CAPITAL SENIOR LIVING CORP
Form 10-Q
May 06, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 1-13445

Capital Senior Living Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware	**75-2678809**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
14160 Dallas Parkway, Suite 300, Dallas, Texas	**75254**
(Address of Principal Executive Offices)	*(Zip Code)*

(972) 770-5600

(Registrant s Telephone Number, Including Area Code)

NONE

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of May 1, 2009, the Registrant had 26,851,494, outstanding shares of its Common Stock, $0.01 par value.

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Part I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

CAPITAL SENIOR LIVING CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,408	$ 25,880
Restricted cash	2,160	
Accounts receivable, net	3,794	3,809
Accounts receivable from affiliates	748	1,152
Federal and state income taxes receivable	2,388	2,364
Deferred taxes	1,052	1,052
Assets held for sale	354	354
Property tax and insurance deposits	6,454	8,632
Prepaid expenses and other	3,808	5,930
Total current assets	45,166	49,173
Property and equipment, net	304,280	305,881
Deferred taxes	10,518	11,062
Investments in joint ventures	7,035	7,173
Other assets, net	15,050	14,831
Total assets	$ 382,049	$ 388,120
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,219	$ 1,920
Accrued expenses	10,842	13,661
Current portion of notes payable	10,706	12,026
Current portion of deferred income	6,539	6,174
Customer deposits	1,519	1,593
Total current liabilities	30,825	35,374
Deferred income	19,229	20,056
Notes payable, net of current portion	176,595	177,541
Commitments and contingencies		
Shareholders equity:		
Preferred stock, $.01 par value:		
Authorized shares 15,000; no shares issued or outstanding		
Common stock, $.01 par value:		
Authorized shares 65,000; issued and outstanding shares 27,115 and 26,597 in 2009 and 2008, respectively	272	267

Additional paid-in capital		130,756		130,426
Retained earnings		25,276		24,456
Treasury stock, at cost 337,300 shares in 2009		(904)		
Total shareholders equity		155,400		155,149
Total liabilities and shareholders equity	$	382,049	$	388,120

See accompanying notes to consolidated financial statements.

CAPITAL SENIOR LIVING CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(unaudited, in thousands, except per share data)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues:		
Resident and health care revenue	$ 42,599	$ 42,844
Unaffiliated management services revenue	18	42
Affiliated management services revenue	622	1,433
Community reimbursement revenue	4,736	4,198
Total revenues	47,975	48,517
Expenses:		
Operating expenses (exclusive of facility lease expense and depreciation and amortization expense shown below)	25,969	26,606
General and administrative expenses	2,992	3,618
Facility lease expense	6,408	6,136
Stock-based compensation expense	331	229
Depreciation and amortization	3,253	3,033
Community reimbursement expense	4,736	4,198
Total expenses	43,689	43,820
Income from operations	4,286	4,697
Other income (expense):		
Interest income	22	127
Interest expense	(2,948)	(3,065)
Gain on sale of assets		600
Other income	69	53
Income before provision for income taxes	1,429	2,412
Provision for income taxes	(609)	(922)
Net income	$ 820	$ 1,490
Per share data:		
Basic net income per share	$ 0.03	$ 0.06
Diluted net income per share	$ 0.03	$ 0.06
Weighted average shares outstanding basic	26,597	26,341
Weighted average shares outstanding diluted	26,647	26,623

See accompanying notes to consolidated financial statements.

