 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001 (not presented separately herein) and in our report dated February 8, 2002, except for Note 18, as to which the date is March 5, 2002, which, as to the year 1999, is based in part on the report of other independent auditors, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

Ernst & Young LLP
Dallas, Texas
February 8, 2002

Capital Senior Living Corporation

December 31,

In thousands

2001

2000

Assets

Current assets:

Cash and cash equivalents	\$ 9,975	\$ 22,875
Restricted cash	2,100	1,100
Accounts receivable, net	1,438	3,221
Accounts receivable from affiliates	366	3,764
Interest receivable from affiliates	6,072	2,074
Investment in limited partnership	5,774	-
Federal and state income taxes receivable	1,145	3,728
Deferred taxes	2,770	1,208
Prepaid expenses and other	1,218	1,935
Total current assets	30,858	39,905
Property and equipment, net	196,821	204,764
Deferred taxes	7,540	8,872
Note receivable	-	570
Notes receivable from affiliates	59,020	43,388
Investments in limited partnerships	1,827	6,526
Assets held for sale	4,924	6,920
Other assets, net	7,092	7,599
Total assets	<u>\$ 308,082</u>	<u>\$ 318,544</u>

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable	\$ 3,040	\$ 3,907
Accrued expenses	3,363	3,194
Current portion of notes payable	25,594	4,770
Customer deposits	1,144	1,012
Total current liabilities	33,141	12,883
Deferred income	507	-
Deferred income from affiliates	1,750	2,241
Notes payable, net of current portion	149,202	176,507
Line of credit	7,553	7,553
Minority interest in consolidated partnership	2,385	8,572
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 2001 and 2000	197	197
Additional paid-in capital	91,935	91,935
Retained earnings	21,412	18,656
Total shareholders' equity	113,544	110,788
Total liabilities and shareholders' equity	<u>\$ 308,082</u>	<u>\$ 318,544</u>

Consolidated Statements of Income

Capital Senior Living Corporation	Year Ended December 31,		
In thousands, except per share data	2001	2000	1999
Revenues:			
Resident and health care revenue	\$ 62,807	\$ 49,185	\$ 41,071
Rental and lease income	3,619	4,603	4,304
Unaffiliated management services revenue	1,971	2,271	2,695
Affiliated management services revenue	1,743	1,040	456
Unaffiliated development fees	-	563	1,341
Affiliated development fees	403	1,992	14,086
Total revenues	<u>70,543</u>	<u>59,654</u>	<u>63,953</u>
Expenses:			
Operating expenses	37,214	29,530	24,470
General and administrative expenses	12,002	11,116	9,212
Provision for bad debts	967	4,318	15,896
Depreciation and amortization	7,088	5,186	4,671
Total expenses	<u>57,271</u>	<u>50,150</u>	<u>54,249</u>
Income from operations	13,272	9,504	9,704
Other income (expense):			
Interest income	5,914	5,981	5,822
Interest expense	(14,888)	(11,980)	(7,089)
Equity in the losses of affiliates	(451)	-	-
Gain (loss) on sale of properties	2,550	(350)	748
Income before income taxes, minority interest in consolidated partnership and extraordinary charge	6,397	3,155	9,185
Provision for income taxes	(1,871)	(763)	(2,992)
Income before minority interest in consolidated partnership and extraordinary charge	4,526	2,392	6,193
Minority interest in consolidated partnership	(1,617)	(1,153)	(1,355)
Income before extraordinary charge	2,909	1,239	4,838
Extraordinary charge, net of minority interest and income tax benefit of \$187 and \$94, respectively	(153)	-	-
Net income	<u>\$ 2,756</u>	<u>\$ 1,239</u>	<u>\$ 4,838</u>
Per share data:			
Basic earnings per share:			
Income before extraordinary charge	\$ 0.15	\$ 0.06	\$ 0.25
Extraordinary charge	\$ (0.01)	\$ -	\$ -
Net income	<u>\$ 0.14</u>	<u>\$ 0.06</u>	<u>\$ 0.25</u>
Diluted earnings per share:			
Income before extraordinary charge	\$ 0.15	\$ 0.06	\$ 0.24
Extraordinary charge	\$ (0.01)	\$ -	\$ -
Net income	<u>\$ 0.14</u>	<u>\$ 0.06</u>	<u>\$ 0.24</u>
Weighted average shares outstanding—basic	<u>19,717</u>	<u>19,717</u>	<u>19,717</u>
Weighted average shares outstanding—diluted	<u>19,734</u>	<u>19,724</u>	<u>19,806</u>

