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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

**FORM 8-K/A**

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

Date of report (Date of earliest event reported) September 10, 2010

**Capital Senior Living Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation)

**1-13445**

(Commission File Number)

**75-2678809**

(IRS Employer Identification No.)

**14160 Dallas Parkway  
Suite 300  
Dallas, Texas**

(Address of Principal Executive Offices)

**75254**

(Zip Code)

**(972) 770-5600**

(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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On September 10, 2010, Capital Senior Living Corporation (the “Company”) completed the acquisition (the “Acquisition”) of certain leasehold interests in 12 communities and related personal property from Signature Assisted Living of Texas, LLC (“Signature”). This Current Report on Form 8-K/A amends the Current Report on Form 8-K, dated and filed with the Securities and Exchange Commission on September 16, 2010, for purposes of providing the financial statements and pro forma financial information required by Item 9.01 of Form 8-K.

**Item 9.01 Financial Statements and Exhibits.**

(a) Financial statements of businesses acquired.

The audited financial statements of Signature for the years ended December 31, 2009 and 2008 are attached as Exhibit 99.1 to this Current Report on Form 8-K/A and incorporated herein by reference. The unaudited financial statements of Signature as of June 30, 2010 and 2009, and for the six months then ended are attached as Exhibit 99.2 to this Current Report on Form 8-K/A and incorporated herein by reference.

The consents of Huselton, Morgan & Maulsby, P.C. with respect to Signature’s audited financial statements and unaudited financial statements are attached as Exhibits 23.1 and 23.2, respectively, to this Current Report on Form 8-K/A.

(b) Pro forma financial information.

The unaudited pro forma condensed financial information reflecting the Acquisition for the year ended December 31, 2009 and for the six months ended June 30, 2010 is attached as Exhibit 99.3 to this Form 8-K/A and incorporated herein by reference.

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
23.1	Consent of Huselton, Morgan & Maulsby, P.C. to Audited Financial Statements
23.2	Consent of Huselton, Morgan & Maulsby, P.C. to Unaudited Financial Statements
99.1	Audited Financial Statements of Signature Assisted Living of Texas, LLC
99.2	Unaudited Financial Statements of Signature Assisted Living of Texas, LLC
99.3	Unaudited Pro Forma Condensed Combined Financial Information

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: November 22, 2010

Capital Senior Living Corporation

By: /s/ Ralph A. Beattie

Name: Ralph A. Beattie

Title: Executive Vice President and  
Chief Financial Officer

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## EXHIBIT INDEX

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99.2	Unaudited Financial Statements of Signature Assisted Living of Texas, LLC
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**CONSENT OF INDEPENDENT AUDITORS**

We consent to the incorporation by reference of our report, dated November 11, 2010, relating to the balance sheets of Signature Assisted Living of Texas, LLC as of December 31, 2009 and 2008, and the related statements of income, changes in members' equity and cash flows for the years then ended, which is included in this Current Report on Form 8-K/A of Capital Senior Living Corporation (the "Company") and into the Registration Statements of the Company on Form S-8 (File Nos. 333-143403, 333-117821 and 333-92045), in each case as may be further amended. This consent should not be regarded as in any way updating the aforementioned report or representing that we performed any procedures subsequent to the date of such report.



Dallas, Texas  
November 22, 2010

12221 Merit Drive • Suite 1800 • Dallas, Texas 75251  
972.404-1010 • Facsimile 972.404.1122 • E-mail: [hmpc@hmpc.com](mailto:hmpc@hmpc.com) • [www.hmpc.com](http://www.hmpc.com)

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**CONSENT OF ACCOUNTANTS**

We consent to the incorporation by reference of our report, dated November 12, 2010, relating to the balance sheets of Signature Assisted Living of Texas, LLC as of June 30, 2010 and 2009, and the related statements of income, members' equity and cash flows for the six months then ended, which is included in this Current Report on Form 8-K/A of Capital Senior Living Corporation (the "Company") and into the Registration Statements of the Company on Form S-8 (File Nos. 333-143403, 333-117821 and 333-92045), in each case as may be further amended. This consent should not be regarded as in any way updating the aforementioned report or representing that we performed any procedures subsequent to the date of such report.



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**SIGNATURE ASSISTED LIVING OF TEXAS, LLC  
FINANCIAL STATEMENTS  
December 31, 2009 and 2008  
with  
Independent Auditors' Report**

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**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**

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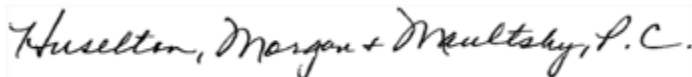
## INDEPENDENT AUDITORS' REPORT

To the Members  
of Signature Assisted Living of Texas, LLC

We have audited the accompanying balance sheets of Signature Assisted Living of Texas, LLC (the "Company") as of December 31, 2009 and 2008, and the related statements of income, changes in members' equity, and cash flows for the years then ended. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Dallas, Texas  
November 11, 2010

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**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**  
**BALANCE SHEETS**  
**December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 388,585	\$ 298,866
Cash — restricted	605,794	593,750
Accounts receivable	134,286	31,192
Accounts receivable — related parties	3,108,130	5,303,820
Reimbursable construction costs	2,774,080	343,514
Inventory	—	4,391
Prepaid expenses	825,779	747,479
Total current assets	<u>7,836,654</u>	<u>7,323,012</u>
Property and equipment, net	339,771	397,125
Deposits	3,450	3,450
Total assets	<u>\$8,179,875</u>	<u>\$7,723,587</u>

**The accompanying notes are an integral  
part of these financial statements.**

**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**  
**BALANCE SHEETS**  
**December 31, 2009 and 2008**

	2009	2008
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Accounts payable	\$1,148,650	\$ 326,265
Accounts payable — related parties	1,760,897	4,725,791
Other payables	28,671	23,749
Accrued expenses	1,499,666	1,278,941
Deferred revenue	513,942	589,750
Capital lease obligations — current portion	136,106	100,749
Refundable deposits	54,000	55,090
Notes payable — related parties	182,088	182,088
Total current liabilities	5,324,020	7,282,423
Capital lease obligations — long term portion	202,087	238,059
Total liabilities	5,526,107	7,520,482
<b>Members' equity</b>		
Controlling interest		
Contributions	900	900
Accumulated earnings prior to non-controlling interest	2,421,418	164,571
Non-controlling interest in subsidiary		
Contributions	100	100
Distributions	(47,634)	(10,000)
Accumulated earnings	278,984	47,534
Total members' equity	2,653,768	203,105
Total liabilities and members' equity	\$8,179,875	\$7,723,587

