

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 8-K

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

Date of report (Date of earliest event reported) **February 11, 2008**

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**Capital Senior Living Corporation**

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(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**

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(State or Other Jurisdiction of Incorporation)

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**1-13445**

(Commission File Number)

**75-2678809**

(IRS Employer Identification No.)

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

**75254**

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(Address of Principal Executive Offices)

(Zip Code)

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**(972) 770-5600**

(Registrant's Telephone Number, Including Area Code)

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**N/A**

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(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))

**Item 1.02 Termination of a Material Definitive Agreement.**

On February 11, 2008, Capital Senior Living Corporation (the “Company”) issued a press release announcing that the Company, through one of its subsidiaries, has terminated the asset purchase agreement (the “Agreement”) with Hearthstone Senior Services, L.P. and certain of its subsidiaries (collectively, “Hearthstone”). Based on the results of the Company’s due diligence and lease negotiations, the Agreement was terminated by the Company pursuant to the terms of the Agreement allowing for such termination during the Inspection Period (as defined in the Agreement). Pursuant to the Agreement, reached on December 21, 2007, the Company would have acquired Hearthstone’s interests in 32 leases with a healthcare REIT and related personal property for a purchase price of \$35 million plus payment of customary closing costs.

A copy of the press release is attached hereto as Exhibit 99.1 and, with respect to the termination of the Agreement, is incorporated herein by reference

**Item 7.01 Regulation FD Disclosure.**

The Company’s press release issued on February 11, 2008 also announced its 2008 Business Plan which is included in the Company’s updated slideshow presentation. A copy of the press release is furnished as Exhibit 99.1 to this current report on Form 8-K.

This information shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing. The exhibit contains and may implicate, forward-looking statements regarding the Company and includes cautionary statements identifying important factors that could cause actual results to differ materially from those anticipated.

Attached hereto as Exhibit 99.2 is an updated slideshow presentation of the Company.

By filing this Current Report on Form 8-K, the Company does not acknowledge that disclosure of this information is required by Regulation FD or that the information was material or non-public before the disclosure. The Company assumes no obligation to update or supplement forward-looking statements in this slideshow that become untrue because of new information, subsequent events or otherwise.

**Item 9.01 Financial Statements and Exhibits.**

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Exhibits.

The following exhibit to this current report on Form 8-K is not being filed but is being furnished pursuant to Item 7.01:

- 99.1 Press Release dated February 11, 2008
- 99.2 Capital Senior Living Corporation updated slideshow presentation

## 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: February 11, 2008

Capital Senior Living Corporation

By: /s/ Gloria M. Holland

Name: Gloria M. Holland

Title: Vice President - Finance

## **EXHIBIT INDEX**

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- 99.1 Press Release dated February 11, 2008
- 99.2 Capital Senior Living Corporation updated slideshow presentation



Capital

**Senior  
Living  
Corporation**

For Immediate Release

Contact: Ralph A. Beattie

972/770-5600

**CAPITAL SENIOR LIVING CORPORATION  
TERMINATES HEARTHSTONE TRANSACTION****2008 BUSINESS PLAN TO FOCUS ON INCREASING LEVELS OF CARE,  
ORGANIC GROWTH AND ACCRETIVE ACQUISITIONS**

DALLAS – (BUSINESS WIRE) – February 11, 2008 – Capital Senior Living Corporation (NYSE:CSU), one of the country’s largest operators of senior living communities, today announced that it has terminated its previously announced agreement with Hearthstone Senior Services, L.P. (“Hearthstone”) to acquire Hearthstone’s interests in 32 leases with a healthcare REIT. Based on the results of subsequent due diligence and lease negotiations, the transaction would not create demonstrable value for the Company’s shareholders.

“Our due diligence was thorough and our financial analysis extensive,” said James A. Stroud, Chairman of the Company. “While we appreciate Hearthstone’s cooperation, information gathered during our rigorous process, coupled with lease negotiations, led management to recommend to the Board of Directors against proceeding under the previously agreed terms. We remain committed to increasing shareholder value by executing our long-term growth strategy and, as part of this effort, we will carefully continue to evaluate compelling opportunities to add additional scale and broaden our existing footprint.”

In conjunction with this announcement, the Company is releasing its 2008 Business Plan which is included in the attached corporate presentation. The plan focuses on the following areas:

- Increase levels of care and capacity through expansions, conversions and new developments
- Acquire home care agency in clustered markets to provide home health and ancillary services
- Organic growth from rate increases, cost savings and occupancy growth
- Accretive acquisitions in highly fragmented industry to enhance geographic clustering

The Company intends to convert 256 independent living units in eight communities to units of assisted living and dementia care. Of these conversions, 80 units were converted in 2007 and the remaining units are expected to be licensed as assisted living during the next two quarters. Upon stabilization, these converted units are projected to increase the Company's revenues by \$4.3 million with a 60% incremental margin. The total cost to complete these conversions is estimated to be approximately \$2 million. In addition, the Company is planning to expand three communities adding a total of 180 assisted living units, 60 dementia care units and 30 independent living units. The expansions should begin in the second half of this year, and, upon stabilization, are projected to increase the Company's revenues by \$9.1 million with a 60% incremental margin. The total cost of the expansions is estimated to be \$27 million, which is expected to be funded by supplemental mortgage financing and cash on hand.

