



CAPITAL SENIOR LIVING CORPORATION

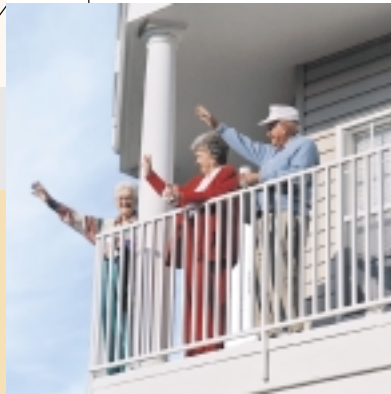
2004 ANNUAL REPORT

What's up at Capital Senior Living Corporation?

FINANCIAL BENCHMARKS

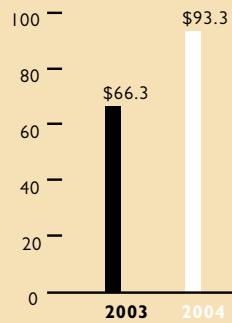


Our total revenues and operating income rose in 2004.



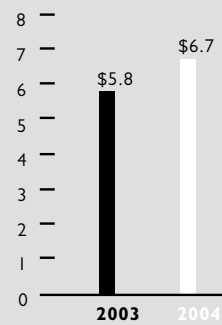
Total Revenue

(in millions)



Operating Income

(in millions)



What's up:

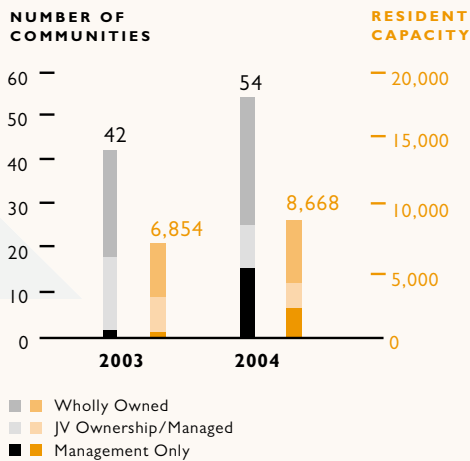
KEY OPERATIONAL INDICATORS



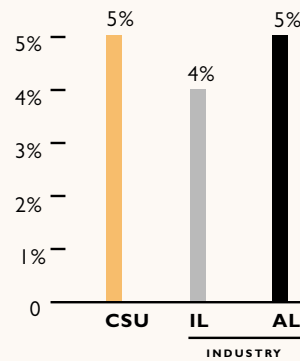
Our number of communities, resident capacity, occupancy levels and average rents rose in 2004.



Capital Senior Living Communities

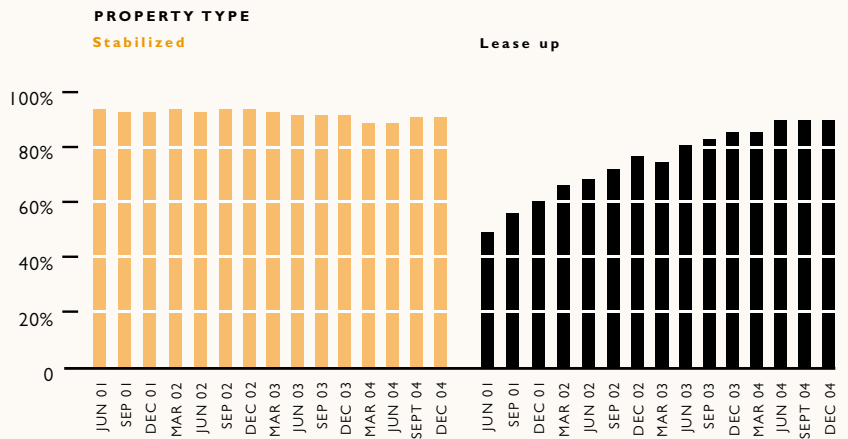


Annual Change in Rent: Stabilized Communities



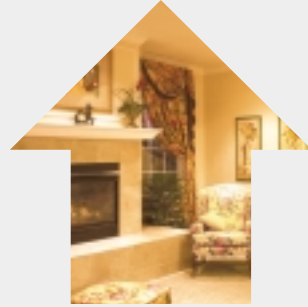
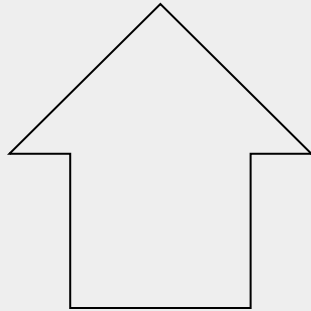
Source: Company data and from *The State of Seniors Housing 2003* by the American Seniors Housing Association (ASHA)