**The accompanying notes are an integral  
part of these financial statements.**

**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**  
**STATEMENTS OF INCOME**  
**For the Years Ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Revenues</b>		
Rental revenue from residents	\$22,054,700	\$19,739,538
Other fees from residents	494,112	—
Other income	196,173	54,466
Total revenue	<u>22,744,985</u>	<u>19,794,004</u>
<b>Expenses</b>		
Residence operating expenses		
Advertising and marketing	72,299	98,147
Food services	1,097,976	997,737
General and administrative — residences	566,826	392,829
Housekeeping and maintenance	583,336	440,522
Insurance	191,696	231,751
Miscellaneous expenses	70,819	71,672
Payroll and related expenses	7,828,085	7,102,802
Property taxes	861,037	831,141
Other taxes	261,685	129,987
Resident activities and care	141,061	136,878
Utilities	1,152,739	1,195,288
Total residence operating expenses	<u>12,827,559</u>	<u>11,628,754</u>
Building lease payments	5,626,872	5,339,239
Start up cost	14,293	34,127
Management fees — related party	1,586,769	1,381,487
Depreciation and amortization expenses	118,708	114,386
Finance and interest expenses		
Finance charges	33,145	42,196
Interest expense — related party notes	61,386	22,299
Total finance and interest expenses	<u>94,531</u>	<u>64,495</u>
Total expenses	<u>20,268,732</u>	<u>18,562,488</u>
Profit from operations	2,476,253	1,231,516
Other income		
Interest income	12,044	26,490
Profit before non-controlling interest	2,488,297	1,258,006
Less: net gain attributable to non-controlling interest	231,450	152,124
Net profit	<u>\$ 2,256,847</u>	<u>\$ 1,105,882</u>

**The accompanying notes are an integral  
part of these financial statements.**

**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**  
**STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**For the Years Ended December 31, 2009 and 2008**

	Controlling Interest	Non- Controlling Interest	Total Interest
Balance at December 31, 2007	\$ (940,411)	\$(104,490)	\$(1,044,901)
Capital distribution	—	(10,000)	(10,000)
Net profit	1,105,882	152,124	1,258,006
Balance at December 31, 2008	165,471	37,634	203,105
Capital distribution	—	(37,634)	(37,634)
Net profit	2,256,847	231,450	2,488,297
Balance at December 31, 2009	<u>\$2,422,318</u>	<u>\$ 231,450</u>	<u>\$ 2,653,768</u>

**The accompanying notes are an integral  
part of these financial statements.**

**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**  
**STATEMENTS OF CASH FLOW**  
**For the Years Ended December 31, 2009 and 2008**

	2009	2008
Cash flows from operating activities		
Net profit	\$ 2,256,847	\$ 1,105,882
Net profit attributable to non-controlling interest	231,450	152,124
Adjustments to reconcile net profit to net cash (used) provided by operating activities		
Depreciation and amortization	118,708	114,386
Loss on write off of fixed assets	45,625	—
Changes in operating assets and liabilities		
(Increase) decrease in operating assets		
Accounts receivable	(103,094)	(30,691)
Accounts receivable — related parties	2,195,690	(3,756,390)
Other receivable	—	6,932
Reimbursable construction costs	(2,430,566)	426,135
Inventory	4,391	(4,391)
Prepaid expenses	(78,300)	(337,393)
Other assets	—	26,403
Increase (decrease) in operating liabilities		
Accounts payable	822,385	(536,941)
Accounts payable — related parties	(2,964,894)	2,683,420
Other payables	4,922	23,749
Payroll tax payable	—	(23,716)
Accrued expenses	220,725	363,426
Deferred revenue	(75,808)	110,977
Refundable deposits	(1,090)	55,090
Net cash provided by operating activities	246,991	379,002
Cash flows from investing activities		
Purchase of property and equipment	(1,872)	(41,362)
Net cash used by investing activities	(1,872)	(41,362)
Cash flows from financing activities		
Distribution to members	(37,634)	(10,000)
Principal payments on capital leases	(105,722)	(84,364)
Net cash used by financing activities	(143,356)	(94,364)
Net increase in cash	101,763	243,276
Cash, beginning of year	892,616	649,340
Cash, end of year	\$ 994,379	\$ 892,616
Supplemental information:		
Interest paid	\$ 61,386	\$ 22,299
State margin taxes paid	\$ 154,392	\$ 99,741

Noncash activities:

Through the year ending December 31, 2009 and 2008, the Company acquired vehicles through financing agreements totaling \$105,108 and \$56,907, respectively.

**The accompanying notes are an integral  
part of these financial statements.**

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**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009 and 2008**

**1. ORGANIZATION AND ACCOUNTING PRINCIPLES**

*General Information and Operations*

Signature Assisted Living of Texas, LLC, (the “Company”) is majority owned by Signature Assisted Living, LLC (“SAL”). Opus Won, LLC (“Opus”), a Florida limited liability company, has a 10 percent interest in eight of the ten communities owned by the Company. The communities in which Opus holds a minority interest are as follows: Spring Lake Assisted Living and Memory Care Community, Pecan Point Assisted Living and Memory Care Community, Hawkins Creek Assisted Living and Memory Care Community, Azalea Trails Assisted Living and Memory Care Community, Santa Fe Trails Assisted Living and Memory Care Community, Walnut Creek Assisted Living and Memory Care Community, Martin Crest Assisted Living and Memory Care Community, and Magnolia Assisted Living and Memory Care Community.

At December 31, 2009, the Company operates ten assisted living communities in the State of Texas and is in the process of developing and constructing two more assisted living communities in Texas. See Note 3 for additional information regarding the operations of the Company.

*Basis of Accounting*

The financial statements are presented using accounting principles generally accepted in the United States of America.

*Cash and Cash Equivalents*

Cash or cash equivalents include all highly liquid debt instruments purchased with a maturity of three months or less.

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Accounts Receivable

Accounts receivable represent amounts due from tenants and other third parties originating during the normal course of business. Receivables which are 60 days past due are evaluated by management for collectability. Receivables determined to be uncollectible are written off using the direct write-off method. Currently, all amounts are considered fully collectible.

Inventory

Inventory is valued at the lower of cost or market.

Property and Equipment

The Company capitalizes all expenditures for property and equipment that exceed \$1,000 and have a useful life of more than one year. Depreciation is computed over the estimated useful lives of the assets using the straight line method. Useful lives range from 5-30 years.