"Our 2008 business plan is focused on increasing the levels of care to meet the needs of our residents with an average age of 85 while improving performance and maximizing shareholder value. The successful execution of this plan is expected to result in higher occupancies, increased revenues and operating margins, and improved cash flow," said Lawrence A. Cohen, Chief Executive Officer of the Company. "Expansions and conversions typically produce incremental margins in the 60 percent range and are projected to generate a 28% return on investment. Additionally, we will continue to pursue the acquisition of a home care agency in Texas where 19 of our 64 communities are located."

## **RECENT TRANSACTIONS**

The Company and Prudential Real Estate Investors (PREI®), acting on behalf of institutional investors in its Senior Housing Partners III fund, have formed a third joint venture to develop a senior housing community. The community to be developed is located in Perrysburg, Ohio and will consist of 101 independent living units and 45 assisted living units. The community is expected to open in the first quarter of 2009.

The new venture will be funded 10 percent by the Company and 90 percent by PREI. The joint venture will fund approximately 35 percent of the equity according to each member's pro rata share and has obtained a construction loan for the remaining 65 percent of the project costs. Under the venture agreement, the Company will earn development and management fees and may receive incentive distributions.

Earlier this month, the Company entered into a lease on the Whitley Place community located in Keller, Texas. This 47-unit assisted living community has capacity for 65 seniors and is expected to produce annual revenues of approximately \$1.4 million.

Whitley Place was purchased by a publicly traded healthcare REIT from a third party for approximately \$5 million. The Company has leased this community on a ten-year term with two five-year renewal options. The initial lease rate of 7.75 percent is subject to conditional escalation provisions.

## ABOUT THE COMPANY

Capital Senior Living Corporation is one of the nation's largest operators of residential communities for senior adults. The Company's operating philosophy emphasizes a continuum of care, which integrates independent living, assisted living and home care services, to provide residents the opportunity to age in place.

The Company currently operates 64 senior living communities in 23 states with an aggregate capacity of approximately 9,400 residents, including 37 senior living communities which the Company owns or in which the Company has an ownership interest, 25 leased communities and 2 communities it manages for third parties. In the communities operated by the Company, 69 percent of residents live independently, 24 percent of residents require assistance with activities of daily living and 7 percent of residents live in continuing care retirement communities.

*The forward-looking statements in this release are subject to certain risks and uncertainties that could cause results to differ materially, including, but not limited to, the Company's ability to complete the refinancing of certain of our wholly owned communities, realize the anticipated savings related to such financing, find suitable acquisition properties at favorable terms, financing, licensing, business conditions, risks of downturns 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 our reports filed with the Securities and Exchange Commission.*

Contact Ralph A. Beattie, Chief Financial Officer, at 972-770-5600 or Cameron Donahue or Brett Maas, Hayden Communications, Inc. at 651-653-1854 for more information.





# Capital Senior Living Corporation



Capital Senior Living Corporation





# Forward-Looking Statements



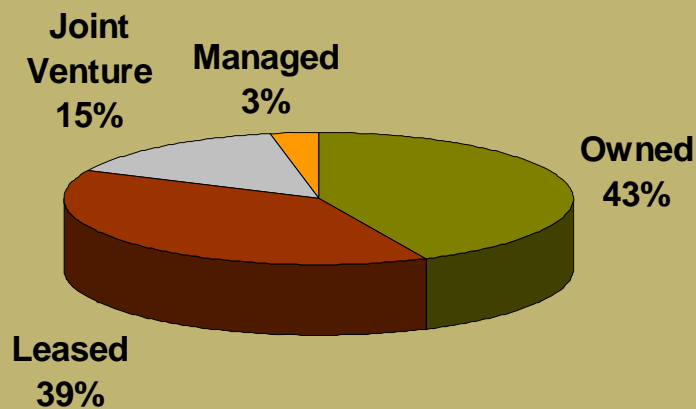
- *The forward-looking statements in this presentation are subject to certain risks and uncertainties that could cause results to differ materially, including, but not without limitation to, the Company's ability to complete the refinancing of certain of our wholly owned communities, realize the anticipated savings related to such financing, find suitable acquisition properties at favorable terms, financing, licensing, business conditions, risks of downturns in economic conditions generally, satisfaction of closing conditions such as those pertaining to licensures, 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 our reports filed with the Securities and Exchange Commission*
- *The Company assumes no obligation to update or supplement forward-looking statements in this presentation that become untrue because of new information, subsequent events or otherwise.*