Occupancy Rates



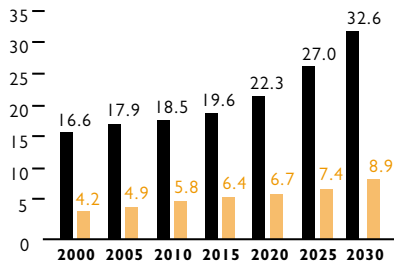
What's up:

DEMOGRAPHIC TRENDS



Estimated Growth in Elderly Population

POPULATION IN MILLIONS



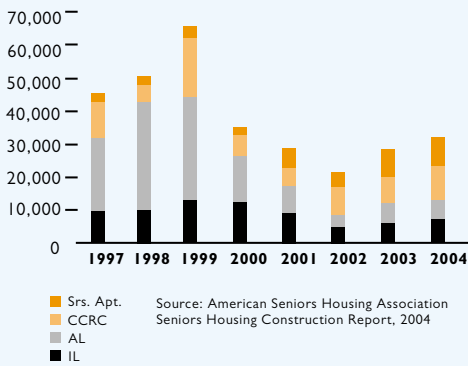
■ Population Age 75+
■ Population Age 85+

Source: U.S. Census Bureau

Demand for our services is forecast to rise for years to come.

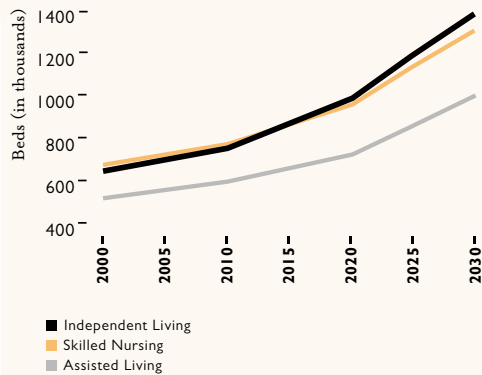
Senior Housing Construction

TOTAL UNITS BY PROPERTY TYPE



Demand for Senior Living

ELDERLY POPULATION WITH INCOME OVER \$15,000



What's up:

for 2005 and beyond?