Deferred Revenue

Deferred revenue represents amounts prepaid as of December 31, 2009 and 2008 by tenants of the Company for rent related to 2010 and 2009, respectively.

Revenue Recognition

Revenue is recognized when earned or as rent becomes due, typically at the first of each month.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

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Fair Value of Financial Instruments

The Company's financial instruments, none of which are held for trading purposes, include cash, accounts receivable, accounts payable and short and long-term debt. Management estimates that the fair value of all financial instruments at December 31, 2009 and 2008 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying financial statements.

Income and Texas State Margin Taxes

Under existing provisions of the Internal Revenue Code, the income or loss of a limited liability company filing its taxes as a partnership is recognized by the individual members for income tax purposes. Accordingly, no provision for income tax has been made in the accompanying financial statements.

The Company is subject to the Texas State Margin Tax, and will file its state margin tax return as part of a consolidated group. The state margin tax is calculated based upon the consolidated groups' taxable margin, reduced by eligible tax credits and then allocated to the consolidated entities based on an entity's percentage of gross revenues to the gross revenues of the consolidated group.

In addition, as of January 1, 2009, the Company has adopted FASB ASC 740, *Accounting for Uncertainty in Income Taxes*. The Company's management has evaluated its tax positions and has not identified any material uncertain tax positions that would not be sustained in a federal or state income tax examination. Accordingly, no provision for uncertain tax positions has been made in the accompanying financial statements.

Subsequent Events

In accordance with FASB ASC 855, *Subsequent Events*, management has reviewed subsequent events through November 11, 2010, the date the report was available to be issued.

Reclassifications

Certain reclassifications have been made to the 2008 financial statement presentation to correspond to the current year's format. Total equity and net income are unchanged due to these reclassifications.

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## 2. CASH — RESTRICTED

The Company has two certificates of deposits which are time restricted. The time restrictions expire on November 18, 2010 and October 25, 2010, respectively.

	<u>2009</u>	<u>2008</u>
Certificate of Deposit — A	\$557,648	\$546,750
Certificate of Deposit — B	48,146	47,000
	<u>\$605,794</u>	<u>\$593,750</u>

## 3. REIMBURSABLE CONSTRUCTION COSTS

The Company is currently developing and constructing several assisted living and memory care communities on behalf of Health Care REIT, LLC and HCRI Texas Properties, LLC (the “Landlords”). Upon completion of construction and after a certificate of occupancy is issued for a community, the Company leases the completed community under an operating lease agreement with the Landlords according to specifications as set forth in the Master Lease Agreement between the Landlords and the Company with revisions as set forth in the November 1, 2005 Amended and Restated Term Sheet for Master Lease (the “Agreement”). According to the Agreement, there is an option period in which the Company can opt to purchase the leased properties from the Landlords. The option purchase price, specified in the Agreement, is not a bargain purchase price as defined by FASB ASC 840, *Leases*, and therefore, the leases are presented as operating leases instead of capital leases.

Ten communities, in various Texas locations, have obtained certificates of occupancy and are operating as of December 31, 2009. The costs incurred in developing and constructing the assisted living communities, according to the Agreement, between the Landlords and the Company, were reimbursed by the Landlords to the Company with an investment amount by the Landlords of \$60,700,000. As of December 31, 2009, two additional communities were under construction at McKinney, Texas and Conroe, Texas. The costs incurred in developing and constructing these assisted living and memory care communities, according to the Agreement, between the Landlords and the Company, are reimbursable by the Landlords to the Company with a maximum investment amount

\$10,200,000 and \$10,000,000, respectively. The investment amount will cover all approved community construction costs including acquisition costs of land and improvements, development costs, renovation costs, costs of personal property not to exceed 10 percent of the allocated investment amount, closing costs, construction costs and fees, subject to review and approval by the Landlords.

The total amount of construction costs that are reimbursable by the Landlords as of December 31, 2009 and 2008 are \$2,774,080 and \$343,514, respectively.

#### 4. PROPERTY AND EQUIPMENT

Detail of property and equipment at December 31, 2009 and 2008 is:

	<u>2009</u>	<u>2008</u>
Furniture and equipment	\$ —	\$ 60,796
Assets under capital leases	669,705	562,725
Total property and equipment	669,705	623,521
Less: accumulated depreciation	(329,934)	(226,396)
Total property and equipment, net	<u>\$ 339,771</u>	<u>\$ 397,125</u>

Depreciation expense totaled \$118,708 and \$114,386 for the years ended December 31, 2009 and 2008, respectively.

#### 5. CAPITAL LEASES

At December 31, 2009 and 2008, net property and equipment on the balance sheets includes \$669,705 for twelve 12-passenger Ford minibuses and \$562,725 for ten 12-passenger Ford minibuses, respectively, that are used to transport residents of the communities. The lease agreement contains a bargain purchase option at the end of the lease term. Future minimum lease payments under capital leases are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$136,106	\$28,376	\$164,482
2011	127,988	13,839	141,827
2012	45,802	4,975	50,777
2013	28,297	1,120	29,417
Total minimum lease payments	<u>\$338,193</u>	<u>\$48,310</u>	<u>\$386,503</u>

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## 6. CONCENTRATION OF CREDIT RISK

The cash balances of the Company are held in financial institutions in the North Texas area. If cash balances exceed the amounts covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC), the excess balances could be at risk of loss. The total cash at risk of loss at December 31, 2009 and 2008 is \$574,914 and \$628,103, respectively.

## 7. COMMITMENT AND CONTINGENCIES

The guarantors for the communities under construction contract include the Company, each subtenant, manager, Signature Senior Living, LLC. (each an "Entity Guarantor") and Steven Vick and Linda Martin and their respective spouses (each a "Personal Guarantor"). All guarantees are joint and several. Guaranty of all Personal Guarantors is to be as follows: i) 100 percent of the greater of the community cost or the maximum investment amount during construction (See Note 2), ii) 15 percent of the allocated investment amount for such facility after a certificate of occupancy is issued, and iii) 2.5 percent of the allocated investment amount upon the compliance of the Company for four consecutive quarters with the portfolio coverage ratio, as defined in the Agreement. There is a potential liability for up to the investment amount for each community should there be an unremedied breach of the Agreement until a certificate of occupancy is obtained. The following chart shows the level of liability to which each property is guaranteed as of December 31, 2009.