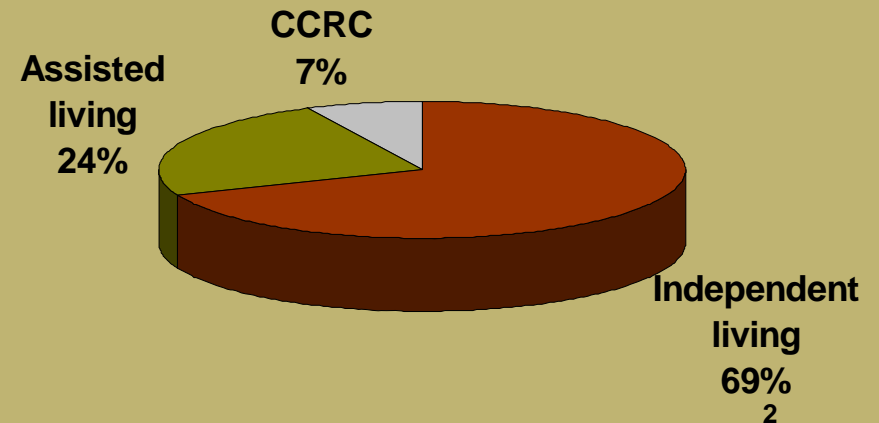
# Company Overview

- Capital Senior Living owns and/or operates 64 communities in 23 states with the ability to serve 9,401 residents
- 50 of these communities are owned or leased with resident capacity of 7,701
- Achieved 94% approval rating in 2007 residents' satisfaction survey

Units by Ownership Type



Resident Capacity Mix





# The Capital Advantage: *Senior Living Options*



## Independent Living – 69% of Portfolio

- Average 131 units per IL community with large common areas and amenities
- Wide array of social, recreational, and educational events
- Average monthly rate of \$2,200
- 100% private pay
- Average length of resident stay is 34 months





# The Capital Advantage: *Senior Living Options*



## Assisted Living – 24% of Portfolio

- Average 64 units per AL community
- Assistance with activities of daily living such as medication reminders, bathing, dressing and grooming
- Average monthly rate of \$3,100
- 96% private pay
- Average length of resident stay is 26 months





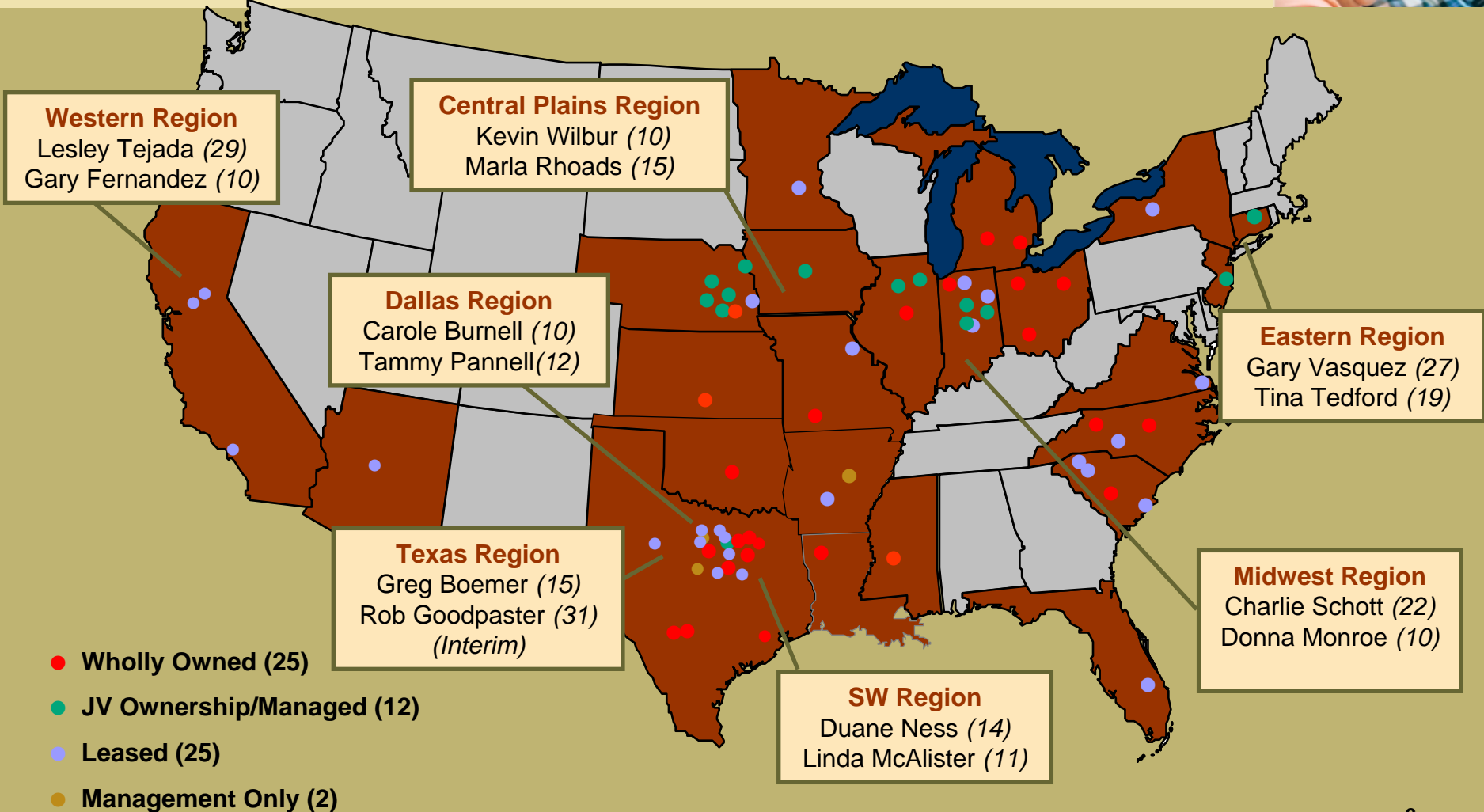
## Resident Demographics at CSU Communities