OPPORTUNITIES FOR GROWTH

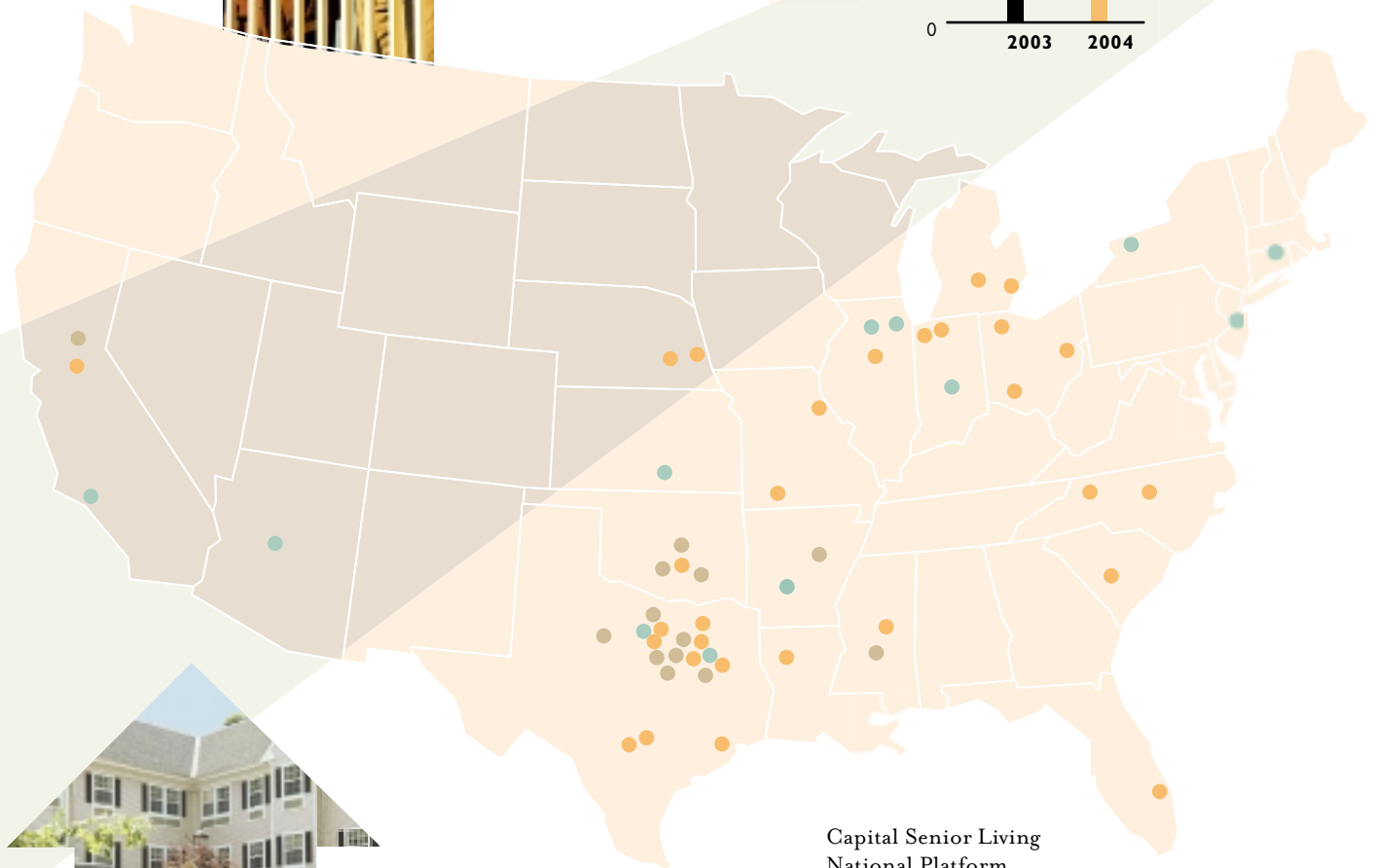
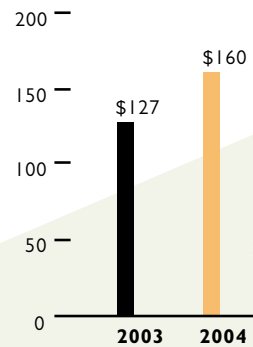


In a fragmented, consolidating industry, Capital Senior Living's financial strength, national presence and industry expertise make us an attractive partner for both joint venture acquisition investments and third party management contracts, giving us opportunities for continued growth in the years ahead.



Revenues Under Management

(Q4 2004, annualized, in millions)



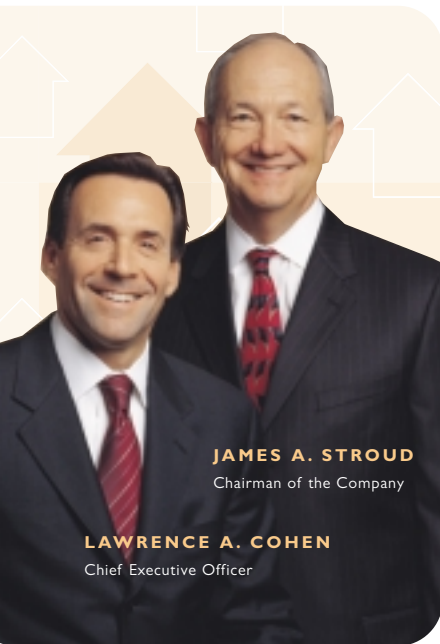
Capital Senior Living National Platform

- Wholly Owned (29)
- JV Ownership/Managed (10)
- Management Only (15)

TO OUR FELLOW SHAREHOLDERS:

This year's annual report asks, "What's up at Capital Senior Living?" The answer is: performance in key areas throughout the Company.