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CAPITAL SENIOR LIVING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Three Months Ended March 31,	
	2009	**2008**
Operating Activities		
Net income	$ 820	$ 1,490
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,249	3,025
Amortization	4	8
Amortization of deferred financing charges	84	84
Amortization of deferred lease costs	92	90
Amortization of imputed interest		47
Deferred income	(462)	(575)
Deferred income taxes	544	367
Equity in the earnings of unconsolidated joint ventures	(69)	(53)
Gain on sale of assets		(734)
Provision for bad debts	10	15
Write-down of assets held for sale		134
Stock based compensation expense	331	229
Changes in operating assets and liabilities:		
Accounts receivable	5	(895)
Accounts receivable from affiliates	404	(392)
Property tax and insurance deposits	2,178	1,742
Prepaid expenses and other	2,122	1,907
Other assets	(400)	(286)
Accounts payable	(701)	468
Accrued expenses	(2,819)	(2,649)
Federal and state income taxes receivable/payable	(24)	514
Customer deposits	(74)	(92)
Net cash provided by operating activities	5,294	4,444
Investing Activities		
Capital expenditures	(1,647)	(1,671)
Proceeds from the sale of assets		1,401
Net investment in limited partnerships	206	(596)
Net cash used in investing activities	(1,441)	(866)
Financing Activities		
Increase in restricted cash	(2,160)	
Repayments of notes payable	(2,266)	(2,334)
Cash proceeds from the issuance of common stock	5	
Purchases of treasury stock	(904)	
Net cash used in financing activities	(5,325)	(2,334)

Increase (decrease) in cash and cash equivalents	(1,472)	1,244
Cash and cash equivalents at beginning of period	25,880	23,359
Cash and cash equivalents at end of period	$ 24,408	$ 24,603
Supplemental Disclosures		
Cash paid during the period for:		
Interest	$ 2,862	$ 2,932
Income taxes	$ 92	$ 99

See accompanying notes to consolidated financial statements.

CAPITAL SENIOR LIVING CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009

1. BASIS OF PRESENTATION

Capital Senior Living Corporation, a Delaware corporation (together with its subsidiaries, the Company), is one of the largest operators of senior living communities in the United States in terms of resident capacity. The Company owns, operates, develops and manages senior living communities throughout the United States. As of March 31, 2009, the Company operated 64 senior living communities in 23 states with an aggregate capacity of approximately 9,500 residents, including 38 senior living communities which the Company either owned or in which the Company had an ownership interest, 25 senior living communities that the Company leased and one senior living community it managed for a third party. As of March 31, 2009, the Company also operated one home care agency. The accompanying consolidated financial statements include the financial statements of Capital Senior Living Corporation and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. The Company accounts for significant investments in unconsolidated companies, in which the Company has significant influence, using the equity method of accounting.

The accompanying consolidated balance sheet, as of December 31, 2008, has been derived from audited consolidated financial statements of the Company for the year ended December 31, 2008, and the accompanying unaudited consolidated financial statements, as of March 31, 2009 and 2008, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations. For further information, refer to the financial statements and notes thereto for the year ended December 31, 2008 included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2009.

In the opinion of the Company, the accompanying consolidated financial statements contain all adjustments (all of which were normal recurring accruals) necessary to present fairly the Company s financial position as of March 31, 2009, results of operations for the three months ended March 31, 2009 and 2008, respectively, and cash flows for the three months ended March 31, 2009 and 2008. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results for the year ending December 31, 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in Joint Ventures

The Company accounts for its investments in joint ventures under the equity method of accounting. The Company is the general partner in two partnerships and owns member interests in seven joint ventures. The Company has not consolidated these joint venture interests because the Company has concluded that the limited partners or the other members of each joint venture have substantive kick-out rights or substantive participating rights as defined in EITF Issue 04-05 Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (EITF 04-05). Under the equity method of accounting the Company records its investments in joint ventures at cost and adjusts such investment for its share of earnings and losses of the joint venture.

Development Guarantees

The Company, on three joint venture developments, has guarantees that the communities will be completed at budgeted costs approved by the joint venture members. These costs include the hard and soft construction costs and operating costs until each community reaches breakeven. The budgeted costs include contingency reserves for potential cost overruns and other unforeseen costs. In addition, each of these joint ventures has entered into a guaranteed fixed price construction contract with the general contractor on each of the developments. The Company would be required to fund these guarantees if the actual development costs incurred by the joint venture exceed the budgeted costs for the development. The terms of these guarantees generally do not provide for a limitation on the maximum potential future payments. The Company has not made any payments under these guarantees and currently does not expect to be required to make any payments under these guarantees.