- Average age of resident: **85 years**
- Average age of resident moving in: **82 years**
- Average stay period: **2-3 years**
- Percent of female residents: **80%**
- *Resident turnover is primarily attributed to death or need for higher care*



# The Capital Advantage: *Established National Platform*



*(Parenthetical indicates years of experience in industry)*

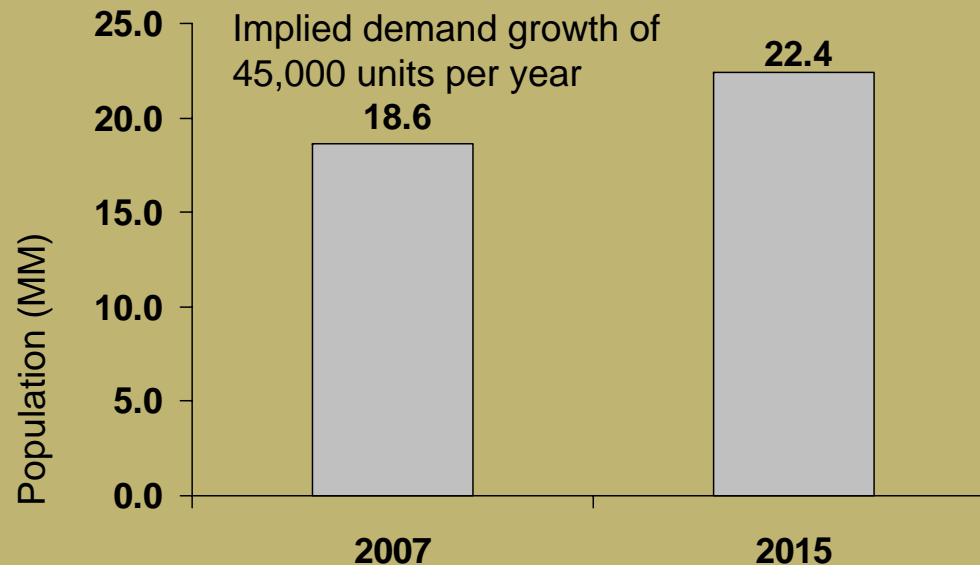


# Favorable Demographics



- US population 75+ years old is estimated to grow by 3.8 million through 2015
  - Only 1.8 million units serving a population of 18.6 million seniors
  - Current 9.6% penetration rate implies demand growth of 45,000 units per year