Community Name	15%	2.50%
Paris — Spring Lake		•
Sherman — Pecan Point		•
Longview — Hawkins Creek		•
Tyler — Azalea Trails		•
Cleburne — Santa Fe		•
Mansfield — Walnut Creek	•	
Weatherford — Martin Crest	•	
Nacogdoches — Magnolia		•
Palestine — Dogwood	•	
Waxahachie — Buffalo Creek	•	

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## 8. OPERATING LEASES

The Company pays rent to the Health Care REIT, Inc. for each of its operating communities. Under the Agreement, the initial term of the lease is 15 years with two 5 year renewal options. The base rent will be calculated using the 15-year USTN plus 4 percent with a floor of 9 percent subject to changes in the CPI and based on the number of communities added during the lease term. Rent expense under the Agreement for the year ended December 31, 2009 and 2008 totals \$5,626,872 and \$5,339,239, respectively.

## 9. RELATED PARTY TRANSACTIONS

The Company is part of affiliated group of companies which exist to administrate and manage the operations of assisted living facilities. Related party transactions with these affiliated companies are as follow:

- Receivables from related parties total \$3,108,130 and \$5,303,820 at December 31, 2009 and 2008, respectively.
- Accounts payable to related parties total \$1,760,897 and \$4,725,791 at December 31, 2009 and 2008, respectively.
- Notes payable to related parties total \$182,088 at December 31, 2009 and 2008.
- Management fees paid to a related party total \$1,586,769 and \$1,381,487 for the years ended December 31, 2009 and 2008, respectively.
- Interest expense paid to related parties totals \$61,386 and \$22,299 for the years ended December 31, 2009 and 2008, respectively.

## 10. SUBSEQUENT EVENTS

At September 10, 2010, the Company sold its leasing rights to 12 communities as described in Note 3 owned by Health Care REIT, LLC to Capital Senior Living Acquisition, LLC.

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**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**

**FINANCIAL STATEMENTS**

**For the Six Months Ended June 30, 2010 and 2009**

**with**

**Accountants' Compilation Report**

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**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**

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## ACCOUNTANTS' REPORT


To the Members  
of Signature Assisted Living of Texas, LLC

We have compiled the accompanying balance sheet of Signature Assisted Living of Texas, LLC (the "Company") as of June 30, 2010, and the related statements of income, members' equity, and cash flows for the six months then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements for the six month period ended June 30, 2010 and, accordingly, do not express an opinion or any other form of assurance on them.

The accompanying financial statements for the six month period ended June 30, 2009 of the Company, were previously reviewed by us and our report dated November 12, 2010, stated that we were not aware of any material modifications that should be made to those statements in order for them to be in conformity with generally accepted accounting principles. We have not performed any procedures in connection with that review engagement after the date of our report on the financial statements for the six month period ended June 30, 2010.

Dallas, Texas  
November 12, 2010



12221 Merit Drive • Suite 1800 • Dallas, Texas 75251  
972.404-1010 • Facsimile 972.404.1122 • E-mail: [hmpc@hmpc.com](mailto:hmpc@hmpc.com) • [www.hmpc.com](http://www.hmpc.com)

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**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**

**BALANCE SHEETS**  
**June 30, 2010 and 2009**

**ASSETS**

	(Compiled) June 30, 2010	(Reviewed) June 30, 2009
Cash and cash equivalents	\$ 775,774	\$ 386,833
Cash — restricted	680,794	599,772
Accounts receivable	134,245	38,338
Accounts receivable — related parties	5,866,863	2,762,052
Reimbursable construction costs	—	829,876
Inventory	—	4,391
Prepaid expenses	<u>600,737</u>	<u>424,788</u>
Total current assets	<u>8,058,413</u>	<u>5,046,050</u>
Property and equipment, net	272,802	337,769
Deposits	<u>19,450</u>	<u>3,450</u>
Total assets	<u>\$8,350,665</u>	<u>\$5,387,269</u>

**See accompanying notes and accountants' compilation report.**

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**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**

**BALANCE SHEETS**  
**June 30, 2010 and 2009**

**LIABILITIES AND MEMBERS' EQUITY**

	(Compiled) June 30, 2010	(Reviewed) June 30, 2009
Accounts payable	\$ 303,384	\$ 208,642
Accounts payable — related parties	1,362,380	1,924,763
Other payables	29,654	21,944
Accrued expenses	1,317,682	856,437
Deferred revenue	944,655	414,976
Capital lease obligations — current portion	142,160	106,256
Refundable deposits	36,893	61,090
Notes payable — related parties	<u>182,088</u>	<u>182,088</u>
Total current liabilities	<u>4,318,896</u>	<u>3,776,196</u>
Capital lease obligations — long term portion	131,737	178,540
Notes payable	<u>1,479,842</u>	<u>—</u>
Total liabilities	<u>5,930,475</u>	<u>3,954,736</u>
Members' equity		
Controlling interest Contributions	900	900
Accumulated earnings prior to non-controlling interest	2,298,735	1,306,493
Non-controlling interest in subsidiary		
Contributions	100	100
Distributions	(279,084)	(47,634)
Accumulated earnings	<u>399,539</u>	<u>172,674</u>
Total members' equity	<u>2,420,190</u>	<u>1,432,533</u>
Total liabilities and members' equity	<u>\$8,350,665</u>	<u>\$5,387,269</u>

**See accompanying notes and accountants' compilation report.**

**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**  
**STATEMENTS OF INCOME**  
**For the Six Months Ended June 30, 2010 and 2009**

	(Compiled) June 30, 2010	(Reviewed) June 30, 2009
<b>Revenues</b>		
Rental revenue from residents	\$12,708,393	\$10,868,191
Other fees from residents	436,496	248,480
Other income	97,165	68,776
<b>Total revenue</b>	<u>13,242,054</u>	<u>11,185,447</u>
<b>Expenses</b>		
Residence operating expenses		
Advertising and marketing	59,921	32,230
Food services	621,108	537,206
General and administrative — residences	271,476	263,922
Housekeeping and maintenance	444,972	295,694
Insurance	119,194	95,308
Miscellaneous expenses	1,150	4,924
Payroll and related expenses	4,782,721	3,814,763
Property taxes	559,397	431,116
Other taxes	103,500	81,185
Resident activities and care	75,880	71,396
Utilities	674,824	557,179
<b>Total residence operating expenses</b>	<u>7,714,143</u>	<u>6,184,923</u>
Building lease payments	3,338,742	2,809,622
Start up cost	1,125,992	56,503
Management fees — related party	922,860	780,642
Depreciation and amortization expenses	66,970	59,353
Finance and interest expenses		
Finance charges	29,892	17,038
Interest expense — related party notes	58,619	16,326
Notes payable interest	8,376	—
<b>Total finance and interest expenses</b>	<u>96,887</u>	<u>33,364</u>
<b>Total expenses</b>	<u>13,265,594</u>	<u>9,924,407</u>
(Loss) profit from operations	(23,540)	1,261,040
<b>Other income</b>		
Interest income	—	6,022
Miscellaneous income	21,412	—
(Loss) profit before non-controlling interest	(2,128)	1,267,062
Less: net profit attributable to non-controlling interest	120,555	125,140
<b>Net (loss) income</b>	<u>\$ (122,683)</u>	<u>\$ 1,141,922</u>