Assets Held for Sale

Assets are classified as held for sale when the Company has committed to selling the asset and believes that it will be disposed of within one year. The Company determines the fair value, net of costs of disposal, of an asset on the date the asset is categorized as held for sale, and the asset is recorded at the lower of its fair value, net of cost of disposal, or carrying value on that date. The Company periodically reevaluates assets held for sale to determine if the assets are still recorded at the lower of fair value, net of cost of disposal, or carrying value. The fair value of properties are generally determined based on market rates, industry trends and recent comparable sales transactions. The Company had one parcel of land, in Fort Wayne, Indiana, held for sale at March 31, 2009.

In February 2008, the Company sold a parcel of land located in Carmichael, California for $1.2 million, net of closing costs, resulting in a gain on sale of approximately $0.6 million.

In accordance with the provisions of Statement of Financial Accounting Standard (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144), the parcel of land held for sale in Fort Wayne, Indiana, with a carrying amount of $0.5 million was written down by approximately $0.1 million to its fair value, less costs to sell, of $0.4 million during the first quarter of fiscal 2008. The Company currently estimates that this parcel of land held for sale has an aggregate fair value, net of costs of disposal, that exceeds its carrying value of $0.4 million at March 31, 2009. The amount that the Company will ultimately realize on the parcel of land could differ materially from this estimate.

Lease Accounting

The Company determines whether to account for its leases as either operating, capital or financing leases depending on the underlying terms of each lease agreement. This determination of classification is complex and requires significant judgment relating to certain information including the estimated fair value and remaining economic life of the community, the Company s cost of funds, minimum lease payments and other lease terms. As of March 31, 2009, the Company leased 25 communities and classified each of the leases as an operating lease. The Company incurs lease acquisition costs and amortizes these costs over the term of the lease agreement. Certain leases entered into by the Company qualified as sale/leaseback transactions under the provisions of SFAS No. 98 Accounting for Leases (FAS 98) and as such any related gains have been deferred and are being amortized over the lease term.

Facility lease expense in the Company s statement of operations includes rent expense plus amortization expense relating to leasehold acquisition costs offset by the amortization of deferred gains.

Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes (FAS 109). 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. At March 31, 2009, the Company had recorded on its consolidated balance sheet deferred tax assets of $11.6 million. Management regularly evaluates the future realization of deferred tax assets and provides a valuation allowance, if considered necessary, based on such evaluation. The Company has evaluated future expectations of net income and various tax planning strategies that it believes are both prudent and feasible, including various strategies to utilize net built-in gains on the Company s appreciated assets. However, the benefits of the net deferred tax assets might not be realized if actual results differ from expectations. The Company believes that based upon this analysis that the realization of the net deferred tax assets is reasonably assured and therefore has not provided for a valuation allowance.

The Company accounts for uncertain tax positions under the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48). This standard clarifies the accounting for income tax benefits that are uncertain in nature. Under FIN 48, the Company is required to recognize a tax benefit in its financial statements for an uncertain tax position only if management s assessment is that its position is more likely than not (i.e., a greater than 50 percent likelihood) to be upheld on audit based only on the technical merits of the tax position. FIN 48 also provides guidance on thresholds, measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial-statement comparability among different companies. The Company s policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as income tax expense. The Company is not subject to income tax examinations for tax years prior to 2005.

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Net Income Per Share

On January 1, 2009, the Company adopted the provisions of FASB Staff Position (FSP) Emerging Issues Task Force (EITF) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP 03-6-1) requiring unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) to be considered participating securities to be included in the computation of earnings per share under the two-class method. FSP 03-6-1 requires that, upon adoption, all prior period earnings per share data presented be adjusted retrospectively.

Basic net income per common share is computed by dividing net income remaining after allocation to unvested restricted shares by the weighted average number of common shares outstanding for the period. Except when the effect would be anti-dilutive, the calculation of diluted net income per common share includes the net impact of unvested restricted shares and shares that could be issued under outstanding stock options.