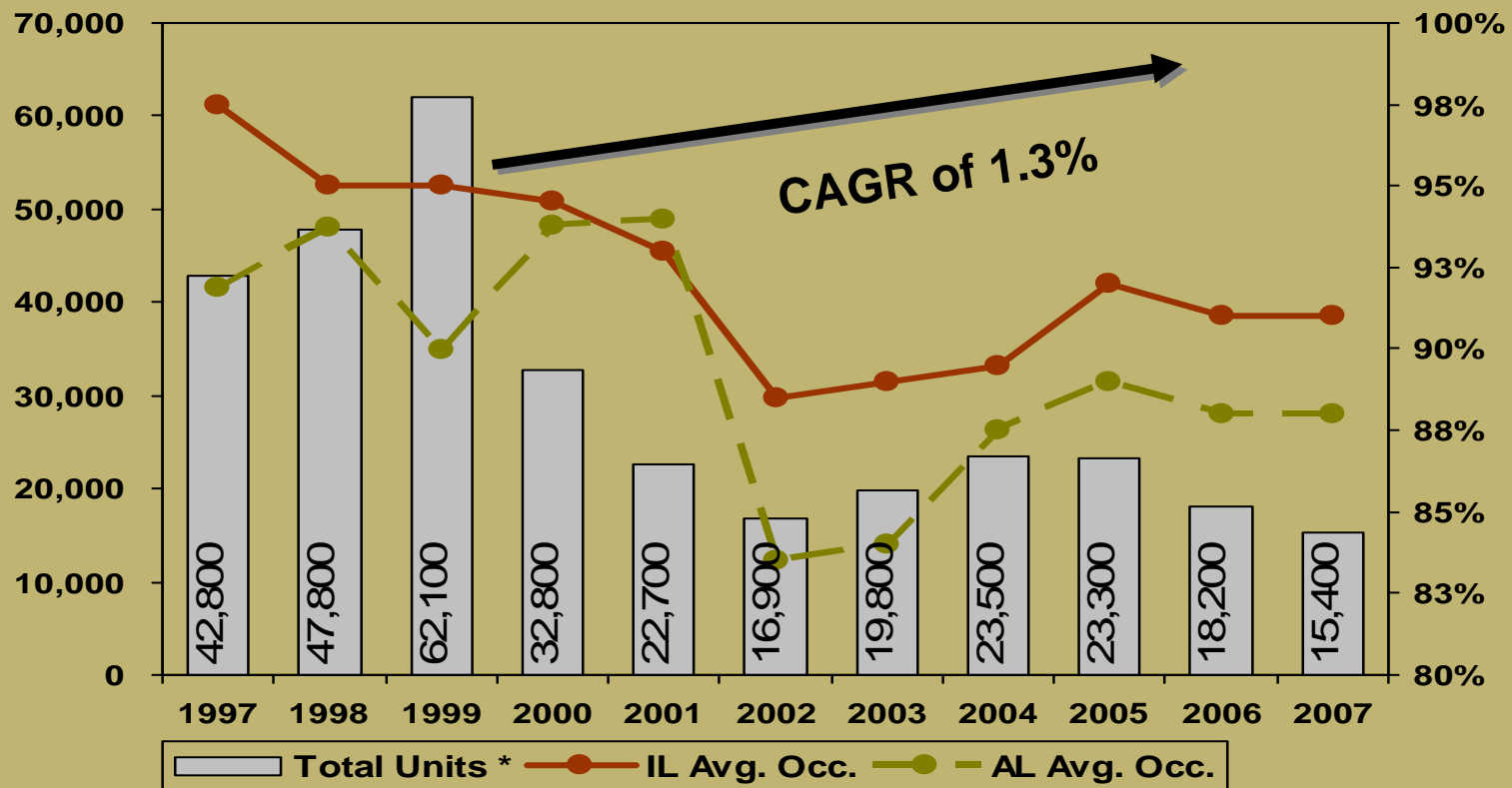
US Seniors Population Trends (75+ years old)





# Favorable Supply Trends

- Seniors Housing Construction Activity and Industry Occupancy Percentages



Source: National Investment Center / American Seniors Housing Association Seniors Housing Construction Trends Report, 2006 & NIC Key Financial Indicators

\* Including independent living, assisted living and continuing care retirement communities



# The Capital Advantage: *Proven Track Record*



- Stabilized Operating Results

	Capital Senior Living	Industry Averages	
		Independent Living	Assisted Living
Occupancy <sup>1</sup>	90.5%	91.0%	88.0%
Operating Margins <sup>2,3</sup>	48.0%	52.6%	44.4%

(1) *Third Quarter 2007 CSU and Third Quarter NIC Key Financial Indicators*

(2) *Before property taxes, insurance and management fees*

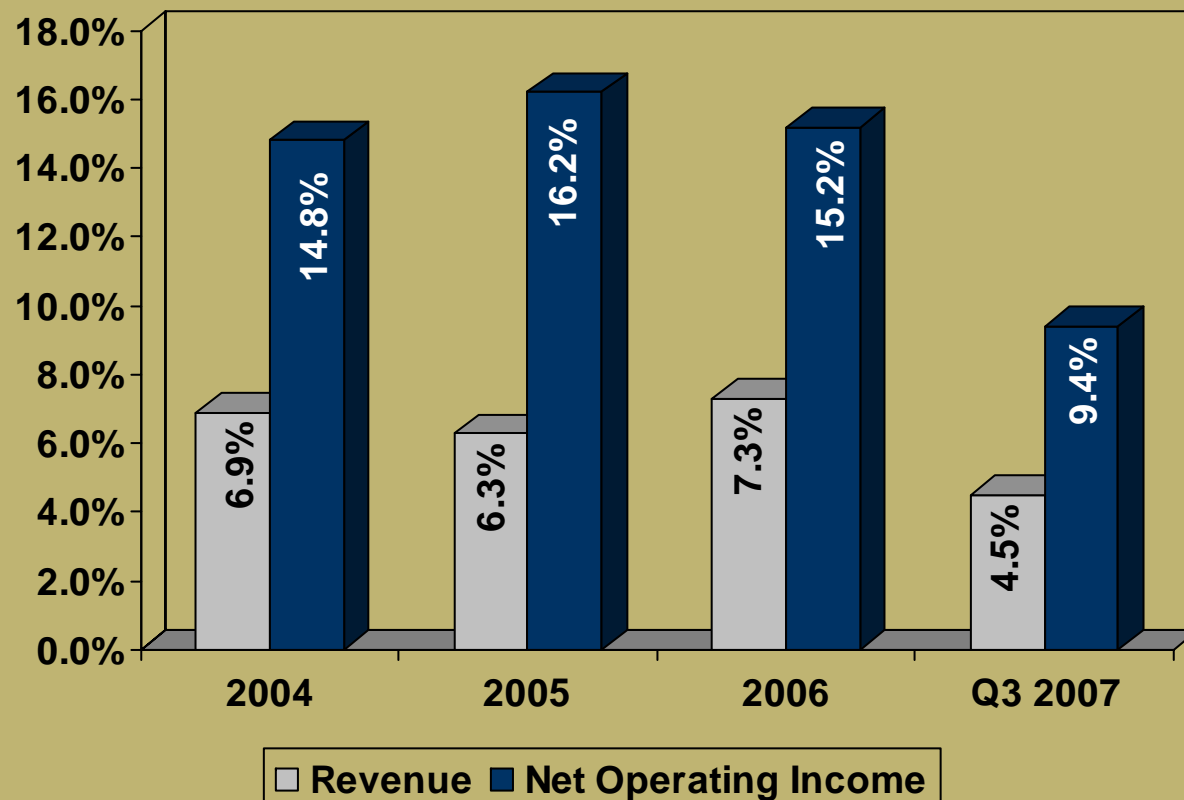
(3) *Third Quarter 2007 CSU and from The State of Seniors Housing 2007 by the American Seniors Housing Association (ASHA)*