**See accompanying notes and accountants' compilation report.**

**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**  
**STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**For the Six Months Ended June 30, 2010 and 2009**

	Controlling Interest	Non- Controlling Interest	Total Interest
Balance at December 31, 2008	\$ 165,471	\$ 37,634	\$ 203,105
Capital distribution	—	(37,634)	(37,634)
Net profit	1,141,922	125,140	1,267,062
Balance at June 30, 2009 (Reviewed)	<u>\$1,307,393</u>	<u>\$ 125,140</u>	<u>\$1,432,533</u>
Balance at December 31, 2009	\$2,422,318	\$ 231,450	\$2,653,768
Capital distribution	—	(231,450)	(231,450)
Net (loss) profit	(122,683)	120,555	(2,128)
Balance at June 30, 2010 (Compiled)	<u>\$2,299,635</u>	<u>\$ 120,555</u>	<u>\$2,420,190</u>

**See accompanying notes and accountants' compilation report.**

**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**  
**STATEMENTS OF CASH FLOW**  
**For the Six Months Ended June 30, 2010 and 2009**

	(Compiled) June 30, 2010	(Reviewed) June 30, 2009
Cash flows from operation activities		
Net (loss) profit	\$ (122,683)	\$ 1,141,922
Net profit attributable to non-controlling interest	120,555	125,140
Adjustments to reconcile net (loss) profit to net cash (used) provided by operating activities		
Depreciation and amortization	66,970	59,353
Changes in operating assets and liabilities (Increase) decrease in operating assets		
Accounts receivable	41	(7,146)
Accounts receivable — related parties	(2,758,733)	2,541,768
Reimbursable construction costs	2,774,080	(486,362)
Prepaid expenses	225,042	322,691
Deposits	(16,000)	—
Increase (decrease) in operating liabilities		
Accounts payable	(845,266)	(117,623)
Accounts payable — related parties	(398,517)	(2,801,028)
Other payables	983	(1,805)
Accrued expenses	(181,985)	(422,501)
Deferred revenue	430,713	(174,774)
Refundable deposits	(17,107)	6,000
Net cash (used) provided by operating activities	<u>(721,907)</u>	<u>185,635</u>
Cash flows from financing activities		
Distribution to members	(231,450)	(37,634)
Proceeds from borrowings	1,479,842	—
Principal payments on capital leases	(64,296)	(54,012)
Net cash provided (used) by financing activities	<u>1,184,096</u>	<u>(91,646)</u>
Net increase in cash	462,189	93,989
Cash at December 31, 2009 and 2008, respectively	994,379	892,616
Cash, end of year	<u>\$ 1,456,568</u>	<u>\$ 986,605</u>
Supplemental information:		
Interest paid	<u>\$ 54,874</u>	<u>\$ 16,326</u>
State margin taxes paid	<u>\$ 129,540</u>	<u>\$ 75,748</u>

**See accompanying notes and accountants' compilation report.**

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**SIGNATURE ASSISTED LIVING OF TEXAS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**1. ORGANIZATION AND ACCOUNTING PRINCIPLES**

*General information and operations*

Signature Assisted Living of Texas, LLC, (the “Company”) is majority owned by Signature Assisted Living, LLC (“SAL”). Opus Won, LLC (“Opus”), a Florida limited liability company, has a 10 percent interest in eight of the twelve communities owned by the Company. The communities in which Opus holds a minority interest are as follows: Spring Lake Assisted Living and Memory Care Community, Pecan Point Assisted Living and Memory Care Community, Hawkins Creek Assisted Living and Memory Care Community, Azalea Trails Assisted Living and Memory Care Community, Santa Fe Trails Assisted Living and Memory Care Community, Walnut Creek Assisted Living and Memory Care Community, Martin Crest Assisted Living and Memory Care Community, and Magnolia Assisted Living and Memory Care Community.

*Basis of accounting*

The financial statements are presented using accounting principles generally accepted in the United States of America.

*Cash and cash equivalents*

Cash or cash equivalents include all highly liquid debt instruments purchased with a maturity of three months or less.

*Accounts receivable*

Accounts receivable represents amounts due from tenants and other third parties originating during the normal course of business. Receivables which are 60 days past due are evaluated by management for collectability. Receivables determined to be uncollectible are written off using the direct write-off method. Currently, all amounts are considered fully collectible.

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Inventory

Inventory is valued at the lower of cost or market.

Property and equipment

The Company capitalizes all expenditures for property and equipment that exceed \$1,000 and have a useful life of more than one year. Depreciation is computed over the estimated useful lives of the assets using the straight line method. Useful lives range from 5-30 years.

Deferred revenue

Deferred revenue represents amounts prepaid as of June 30, 2010 and 2009 by tenants of the Company.

Revenue

Revenue is recognized when earned or as rent becomes due, typically at the first of each month.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Fair value of financial instruments

The Company's financial instruments, none of which are held for trading purposes, include cash, accounts receivable, accounts payable and short and long-term debt. Management estimates that the fair value of all financial instruments at June 30, 2010 and 2009 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying financial statements.

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Income and Texas State Margin Taxes

Under existing provisions of the Internal Revenue Code, the income or loss of a limited liability company filing its taxes as a partnership is recognized by the individual members for income tax purposes. Accordingly, no provision for income tax has been made in the accompanying financial statements.

The Company is subject to the Texas State Margin Tax, and will file its state margin tax return as part of a consolidated group. The state margin tax is calculated based upon the consolidated groups' taxable margin, reduced by eligible tax credits and then allocated to the consolidated entities based on an entity's percentage of gross revenues to the gross revenues of the consolidated group.

In addition, as of January 1, 2009, the Company has adopted FASB ASC 740, *Accounting for Uncertainty in Income Taxes*. The Company's management has evaluated its tax positions and has not identified any material uncertain tax positions that would not be sustained in a federal or state income tax examination. Accordingly, no provision for uncertain tax positions has been made in the accompanying financial statements.