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

	Three Months Ended March 31,	
	2009	**2008**
Net income	$ 820	$ 1,490
Net income allocable to unvested restricted shares	(20)	(14)
Undistributed net income attributable to common shares	$ 800	$ 1,476
Weighted average shares outstanding basic	26,597	26,341
Effects of dilutive securities:		
Employee equity compensation plans	50	282
Weighted average shares outstanding diluted	26,647	26,623
Basic income per share	$ 0.03	$ 0.06
Diluted income per share	$ 0.03	$ 0.06

Awards of unvested restricted stock representing approximately an additional 672,000 shares were outstanding for the first quarter ended March 31, 2009, and were included in the computation of allocable net income. Incremental awards of unvested restricted stock representing approximately 43,000 shares were not removed from the effects of dilutive securities in the computation of diluted weighted average shares outstanding for the first quarter ended March 31, 2008, as the impact to diluted income per share was not significant.

Treasury Stock

The Company accounts for treasury stock under the cost method and includes treasury stock as a component of stockholders equity.

3. TRANSACTIONS WITH AFFILIATES

Midwest I

In January 2006, the Company announced the formation of Midwest Portfolio Holdings, LP (Midwest I) with GE Healthcare Financial Services (GE Healthcare) to acquire five senior housing communities from a third party. Midwest I is owned approximately 89% by GE Healthcare and 11% by the Company. As of March 31, 2009, the Company has contributed $2.7 million for its interests in Midwest I. The Company manages the five acquired communities under long-term management agreements with Midwest I. The Company accounts for its investment in Midwest I under the equity method of accounting and the Company recognized earnings in the equity of Midwest I of $39,000 and $30,000 in the three months ended March 31, 2009 and 2008, respectively. In addition, the Company earned $0.1 million in management fees on the Midwest I communities in each of the three months ended March 31, 2009 and 2008.

Midwest II

In August 2006, the Company announced the formation of Midwest Portfolio Holding II, LP (Midwest II) with GE Healthcare to acquire three senior housing communities from a third party. Midwest II is owned approximately 85% by GE Healthcare and 15% by the Company. As of March 31, 2009, the Company has contributed $1.6 million for its interests in Midwest II. The Company manages the three acquired communities under long-term management agreements with Midwest II. The Company accounts for its investment in Midwest II under the equity method of accounting and the Company recognized earnings (loss) in the equity of Midwest II of $18,000 and ($47,000) in the three months ended March 31, 2009 and 2008, respectively. In addition, the Company earned $0.1 million in management fees on the Midwest II communities in each of the three months ended March 31, 2009 and 2008.

SHPII/CSL

In November 2004, the Company and Senior Housing Partners II, LP (SHPII) formed four joint ventures (collectively, SHPII/CSL) that own four senior living communities (the Spring Meadows Communities). SHPII/CSL is owned 95% by SHPII and 5% by the Company. As of March 31, 2009, the Company has contributed $1.3 million for its interests in SHPII/CSL. The Company accounts for its investment in SHPII/CSL under the equity method of accounting and the Company recognized earnings in the equity of SHPII/CSL of $55,000 and $0.1 million in the three months ended March 31, 2009 and 2008, respectively. In addition, the Company earned $0.3 million in management fees on the Spring Meadows Communities in each of the three months ended March 31, 2009 and 2008.

SHPIII/CSL Miami

In May 2007, the Company with Senior Housing Partners III, LP (SHPIII) formed SHPIII/CSL Miami to develop a senior housing community in Miamisburg, Ohio. Under the joint venture and related agreements, the Company earns development and management fees and may receive incentive distributions. The senior housing community consists of 101 independent living units and 45 assisted living units and was opened in August 2008. As of March 31, 2009, the Company has contributed $0.8 million to SHPIII/CSL Miami for its 10% interest. The Company accounts for its investment in SHPIII/CSL Miami under the equity method of accounting and the Company recognized a loss in the equity of SHPIII/CSL Miami of $43,000 for the three months ended March 31, 2009. During the first three months of fiscal 2009, the Company earned $38,000 in management fees on the SHPIII/CSL Miami community. During the first three months of fiscal 2008, the Company earned $0.2 million in development fees and $38,000 in pre-marketing fees from the community.