# The Capital Advantage: *Proven Track Record*

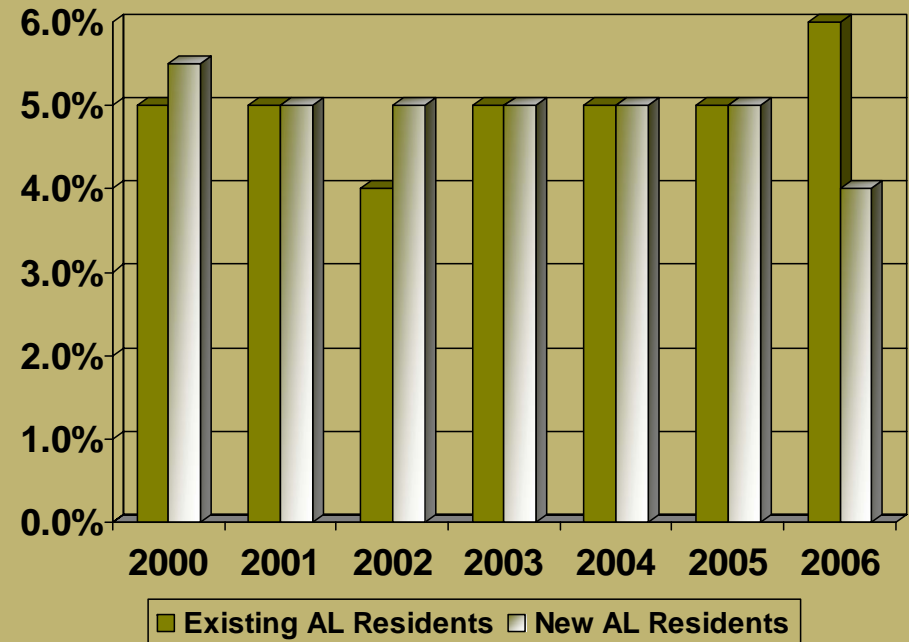
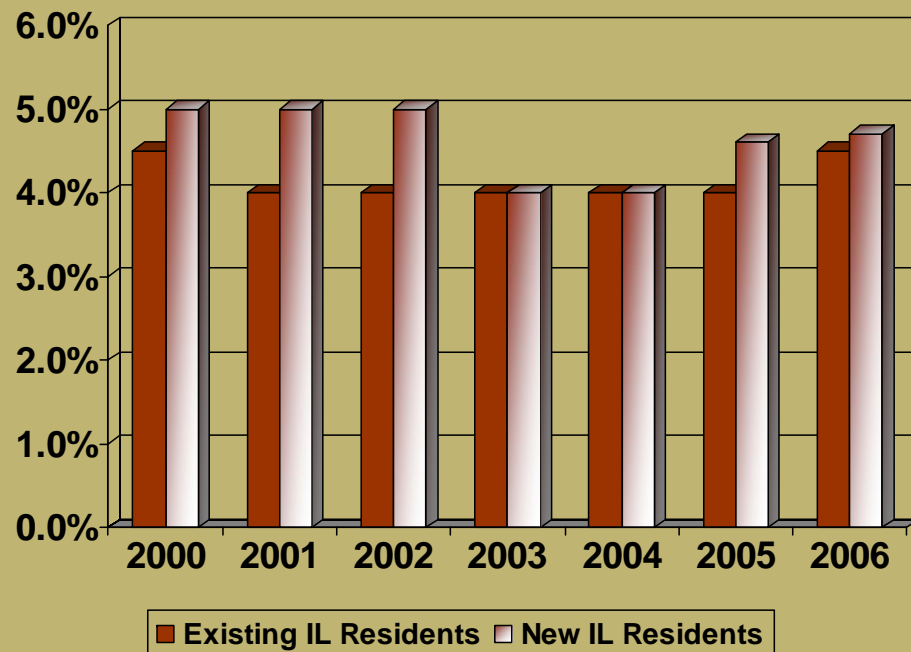