Capital Senior Living has historically demonstrated some of the strongest metrics in the industry, and 2004 was a year of significant accomplishment



for us. It was a year that our long-term strategy converged with improving industry fundamentals. This strategy positioned us well to take advantage of both industry trends and opportunity during the year. Focused management and hard work have resulted in higher occupancy rates, improved revenues, enhanced

operating income and strong margins while we were completing several important corporate initiatives:

- We began the year with the successful completion of a \$34.5 million equity offering, further strengthening our financial position and providing a foundation for future growth opportunities.
- We retired \$21.8 million of debt.
- We completed the acquisition of CGI Management, Inc., adding 14 senior living communities to our portfolio of managed properties and increasing our capacity by 1,800 residents. We formed a new joint venture with Prudential Real Estate Investors which acquired four other communities with approximately

700 residents. We retained long-term operating contracts for each of these communities.

- We reorganized our national platform for more efficient regional management, allowing us to leverage our infrastructure for future growth.
- We took other actions, such as completing the acquisition of the remaining Triad Entities, to enjoy the economic benefit of ownership, simplify our balance sheet and provide greater transparency for our shareholders.
- We finished the year by refinancing approximately half of our total debt, consolidating the loans with one lender while increasing available cash and eliminating numerous loan covenants.

In all, 2004 was one of significant accomplishment that elevated our market presence, improved our performance, and better positioned us to capitalize on the opportunities we see before us.

Industry Dynamics

It is well documented that the U.S. population is aging, and the average person now lives longer than ever before. Today, the large baby-boomer generation is middle-aged and their parents are in their senior years. During the late 1990s, construction of senior housing surged to meet this anticipated demand, creating a highly competitive industry environment.

Starting in 2000, capital constraints and other economic factors tempered new construction and, since then, supply and demand have come back into equilibrium. Factors including ongoing industry consolidation, evidenced by several operators exiting the senior housing market, have contributed to significant changes in our industry. As a result, both individual properties and entire portfolios are in need of new ownership, new management, or both. This creates a substantial near and long-term opportunity for Capital Senior Living.

Strategies for Operations and Growth

Our successes are based on key operational and growth strategies. Rather than being constrictive, these strategies are adaptable to changing industry conditions and provide the foundation for opportunistic growth.

Provide quality, well-managed senior living facilities at affordable prices in demographically attractive areas.

At the end of 2004, we owned or managed 54 properties in 20 states, with the capacity to provide living facilities and amenities to approximately 8,700 residents. The properties are dispersed in geographic regions with high population densities that create viable markets for our properties and allow our residents to be close to their families. This distribution is supported by our regional management infrastructure. Our properties, whose executive directors average 13 years of industry experience, had an average monthly rent of approximately \$2,100 at the end of 2004.

Achieve internal growth through lease-up of existing properties and new services.

We completed 2004 with 44 stabilized communities, 9 in lease-up, and one more in renovation/releasing status. The 10 communities in lease-up and renovation status will provide incremental growth opportunities as we move them toward a stabilized status.

Improve occupancy and operating margins of stabilized communities.

Efficient operations are a hallmark of effective management teams, and our goal is to attain high industry metrics while providing quality facilities and amenities for our residents. It is an ongoing

focus and the results demonstrate the success of our efforts. Our stabilized communities achieved 90 percent occupancy, which exceeds the industry averages of 89.5 percent and 87.5 percent for independent living and assisted living, respectively. Stabilized operating margins (before property taxes, insurance, and management fees) were 45 percent compared to industry averages of 43.2 percent for independent living and 39.1 percent for assisted living. Our annual resident satisfaction survey underscores the reasons for strong demand for our properties that make these results possible. In 2004, we achieved a 95 percent satisfaction rating from our residents. In fact, one of the best referral sources we have is current residents.

Participate in acquisitions or co-investments.

Current industry dynamics make acquisition an attractive avenue for growth, either directly or with a financial partner. With our national platform and strengthened balance sheet, we are able to evaluate and participate in opportunistic, strategic acquisitions. In August 2004, we completed the acquisition of CGI Management, Inc., adding 14 managed properties to our portfolio and providing options to purchase seven of the properties in the future at a fixed price. In November 2004, we acquired an equity interest with management contracts in four senior living communities through a joint venture with Prudential Real Estate Investors. In total, we have acquired 10 senior housing communities through ventures with Blackstone and Prudential, adding capacity of 1,900 residents and providing ongoing revenue through long-term management contracts. We will continue to pursue similar opportunities that fit well with our management/resident profile and our long-term strategy.