Consolidated Statements of Shareholders' Equity

Capital Senior Living Corporation	Common Stock		Additional Paid-In Capital	Retained Earnings	Total
In thousands	Shares	Amount			
Balance at January 1, 1999	19,717	\$ 197	\$ 91,740	\$ 12,579	\$ 104,516
Non cash compensation	-	-	195	-	195
Net income	-	-	-	4,838	4,838
Balance at December 31, 1999	<u>19,717</u>	<u>197</u>	<u>91,935</u>	<u>17,417</u>	<u>109,549</u>
Net income	-	-	-	1,239	1,239
Balance at December 31, 2000	<u>19,717</u>	<u>197</u>	<u>91,935</u>	<u>18,656</u>	<u>110,788</u>
Net income	-	-	-	2,756	2,756
Balance at December 31, 2001	<u>19,717</u>	<u>\$ 197</u>	<u>\$ 91,935</u>	<u>\$ 21,412</u>	<u>\$ 113,544</u>

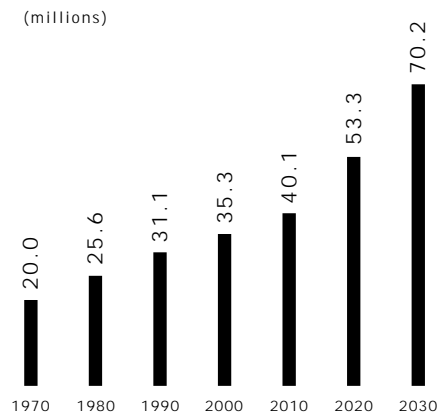
Consolidated Statements of Cash Flows

Capital Senior Living Corporation	Year Ended December 31,		
In thousands	2001	2000	1999
Operating Activities			
Net income	\$ 2,756	\$ 1,239	\$ 4,838
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	6,890	5,094	4,567
Amortization	198	92	104
Amortization of deferred financing charges	891	495	519
Minority interest in consolidated partnership	1,617	1,153	1,355
Deferred income from affiliates	(491)	456	992
Deferred income	507	-	(115)
Deferred income taxes (benefit)	(230)	346	(30)
Equity in the losses of affiliates	451	-	-
(Gain) loss on sale of properties	(2,550)	350	(748)
Provision for bad debts	967	4,318	15,896
Extraordinary charge, net of minority interest and income tax benefit of \$187 and 94, respectively	153	-	-
Non cash compensation	-	-	195
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	816	(955)	(1,012)
Accounts receivable from affiliates	3,398	5,291	(12,464)
Interest receivable from affiliates	(3,998)	(1,240)	(645)
Notes receivable	570	(570)	-
Prepaid expenses and other	717	(1,427)	(60)
Other assets	(633)	191	(1,504)
Accounts payable	(867)	1,395	(268)
Accrued expenses	363	1,067	(872)
Federal and state income taxes receivable/payable	2,677	2,307	(7,704)
Customer deposits	132	101	59
Net cash provided by operating activities	14,334	19,703	3,103
Investing Activities			
Capital expenditures	(2,138)	(3,121)	(1,887)
Cash paid for acquisitions, net of cash acquired of \$2,060 in 2000	-	(102,014)	-
Proceeds from sale of properties	4,787	4,504	2,740
Advances to affiliates	(17,100)	(18,209)	(22,794)
Proceeds from (investments in) limited partnerships	(1,251)	2,597	5,414
Net cash used in investing activities	(15,702)	(116,243)	(16,527)