- Same Store Analysis for Communities Under Management
  - Same Store Average Revenue growth of 6.3%, with 13.9% Average Net Operating Income growth since 2003





# Industry Median Increases in Resident Revenue



Source: ASHA The State of seniors Housing 2007



## 2008 Business Plan



- Increase levels of care and capacity through expansions, conversions and new developments
- Acquire home care agency in clustered markets to provide home health and ancillary services
- Organic growth from rate increases, cost savings and occupancy growth
- Accretive acquisitions in highly fragmented industry to enhance geographic clustering



## Growth Initiatives: Expansions, Conversions and Developments



- Intend to add additional levels of care at eleven communities

	Units	Estimated Cost	Expected Revenues <sup>(1)</sup>	Incremental EBITDAR Margin %
8 AL Conversions <sup>(2)</sup>	256	\$2,000,000	\$4,300,000	60%
3 Expansions <sup>(3)</sup>	270	\$27,000,000	\$9,100,000	60%

– Expected EBITDAR of \$8.1 million, resulting in a 28% ROI

- Three new joint venture developments are currently underway that will add 434 units (299 IL, 135 AL)

*(1) Upon stabilization*

*(2) Conversions are expected to be complete in 2008*

*(3) Expansions are expected to be complete in the first half of 2009*



## Growth Initiatives: *Expansions*



### Cottonwood case study

Added 49 IL units and 48 AL units

\$6.8 million total cost

Annual revenues increased 3.5 times since expansion

	<b>IL</b>		<b>AL</b>		<b>Total</b>		
	<u>Units</u>	<u>Occ%</u>	<u>Units</u>	<u>Occ%</u>	<u>Units</u>	<u>Occ%</u>	<u>Annual Revenue</u>
Pre-expansion	65	100%	-	-	65	100%	\$1.3M
2007	114	98%	48	96%	162	98%	\$4.6M



## Growth Initiatives: *Conversions*



### Sedgwick case study

Relocated AL units to a new wing

\$800,000 total cost

Annual revenues increased 75%, with an increase of over 50% in occupancy

	<u>IL</u>		<u>AL</u>		<u>Total</u>		<u>Annual Revenue</u>
	<u>Units</u>	<u>Occ%</u>	<u>Units</u>	<u>Occ%</u>	<u>Units</u>	<u>Occ%</u>	
<b>2003</b>	105	48%	45	100%	150	60%	\$2.0M
<b>2007</b>	118	94%	29	97%	147	95%	\$3.5M



## Growth Initiatives : Operating Leverage in Consolidated Communities



- \$1.9 million incremental revenue for every 1.0% of financial occupancy gain
- \$8.5 million incremental revenue from a 5% increase in average monthly rent
- 80% incremental EBITDAR margin on same store revenue increases



## Growth Initiatives: *Acquisition/Lease Transactions*



- Completed 21 acquisition/lease transactions for a total value of \$249 million since Q4 2005

Example of \$100 million acquisition/lease transaction:

	Year 1	Year 2	\$ Increase	% Increase
Revenue	\$25,000,000	\$26,500,000	\$1,500,000	6.0%
Operating Expense	\$15,000,000	\$15,600,000	\$600,000	4.0%
EBITDAR	\$10,000,000	\$10,900,000	\$900,000	9.0%
Lease Expense	\$7,800,000	\$8,000,000	\$200,000	2.5%
EBITDA	\$2,200,000	\$2,900,000	\$700,000	32.0% <sup>17</sup>



## **Growth Initiatives: *Joint Venture Acquisitions and Developments***



- Joint venture partners
  - Blackstone Real Estate Advisors
  - GE Healthcare Financial Services
  - Prudential Real Estate Investors
- Twelve communities are owned with joint venture partners
- Three developments are underway with joint venture partner
- Co-invest with joint venture partners to participate in economics:
  - 5% – 15% Capital Senior Living
  - 95% – 85% JV Partners
- Earn management/development fees, return on equity investment and potential for additional incentives