Manage acquired and other communities.

One of our Company's greatest strengths is our industry experience and management expertise. This provides us the opportunity for high margin revenue growth through managing acquired properties or to directly provide management services for other entities.

Selectively develop communities for third parties.

Our expertise in developing communities providing quality facilities that meet the unique needs of the senior population is well established. As supply and demand dynamics evolve in our industry, we see the opportunity to assist other entities, such as real estate or financial investors, in selectively developing new senior living communities. We anticipate these development activities would incorporate long-term management contracts of the new properties.

The Capital Advantage

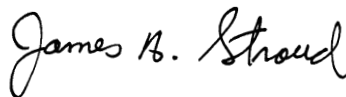
Capital Senior Living has a number of important factors that differentiate us from others in the industry.

- Our significant blended portfolio of 54 wholly-owned properties, joint-venture/managed properties, and managed-only properties, provides both equity ownership and long-term revenue.
- Our residents are classified as 85 percent independent living – the segment of highest demand in the senior living industry. The other 15 percent are primarily assisted living. Our assisted living facilities permit residents to receive higher levels of care without being relocated, allowing them to stay with us for longer periods.

- Approximately 95 percent of our revenue is from private-pay sources, allowing us to avoid significant exposure to government reimbursement issues.
- We are well capitalized with a strong balance sheet.
- We have a national platform that we can leverage to accommodate future growth.
- Our senior management has 150 years of combined industry expertise, bringing decades of successful experience to our operations.
- We have a long-term operating and growth strategy that has delivered results through industry cycles.

In summary, 2004 was one of considerable significance for the Company. It delivered strong results for the year and provided a foundation for future growth and opportunity. We thank you for your ongoing support.

Sincerely,



JAMES A. STROUD

Chairman of the Board



LAWRENCE A. COHEN

Chief Executive Officer

Company Management

LAWRENCE A. COHEN

Chief Executive Officer

JAMES A. STROUD

Chairman of the Company and Secretary

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

GLORIA M. HOLLAND

Vice President, Finance

JERRY D. LEE

Corporate Controller

ROBERT F. HOLLISTER

Property Controller

Board of Directors

JAMES A. STROUD

*Chairman of the Board, Capital Senior Living Corporation
Dallas, Texas*

LAWRENCE A. COHEN

*Vice Chairman of the Board, Capital Senior Living Corporation
New York, New York*

KEITH N. JOHANNESSEN

*Capital Senior Living Corporation
Dallas, Texas*

CRAIG F. HARTBERG^{1,2,3}

*Retired First Vice President, Bank One, Texas, N.A.
Dallas, Texas*

JILL M. KRUEGER²

*President and CEO, Health Resources Alliance, Inc.
Oakbrook, Illinois*

JAMES A. MOORE^{1,2,3}

*President, Moore Diversified Services, Inc.
Fort Worth, Texas*

VICTOR W. NEE, PH.D.^{1,3}

*Professor Emeritus, Department of Aerospace and Mechanical
Engineering, University of Notre Dame
Scottsdale, Arizona*

¹ Member of the Board's Compensation Committee

² Member of the Board's Audit Committee

³ Member of the Board's Nominating Committee

Corporate Information

CORPORATE HEADQUARTERS

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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.

TRANSFER AGENT AND REGISTRAR

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85 Challenger Road
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(800) 635-9270
www.melloninvestor.com

AUDITORS

Ernst & Young LLP
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Dallas, Texas 75201
(214) 969-8000

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Azle, Texas 76020
(817) 237-2496
(817) 237-3496 fax

Form 10-K

A copy of Capital Senior Living Corporation's 2004 annual report to the SEC on Form 10-K is included herein and is available without charge upon written request to the Investor Relations Department at corporate headquarters. It can also be found on the Company's web site, www.capitalsenior.com.

Annual Shareholders Meeting

May 10, 2005 at 10 a.m. Central Time
Bent Tree Country Club
5201 Westgrove
Dallas, Texas 75248
(972) 931-3310

10-K



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