SHPIII/CSL Richmond Heights

In November 2007, the Company with SHPIII formed SHPIII/CSL Richmond Heights to develop a senior housing community in Richmond Heights, Ohio. Under the joint venture and related agreements, the Company earns development and management fees and may receive incentive distributions. The senior housing community consists of 96 independent living units and 45 assisted living units and opened for business on April 1, 2009. As of March 31, 2009, the Company has contributed $0.8 million to SHPIII/CSL Richmond Heights for its 10% interest and accounts for its investment in SHPIII/CSL Richmond Heights under the equity method of accounting. During the first three months of fiscal 2009 the Company earned $12,500 in pre-marketing fees from SHPIII/CSL Richmond Heights. During the first three months of fiscal 2008 the Company earned $0.3 million in development fees from the community.

SHPIII/CSL Levis Commons

In December 2007, the Company with SHPIII formed SHPIII/CSL Levis Commons to develop a senior housing community near Toledo, Ohio. Under the joint venture and related agreements, the Company earns development and management fees and may receive incentive distributions. The senior housing community consists of 101 independent living units and 45 assisted living units and opened for business on April 1, 2009. As of March 31, 2009, the Company has contributed $0.8 million to SHPIII/CSL Levis Commons for its 10% interest and accounts for its investment in SHPIII/CSL Levis Commons under the equity method of accounting. During the first three months of fiscal 2009 the Company earned $12,500 in pre-marketing fees from SHPIII/CSL Levis Commons. During the first three months of fiscal 2008 the Company earned $0.3 million in development fees from the community.

BRE/CSL

In December 2001, the Company formed three joint ventures (collectively BRE/CSL) with Blackstone Real Estate Advisors (Blackstone) and the joint ventures are owned 90% by Blackstone and 10% by the Company. BRE/CSL previously owned six senior living communities. The Company managed the six communities owned by BRE/CSL under long-term management contracts. In September 2005, Ventas acquired the six communities owned by

BRE/CSL and the Company entered into a series of lease agreements whereby the Company leases the six communities from Ventas. In March 2007, the Company received a final distribution from BRE/CSL of $0.4 million relating to the sale of six communities owned by BRE/CSL to Ventas. This distribution resulted in the recognition of an additional gain of $0.4 million, which has been deferred and is being amortized in the Company s statement of operations over the remaining initial lease term.

4. DEBT TRANSACTIONS / REFINANCINGS

On December 1, 2008, the Company renewed certain insurance policies and entered into a finance agreement totaling $2.7 million. The finance agreement has a fixed interest rate of 4.78% with principal being repaid over a 10-month term.

On November 21, 2008, the Company repaid the Lehman acquisition financing non-interest bearing note in its entirety for a total cost of $3.5 million.

On October 31, 2008, the Company renewed certain insurance policies and entered into a finance agreement totaling $0.5 million. The finance agreement has a fixed interest rate of 4.78% with principal being repaid over a 10-month term.

On May 31, 2008, the Company renewed certain insurance policies and entered into a finance agreement totaling $1.5 million. The finance agreement has a fixed interest rate of 3.75% with principal being repaid over a 10-month term.

The Company must maintain certain levels of tangible net worth and comply with other restrictive covenants under the terms of the notes. The Company was in compliance with all of its debt covenants at March 31, 2009 and 2008.

5. NEW ACCOUNTING STANDARDS

FASB Statement No. 157, Fair Value Measurements (FAS 157) defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 does not require any new fair value measurements but would apply to assets and liabilities that are required to be recorded at fair value under other accounting standards. The Company adopted the provisions of FAS 157 on January 1, 2008, for its financial assets and liabilities and on January 1, 2009, for its nonfinancial assets and liabilities. The adoption of FAS 157 did not have a material effect on the Company s earnings or financial position.

FASB Statement No. 141(R) Business Combinations (FAS 141(R)) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. As there have not been any acquisitions during the first three months of fiscal 2009, the provisions of FAS 141(R) did not have an impact on the Company s earnings or financial position.