Subsequent events

In accordance with FASB ASC 855, *Subsequent Events*, management has reviewed subsequent events through November 12, 2010, the date the report was available to be issued.

2. CASH — RESTRICTED

The Company has three certificates of deposits which are time restricted. The time restrictions expire on October 20, 2010, October 25, 2010 and January 7, 2011, respectively.

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Certificate of Deposit — A	\$ 557,557	\$ 599,772
Certificate of Deposit — B	48,237	—
Certificate of Deposit — C	75,000	—
	<u>\$ 680,794</u>	<u>\$ 599,772</u>

### 3. REIMBURSABLE CONSTRUCTION COSTS

The Company developed and constructed several assisted living and memory care communities on behalf of Health Care REIT, LLC and HCRI Texas Properties, LLC (the "Landlords"). Upon completion of construction and after a certificate of occupancy is issued for a community, the Company leases the completed community under an operating lease agreement with the Landlords according to specifications as set forth in the Master Lease Agreement between the Landlords and the Company with revisions as set forth in the November 1, 2005 Amended and Restated Term Sheet for Master Lease (the "Agreement"). According to the Agreement, there is an option period in which the Company can opt to purchase the leased properties from the Landlords. The option purchase price, specified in the Agreement, is not a bargain purchase price as defined by FASB ASC 840, *Leases*, and therefore, the leases are presented as operating leases instead of capital leases.

Twelve communities, in various Texas locations, have obtained certificates of occupancy and are operating as of June 30, 2010. The costs incurred in developing and constructing the assisted living communities, according to the Agreement, between the Landlords and the Company, were reimbursed by the Landlords to the Company. The investment amount covers all approved community construction costs including acquisition costs of land and improvements, development costs, renovation costs, costs of personal property not to exceed 10 percent of the allocated investment amount, closing costs, construction costs and fees, subject to review and approval by the Landlords.

The total amount of construction costs that are reimbursable by the Landlords as of June 30, 2010 and 2009 are \$0 and \$829,876 respectively.

### 4. PROPERTY AND EQUIPMENT

Detail of property and equipment at June 30, 2010 and 2009 is:

	June 30, 2010	June 30, 2009
Furniture and equipment	\$ —	\$ 60,796
Assets under capital leases	669,705	562,725
Total property and equipment	669,705	623,521
Less: accumulated depreciation	(396,903)	(285,752)
Total property and equipment, net	<u>\$ 272,802</u>	<u>\$ 337,769</u>

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Depreciation expense totaled \$66,970 and \$59,353 for the six months ended June 30, 2010 and 2009, respectively.

5. CAPITAL LEASES

At June 30, 2010 and 2009, net property and equipment on the balance sheets includes \$669,705 for twelve 12-passenger Ford minibuses and \$562,725 for ten 12-passenger Ford minibuses, respectively, that are used to transport residents of the communities. The lease agreement contains a bargain purchase option at the end of the lease term. Future minimum lease payments under capital leases are as follows:

Year ending June 30,	Principal	Interest	Total
2011	\$142,160	\$21,144	\$163,304
2012	79,992	8,160	88,152
2013	38,920	2,856	41,776
2014	12,825	418	13,243
Total minimum lease payments	<u>\$273,897</u>	<u>\$32,578</u>	<u>\$306,475</u>

6. NOTE PAYABLE

The Company has two notes payable to Health Care REIT, LLC combined totaling \$1,479,842 bearing interest at a variable rate equal to the greater of the "Rate Index" as defined in the note agreement plus 4.5 percent or 10 percent as applicable from time to time. The notes are paid off as of September 10, 2010.

7. CONCENTRATION OF CREDIT RISK

The cash balances of the Company are held in financial institutions in the North Texas area. If cash balances exceed the amounts covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC), the excess balances could be at risk of loss. The total cash at risk of loss at June 30, 2010 and 2009 approximates \$1,130,210 and \$678,499, respectively.

8. COMMITMENT AND CONTINGENCIES

The guarantors for the communities under construction contract include the Company, each subtenant, manager, Signature Senior Living, LLC. (each an "Entity Guarantor") and Steven Vick and Linda Martin and their respective spouses (each a "Personal Guarantor"). All

guarantees are joint and several. Guaranty of all Personal Guarantors is to be as follows: i.) 100 percent of the greater of the community cost or the maximum investment amount during construction (See Note 2), ii.) 15 percent of the allocated investment amount for such facility after a certificate of occupancy is issued, and iii.) 2.5 percent of the allocated investment amount upon the compliance of the Company for four consecutive quarters with the portfolio coverage ratio, as defined in the Agreement. There is a potential liability for up to the investment amount for each community should there be an unremedied breach of the Agreement until a certificate of occupancy is obtained. The following chart shows the level of liability to which each property is guaranteed as of June 30, 2010.

Community Name	15%	2.50%
Paris — Spring Lake		•
Sherman — Pecan Point		•
Longview — Hawkins Creek		•
Tyler — Azalea Trails		•
Cleburne — Santa Fe		•
Mansfield — Walnut Creek		•
Weatherford — Martin Crest	•	
Nacogdoches — Magnolia		•
Palestine — Dogwood	•	
Waxahachie — Buffalo Creek		•
McKinney — Stonefield	•	
Conroe — Heritage		•

#### 9. OPERATING LEASES

The Company pays rent to the Health Care REIT, Inc. for each of its operating communities. Under the Agreement, the initial term of the lease is 15 years with two 5 year renewal options. The base rent is calculated using the 15-year USTN plus 4 percent with a floor of 9 percent subject to changes in the CPI and based on the number of communities added during the lease term. Rent expense under the Agreement for the 6 months ended June 30, 2009 and 2008 totals \$3,338,742 and \$2,844,742, respectively.

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#### 10. RELATED PARTY TRANSACTIONS

The Company is part of affiliated group of companies which exist to administrate and manage the operations of assisted living facilities. Related party transactions with these affiliated companies are as follows:

- Receivables from related parties total \$5,866,863 and \$2,762,052 at June 30, 2010 and 2009, respectively.
- Accounts payable to related parties total \$1,362,380 and \$1,924,763 at June 30, 2010 and 2009, respectively.
- Notes payable to related parties total \$182,088 at June 30, 2010 and 2009.
- Management fees paid to a related party total \$922,860 and \$780,642 for the six months ended June 30, 2010 and 2009, respectively.
- Interest expense paid to related parties totals \$58,619 and \$16,326 for the six months ended June 30, 2010 and 2009, respectively.