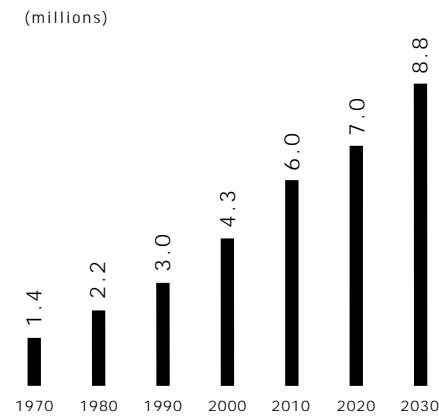
Consolidated Statements of Cash Flows (continued)

Capital Senior Living Corporation	Year Ended December 31,		
In thousands	2001	2000	1999
Financing Activities			
Proceeds from notes payable and line of credit	3,207	125,248	61,506
Repayments of notes payable and line of credit	(6,119)	(30,033)	(48,981)
Restricted cash	(1,000)	(1,100)	-
Distributions to minority partners	(7,617)	(3,958)	(1,198)
Deferred financing charges paid	(3)	(3,730)	(742)
Net cash (used in) provided by financing activities	(11,532)	86,427	10,585
Decrease in cash and cash equivalents	(12,900)	(10,113)	(2,839)
Cash and cash equivalents at beginning of year	22,875	32,988	35,827
Cash and cash equivalents at end of year	\$ 9,975	\$ 22,875	\$ 32,988
Supplemental Disclosures			
Cash paid during the year for:			
Interest	\$ 13,931	\$ 10,609	\$ 6,476
Income taxes	\$ 744	\$ 619	\$ 10,276

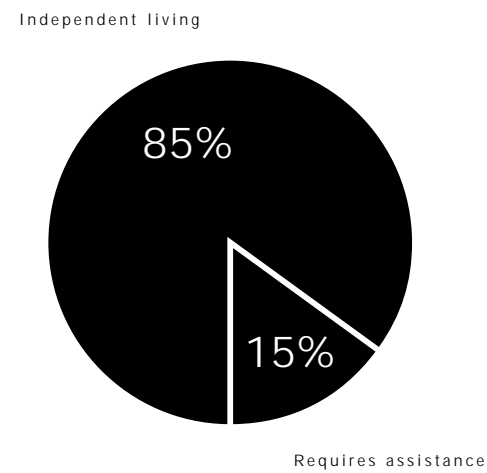
Elderly population growth
population 65+



Elderly population growth
population 85+



Resident mix



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

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}
Former Chairman, Dallas Anesthesiology Associates
Dallas, Texas

CRAIG F. HARTBERG³
Retired First Vice President, Bank One, Texas, N.A.
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

CORPORATE HEADQUARTERS

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Dallas, Texas 75254
(972) 770-5600
(972) 770-5666 fax
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(212) 551-1770
(212) 551-1774 fax

CORPORATE WEB SITE

www.capitalsenior.com

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

Mellon Investor Services LLC
85 Challenger Road
Ridgefield, New Jersey 07660
(800) 635-9270
www.melloninvestor.com

AUDITORS

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(214) 969-8000

Regional Information

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(203) 894-9407 fax

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WESTERN REGIONAL OFFICE

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(916) 486-4375 fax

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Form 10-K

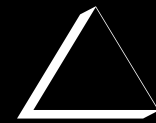
A copy of Capital Senior Living Corporation's
2001 annual report to the SEC on Form 10-K is
available without charge upon written request to
the Investor Relations Department at corporate
headquarters. It can also be found on the SEC's
web site, www.edgar.com.

Annual Shareholders Meeting

May 16, 2002 at 10 a.m. Central Time
Addison Conference & Theatre Centre
15650 Addison Road
Addison, Texas 75001
(972) 452-6200

Profile

Capital Senior Living Corporation is com-
mitted 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.



Capital Senior Living Corporation

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