FSP 03-6-1 clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method described in SFAS No. 128, Earnings Per Share. This FSP was effective for the Company on January 1, 2009, and required all presented prior-period earnings per share data to be adjusted retrospectively. The Company s adoption of FSP 03-6-1 did not have a material effect on the per share data reported for the basic weighted average shares outstanding in the Company s consolidated financial statements.

6. STOCK-BASED COMPENSATION

The Company accounts for share-based payments under the provisions of Statement of Financial Accounting Standards No. 123 (revised), Share-based Payment (FAS 123R), which requires all share-based payments to employees, including grants of employee stock options and awards of restricted stock to be recognized in the statement of operations based on their fair values. Under FAS 123R the Company recognizes compensation expense for share-based awards.

On May 8, 2007, the Company s shareholders approved the 2007 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation (the 2007 Plan) which provides for, among other things, the grant of restricted stock awards and stock options to

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purchase shares of the Company s common stock. The 2007 Plan authorizes the Company to issue up to 2.6 million shares of common stock and the Company has reserved 1.9 million shares of common stock for future issuance pursuant to awards under the 2007 Plan. Effective May 8, 2007, the 1997 Omnibus Stock and Incentive Plan (as amended, the 1997 Plan) was terminated and no additional shares will be granted under the 1997 Plan. The Company has reserved 0.9 million shares of common stock for future issuance upon the exercise of outstanding stock options pursuant to the 1997 Plan.

Stock Options

The Company s stock option program is a long-term retention program that is intended to attract, retain and provide incentives for employees, officers and directors and to align stockholder and employee interest. The Company s options generally vest over one to five years and the related expense is amortized on a straight-line basis over the vesting period.

A summary of the Company s stock option activity and related information for the three months ended March 31, 2009, is presented below:

	Outstanding at Beginning of Period	Granted	Exercised	Forfeited	Outstanding End of Period	Options Exercisable
Shares	895,334			166,969	728,365	728,365
Weighted average price	$ 4.83	$	$	$ 6.22	$ 4.51	$ 4.51

The options outstanding and the options exercisable at March 31, 2009, each had an intrinsic value of $0.1 million.

Restricted Stock

The Company grants restricted stock awards to employees, officers, and directors. Restricted stock granted generally vests over a period of three years but such awards are considered outstanding at the time of grant, since the holders thereof are entitled to dividends and voting rights. The Company recognizes compensation expense of a restricted stock award over the respective vesting period based on the fair value of the award on the grant date, net of forfeitures.

A summary of the Company s restricted stock awards activity and related information for the three months ended March 31, 2009, is presented below:

	Outstanding at Beginning of Period	Issued	Vested	Forfeited	Outstanding End of Period
Shares	251,632	521,625	100,843	250	672,164

The restricted stock outstanding at March 31, 2009, had an intrinsic value of $1.6 million.

During the three months ended March 31, 2009, the Company awarded 521,625 shares of restricted common stock to certain employees of the Company. The average market value of the common stock on the date of grant was $3.08. These awards of restricted shares vest over a three-year period and had an intrinsic value of $1.6 million on the date of issue.

Stock Based Compensation

The Company uses the Black-Scholes option pricing model to estimate the grant date fair value of its stock. The Black-Scholes model requires the input of certain assumptions including expected volatility, expected dividend yield, expected life of the option and the risk free interest rate. The expected volatility used by the Company is based primarily on an analysis of historical prices of the Company s common stock. The expected term of options granted is based primarily on historical exercise patterns on the Company s outstanding stock options. The risk free rate is based on zero-coupon U.S. Treasury yields in effect at the date of grant with the same period as the expected option life. The Company does not currently plan to pay dividends on its common stock and therefore has used a dividend yield of zero in determining the fair value of its awards. The option forfeiture rate assumption used by the Company, which affects the expense recognized as opposed to the fair value of the award, is based primarily on the Company s historical option forfeiture patterns. The Company issued no stock options during the first three months of fiscal 2009 and 2008.