#### 11. SUBSEQUENT EVENTS

At September 10, 2010, the Company sold its leasing rights to 12 communities as described in note 3 owned by Health Care REIT, LLC to Capital Senior Living Acquisition, LLC.

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**UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION**

On September 10, 2010, subsidiaries of Capital Senior Living Corporation (the “Company” or “Capital”) acquired certain rights in the leasehold interests of 12 senior housing communities and certain related personal property from Signature Assisted Living of Texas, LLC (“Signature”) for net consideration of approximately \$2.0 million, and simultaneously executed a new Master Lease Agreement with affiliates of Health Care REIT, Inc. (“HCN”) valued at \$78.8 million, and executed a \$25.8 million non-recourse note with HCN secured solely by the acquired leasehold interests. All funds for the transaction were provided by HCN and paid to Signature to terminate their previous leasehold interests and are non-recourse to the Company. The intent of the combination of the HCN note and lease was to achieve the same economic impact to the Company as a \$104.6 million lease at current market rates. Therefore, the lease and note combined have been treated as one lease, which meets the requirements to be classified as an operating lease within the consolidated financial statements. The Master Lease Agreement has a term of 15 years with one 15-year renewal option beyond the initial lease term. The Master Lease Agreement is a “triple net” lease pursuant to which the Company pays all expenses of the properties except principal and interest on any mortgage debt of the properties. The Master Lease Agreement contains customary representations and warranties as well as affirmative and negative covenants and the lease payments are guaranteed by subsidiaries of the Company.

The unaudited pro forma combined statements of income for the six months ended June 30, 2010, and the year ended December 31, 2009, give effect to the transaction as if it had occurred on January 1, 2009. An unaudited pro forma combined balance sheet is not required since the acquisition has already been reflected in the Company’s historical balance sheet filed on Form 10-Q for the third quarter ended September 30, 2010, with the Securities and Exchange Commission on November 5, 2010.

The unaudited pro forma financial data was prepared from the Company’s audited historical consolidated financial statements included in its annual report filed on Form 10-K for the year ended December 31, 2009, the Company’s unaudited historical consolidated financial statements included in its Form 10-Q for the period ended June 30, 2010, Signature’s audited historical financial statements as of and for the year ended December 31, 2009, included in this Current Report on Form 8-K/A and Signature’s unaudited historical financial statements as of June 30, 2010, and should be read in conjunction with those financial statements.

The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and is not indicative of either future results of operations or results that might have been achieved if the transaction had been consummated as of the dates indicated.

The unaudited pro forma consolidated financial information is based upon currently available information and assumptions and estimates which we believe are reasonable. These assumptions and estimates, however, are subject to change. In our opinion, all adjustments have been made that are necessary to fairly present the pro forma information.

**UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME**  
**For the Six Months Ended June 30, 2010**  
(unaudited, in thousands, except per share data)

	Capital June 30, 2010	Signature June 30, 2010	Pro Forma Adjustments		Pro Forma June 30, 2010
<b>Revenues:</b>					
Resident and health care revenue	\$ 89,802	\$ 13,242	\$ 27	A	\$ 103,071
Unaffiliated management services revenue	36	—	—		36
Affiliated management services revenue	1,207	—	—		1,207
Community reimbursement revenue	7,376	—	—		7,376
Total revenues	98,421	13,242	27		111,690
<b>Expenses:</b>					
Operating expenses (exclusive of facility lease expense and depreciation and amortization expense shown below)	54,695	8,839	(104)	B	63,430
General and administrative expenses	5,755	—	—		5,755
Facility lease expense	14,307	3,339	1,185	C	18,831
Stock-based compensation expense	557	—	—		557
Depreciation and amortization	6,951	67	—		7,018
Management fees — related parties	—	923	(923)	D	—
Community reimbursement expense	7,376	—	—		7,376
Total expenses	89,641	13,168	158		102,967
Income(loss) from operations	8,780	74	(131)		8,723
<b>Other income (expense):</b>					
Interest income	19	—	—		19
Interest expense	(5,625)	(97)	67	E	(5,655)
Gain on settlement of debt	684	—	—		684
Other income	17	21	—		38
Income(loss) before non-controlling interest and provision for income taxes	3,875	(2)	(64)		3,809
Net profit attributable to non-controlling interest	—	(121)	121	F	—
Provision for income taxes	(1,692)	—	(46)	G	(1,738)
Net income(loss)	\$ 2,183	\$ (123)	\$ 11		\$ 2,071
<b>Per share data:</b>					
Basic net income per share	\$ 0.08				\$ 0.08
Diluted net income per share	\$ 0.08				\$ 0.08
Weighted average shares outstanding — basic	26,558				26,558
Weighted average shares outstanding — diluted	26,654				26,654

See Notes to Unaudited Pro Forma Combined Financial Statements

**UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME**  
**For the Year Ended December 31, 2009**  
(unaudited, in thousands, except per share data)

	Capital December 31, 2009	Signature December 31, 2009	Pro Forma Adjustments		Pro Forma December 31, 2009
<b>Revenues:</b>					
Resident and health care revenue	\$ 171,194	\$ 22,745	\$ (102)	A	\$ 193,837
Unaffiliated management services revenue	72	—	—		72
Affiliated management services revenue	2,698	—	—		2,698
Community reimbursement revenue	18,027	—	—		18,027
Total revenues	191,991	22,745	(102)		214,634
<b>Expenses:</b>					
Operating expenses (exclusive of facility lease expense and depreciation and amortization expense shown below)	104,790	12,842	(93)	H	117,539
General and administrative expenses	11,883	—	134	I	12,017
Facility lease expense	25,872	5,627	3,113	J	34,612
Provision for bad debts	344	—	—		344
Stock-based compensation expense	1,201	—	—		1,201
Depreciation and amortization	13,262	119	—		13,381
Management fees — related parties	—	1,587	(1,587)	D	—
Community reimbursement expense	18,027	—	—		18,027
Total expenses	175,379	20,175	1,567		197,121
Income(loss) from operations	16,612	2,570	(1,669)		17,513
<b>Other income (expense):</b>					
Interest income	67	12	—		79
Interest expense	(11,819)	(94)	61	E	(11,852)
Other income	107	—	—		107
Income(loss) before non-controlling interest and provision for income taxes	4,967	2,488	(1,608)		5,847
Net profit attributable to non-controlling interest	—	(231)	231	F	—
Provision for income taxes	(2,208)	—	(406)	K	(2,614)
Net income(loss)	\$ 2,759	\$ 2,257	\$ (1,783)		\$ 3,233
<b>Per share data:</b>					
Basic net income per share	\$ 0.10				\$ 0.12
Diluted net income per share	\$ 0.10				\$ 0.12
Weighted average shares outstanding — basic	26,257				26,257
Weighted average shares outstanding — diluted	26,356				26,356