The Company has total stock-based compensation expense of $2.2 million not recognized as of March 31, 2009, and expects this expense to be recognized over approximately a three-year period.

7. CONTINGENCIES

The Company has claims incurred in the normal course of its business. Most of these claims are believed by management to be covered by insurance, subject to normal reservations of rights by the insurance companies and possibly subject to certain exclusions in the applicable insurance policies. Whether or not covered by insurance, these claims, in the opinion of management, based on advice of legal counsel, should not have a material effect on the consolidated financial statements of the Company if determined adversely to the Company.

8. SHARE REPURCHASE PROGRAM

On January 22, 2009, the Company s board of directors approved a share repurchase program that authorized the Company to purchase up to $10.0 million of the Company s common stock. Purchases may be made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or by any combination of such methods, in accordance with applicable insider trading and other securities laws and regulations. The size, scope and timing of any purchases will be based on business, market and other conditions and factors, including price, regulatory and contractual requirements or consents, and capital availability. The repurchase program does not obligate the Company to acquire any particular amount of common stock and the share repurchase authorization has no stated expiration date. Shares of stock repurchased under the program will be held as treasury shares. Pursuant to this authorization, during the three months ended March 31, 2009, the Company purchased 337,300 shares at an average cost of $2.68 per share for a total cost to the Company of approximately $0.9 million.

9. SUBSEQUENT EVENTS

On April 1, 2009, the Company opened two senior living communities through its joint ventures with SHPIII. The Richmond Heights community located in Richmond Heights, Ohio, consists of 96 independent living units and 45 assisted living units. The Levis Commons community located near Toledo, Ohio, consists of 101 independent living units and 45 assisted living units. Under the joint venture and related agreements, the Company earns development and management fees and may receive incentive distributions.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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, would, intend, cou believe, expect, anticipate, estimate or continue or the negative thereof or other variations thereon or comparab 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. These factors may include the Company s ability to complete the refinancing of certain of our wholly owned communities, realize the anticipated savings related to such financings, find suitable acquisition properties at favorable terms, financing, licensing, business conditions, risks of downturn in economic conditions generally, satisfaction of closing conditions such as those pertaining to licensure, availability of insurance at commercially reasonable rates, and changes in accounting principles and interpretations, among others, and other risks and factors identified from time to time in the Company s reports filed with the SEC.

Overview

The following discussion and analysis addresses (i) the Company s results of operations for the three months ended March 31, 2009 and 2008, respectively, and (ii) liquidity and capital resources of the Company, and should be read in conjunction with the Company s consolidated financial statements contained elsewhere in this report.

The Company is one of the largest operators of senior living communities in the United States. The Company s operating strategy is to provide quality senior living services 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 senior living services to the elderly, including independent living, assisted living, skilled nursing and home care services.

As of March 31, 2009, the Company operated 64 senior living communities in 23 states with an aggregate capacity of approximately 9,500 residents, including 25 senior living communities that the Company owned, 13 senior living communities in which the Company had an ownership interest, 25 senior living communities that the Company leased and one senior living community that it managed for a third party. As of March 31, 2009, the Company also operated one home care agency.

Significant Financial and Operational Highlights

The Company s operating strategy is to provide quality senior living communities and services 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 senior living services to the elderly, including independent living, assisted living, skilled nursing and home care services. Many of the Company s communities offer a continuum of care to meet its residents needs as they change over time. This continuum of care, which integrates independent living and assisted living and is bridged by home care through independent home care agencies or the Company s home care agency, sustains residents autonomy and independence based on their physical and mental abilities.

The senior living industry continues to be negatively impacted by unfavorable conditions in the housing, credit and financial markets and deteriorating conditions in the overall economy, generally resulting in lower than anticipated occupancy rates. During the first quarter of fiscal 2009, in response to these conditions, the Company has continued to focus on reducing overhead while maintaining an emphasis on occupancy increases, improvement in rental rates, expense management and growth in net operating income per unit; increasing levels of care through conversions; and other opportunities to enhance shareholder value.

In January 2009, the Company announced that the Company s board of directors approved the implementation of a stock repurchase program of up to $10 million of the Company s common stock. During the first quarter of fiscal 2009, the Company has acquired 337,300 shares of stock at a cost of approximately $0.9 million.

Joint Venture Transactions and Management Contracts

As of March 31, 2009, the Company managed 13 communities owned by joint ventures in which the Company has a minority interest and one community owned by a third party. For communities owned by joint ventures and third parties, the Company typically receives a management fee of 5% of gross 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 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 or leased communities. Further, the Company is not responsible for capital investments in managed communities. The management contracts are generally terminable only for cause or upon the sale of a community, subject to the Company s rights to offer to purchase such community.

Midwest I Transaction

In January 2006, the Company and GE Healthcare formed Midwest I to acquire five senior housing communities from a third party. Midwest I is owned approximately 89% by GE Healthcare and 11% by the Company. As of March 31, 2009, the Company has contributed $2.7 million for its interest in Midwest I. Midwest I paid approximately $46.9 million for the five communities. The five communities comprise 293 assisted living units with a resident capacity of 389. The Company manages the five acquired communities under long-term management agreements with Midwest I. The Company accounts for its investment in Midwest I under the equity method of accounting and the Company recognized earnings in the equity of Midwest I of $39,000 and $30,000 in the three months ended March 31, 2009 and 2008, respectively. In addition, the Company earned $0.1 million in management fees on the Midwest I communities in each of the three months ended March 31, 2009 and 2008.

Midwest II Transaction

In August 2006, the Company and GE Healthcare formed Midwest II to acquire three senior housing communities from a third party. Midwest II is owned approximately 85% by GE Healthcare and 15% by the Company. As of March 31, 2009, the Company has contributed $1.6 million for its interest in Midwest II. Midwest II paid approximately $38.2 million for the three communities. The three communities comprise 300 assisted living and memory care units with a resident capacity of 319. The Company manages the three acquired communities under long-term management agreements with Midwest II. The Company accounts for its investment in Midwest II under the equity method of accounting and the Company recognized earnings (loss) in the equity of Midwest II of $18,000 and ($47,000) in the three months ended March 31, 2009 and 2008, respectively. In addition, the Company earned $0.1 million in management fees on the Midwest II communities in each of the three months ended March 31, 2009 and 2008.

SHPII/CSL Transactions

In November 2004, the Company formed SHPII/CSL with SHPII. Effective as of November 30, 2004, SHPII/CSL acquired the Spring Meadows Communities which have a combined capacity of 698 residents. As of March 31, 2009, the Company has contributed $1.3 million for its interests in SHPII/CSL. The Company manages the Spring Meadows Communities under long-term management contracts with SHPII/CSL. The Company accounts for its investment in SHPII/CSL under the equity method of accounting and the Company recognized earnings in the equity of SHPII/CSL of $55,000 and $0.1 million in the three months ended March 31, 2009 and 2008, respectively. In addition, the Company earned $0.3 million in management fees on the Spring Meadows Communities in each of the three months ended March 31, 2009 and 2008.

SHP III Transactions

In May 2007, the Company and SHPIII formed SHPIII/CSL Miami to develop a senior housing community in Miamisburg, Ohio. Under the joint venture and related agreements, the Company earns development and management fees and may receive incentive distributions. The senior housing community consists of 101 independent living units and 45 assisted living units and was opened in August 2008. As of March 31, 2009, the Company has contributed $0.8 million to SHPIII/CSL Miami for its 10% interest. The Company accounts for its investment in SHPIII/CSL Miami under the equity method of accounting and the Company recognized a loss in the equity of SHPIII/CSL Miami of $43,000 for the three months ended March 31, 2009. During the first three months of fiscal 2009, the Company earned $38,000 in management fees on the SHPIII/CSL Miami community. During the first three months of fiscal 2008, the Company earned $0.2 million in development fees and $38,000 in pre-marketing fees from the community.

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In November 2007, the Company and SHPIII formed SHPIII/CSL Richmond Heights to develop a senior housing community i