See Notes to Unaudited Pro Forma Combined Financial Statements

## NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

### 1. Basis of Pro Forma Presentation

Capital Senior Living Acquisition, LLC, a wholly owned subsidiary of Capital Senior Living Corporation (the "Company"), entered into an Asset Purchase Agreement, dated as of June 25, 2010 (the "Asset Purchase Agreement"), with Signature Assisted Living of Texas, LLC ("Signature") to acquire the leasehold interests in 12 senior housing communities and certain related personal property from Signature (the "Signature Transaction"). On September 10, 2010, the Company completed the Signature Transaction pursuant to the terms of the Asset Purchase Agreement for \$25.8 million. Simultaneously with closing the Signature Transaction, the Company executed a Master Lease Agreement with affiliates of HCN for the 12 communities (the "Master Lease Agreement") valued at \$78.8 million. The Master Lease Agreement has a term of 15 years with one 15-year renewal option beyond the initial lease term. The initial lease rate is 8.5% and is subject to certain conditional escalation clauses. The Company has accounted for this lease as an operating lease. The Asset Purchase Agreement was funded by HCN with the intent to result in the same economic impact to the Company as a \$104.6 million lease at current market rates. The \$25.8 million funding provided by HCN for the transaction is non-recourse to the Company with identical terms as the Master Lease and includes a lease incentive to act as an agent in acquiring and terminating the leasehold interests of Signature. Therefore, a principal obligation has not been recorded by the Company within its consolidated financial statements. As a result of this transaction, the Company recorded within its consolidated Balance Sheet the assets acquired and retained, which will be amortized over their respective useful lives and a corresponding lease incentive within "Other Long-Term Liabilities", the future benefit of which will be amortized over the initial lease term as a reduction in "Facility Lease Expense". The current estimate of the lease intangibles acquired and retained and the corresponding lease incentive is \$2.0 million and is subject to final valuation adjustments. Additionally, the Company incurred \$0.6 million in lease transaction costs of which \$0.4 million have been deferred and are being amortized within the Company's Statement of Income over the initial 15-year lease term. The Master Lease Agreement is a "triple net" lease pursuant to which the Company pays all expenses of the properties except principal and interest on any mortgage debt of the properties. The Master Lease Agreement contains customary representations and warranties as well as affirmative and negative covenants and the lease payments are guaranteed by subsidiaries of the Company.

The Unaudited Pro Forma Combined Financial Statements and explanatory notes give effect to the combination of the Company and Signature. The acquisition of the Signature leasehold interests by the Company will be accounted for as a purchase business combination as defined in Accounting Standards Codification, ASC 805, *Business Combinations*.

The unaudited pro forma combined statements of income for the six months ended June 30, 2010, and the year ended December 31, 2009, give effect to the transaction as if it had occurred on January 1, 2009. An unaudited pro forma combined balance sheet is not required since the acquisition has already been reflected in the Company's historical balance sheet filed on Form 10-Q for the third quarter ended September 30, 2010, with the Securities and Exchange Commission on November 5, 2010.

The unaudited pro forma condensed combined financial statements are based on the historical financial statements of the Company and Signature after giving effect to the acquisition, as well as the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed combined financial statements are not intended to represent or be indicative of the consolidated results of operations or financial position of the Company and Signature that would have been reported had the acquisition been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial position of the Company and Signature.

This information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements, the historical consolidated financial statements and accompanying notes of the Company's annual report filed on Form 10-K for the year ended December 31, 2009, the quarterly report on Form 10-Q for the quarter ended June 30, 2010, and the financial statements of Signature included as Exhibit 99.1 in this Current Report on Form 8-K/A.

## **2. Preliminary Purchase Price Allocation**

The purchase price is allocated to the Signature intangible assets acquired based on the estimated fair value as of the acquisition date. The purchase price has been fully allocated on a preliminary basis as an intangible asset to in-place leases. The preliminary purchase price and related allocation is dependent upon the finalization of the closing balance sheet of Signature and the finalization of the independent valuation of the acquired intangible assets and certain other assets. Any adjustments to the closing balance sheet or fair value of the net assets acquired of Signature will change the amount of the purchase price allocable to the intangible assets acquired. Final purchase accounting adjustments may therefore differ from the pro forma adjustments presented here.

## **3. Pro Forma Adjustments**

The following pro forma adjustments are included in the unaudited pro forma combined financial statements:

(A) To defer Signature's community fees and recognize in accordance with the Company's policy.

(B) To reclassify amounts expensed by Signature for the Texas Margin Tax to Provision for income taxes. Included within Signature's operating expenses are transaction costs totaling \$1.1 million associated with opening new communities. Transaction costs are non-recurring expenses.

(C) To adjust for the incremental change in the lease rate of \$1.2 million for operation of 12 communities and deferred lease cost amortization of \$13,600 offset by lease incentive amortization of (\$67,000).

(D) To eliminate related party management fees which would be removed by the Company in consolidation. Overhead costs associated with operating the Signature communities are included as a component of Signature's operating expenses.

(E) To eliminate interest expense associated with related party notes payable. The Signature related party notes were not assumed by the Company in the acquisition.

(F) To eliminate the Signature non-controlling interest. The Signature non-controlling interest was not assumed by the Company in the acquisition.

(G) To record income tax benefit of (\$58,000) offset by reclassification of Texas Margin Tax from operating expenses of \$103,500. Federal taxes are being provided for at the effective rate of the Company at June 30, 2010.

(H) To include transaction costs incurred by the Company of \$69,000 and reclassify amounts expensed by Signature for the Texas Margin Tax to Provision for income taxes of (\$162,000). Included within Signature's operating expenses are transaction costs totaling \$57,000 associated with opening new communities. Transaction costs are non-recurring expenses.

(I) To include transaction costs incurred by the Company of \$134,000. Transaction costs are non-recurring expenses associated with the acquisition.

(J) To reflect the incremental amortization expense related to identifiable intangible assets acquired of \$2 million, adjust for the incremental change in lease rate of \$1.2 million for operation of 10 communities and deferred lease cost amortization of \$27,000 offset by lease incentive amortization of (\$133,000).

(K) To record a provision for income taxes of \$244,000 and reclassification of Texas Margin Tax from operating expenses of \$162,000. Federal taxes are being provided for at the effective rate of the Company at December 31, 2009.