# Example of Joint Venture Economics

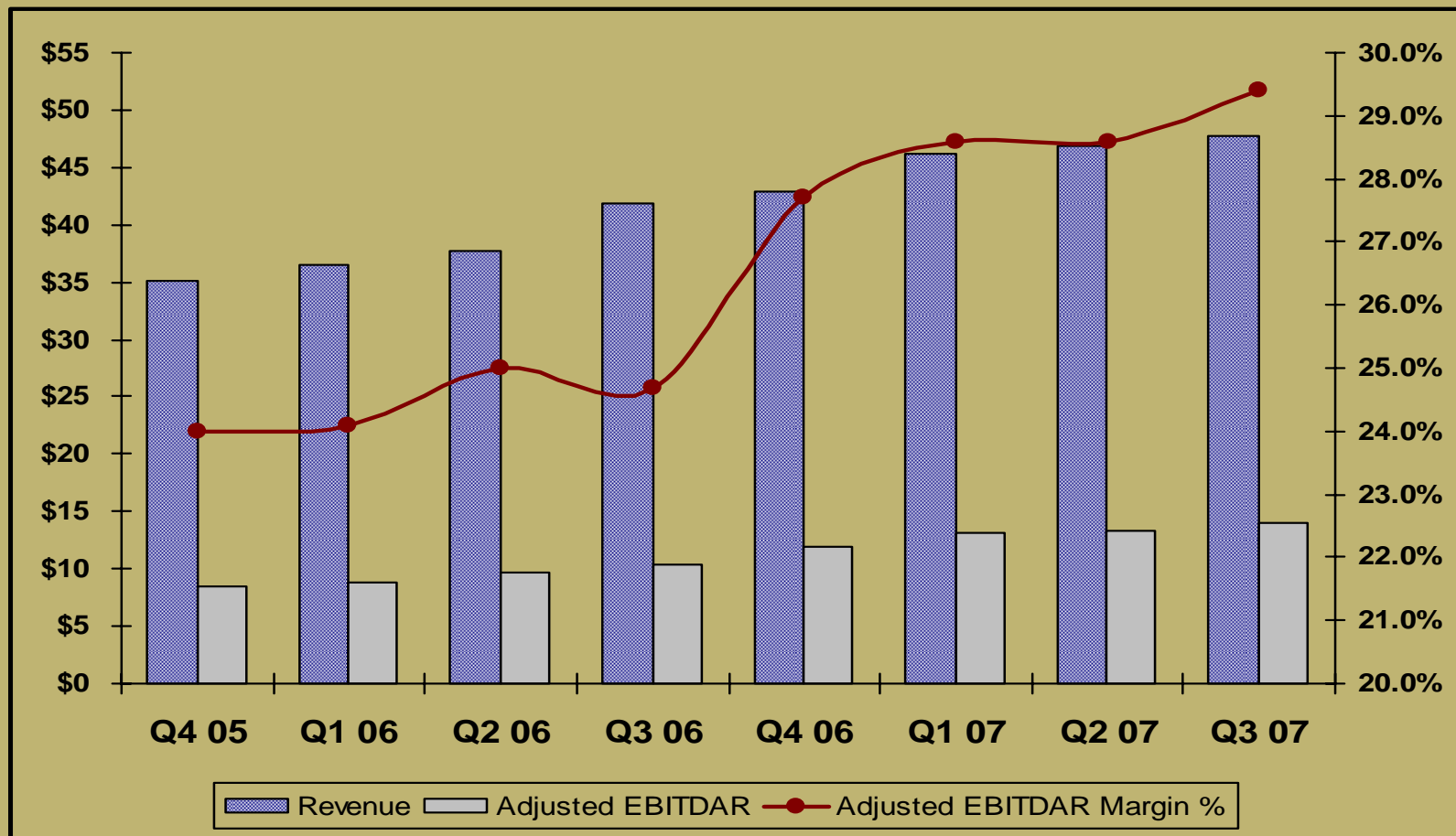


	Venture	CSU	Partner
NOI	\$ 8,000,000		
Cap Rate	8%		
Purchase Price	\$100,000,000		
Debt	\$ 75,000,000		
Equity	\$ 25,000,000	\$2,500,000	\$22,500,000
Revenues	\$ 25,000,000		
Mgt. Fees (5%)		\$1,250,000	
ROE (14.0%)		\$ 350,000	\$ 3,150,000
Total First Year Return		\$1,600,000	\$ 3,150,000
Total Return %		64%	14%



# Capital Advantage: *Financial Growth*

- Revenue and Adjusted EBITDAR (\$ in millions)





# Income Statement: Q3 Comparison



(in millions, except per share)

	2007	2006	%Change
Resident & Health Care Revenue	\$41.9	\$36.5	14.8%
Other Revenue	<u>5.9</u>	<u>5.3</u>	11.3%
<b>Total Revenues</b>	<b>\$47.8</b>	<b>\$41.8</b>	<b>14.4%</b>
Operating Expenses	30.6	28.1	8.9%
General & Administrative Expenses	<u>3.2</u>	<u>3.4</u>	(5.9%)
<b>EBITDAR</b>	<b>\$14.0</b>	<b>\$10.3</b>	<b>35.9%</b>
Lease Costs	6.8	5.1	33.3%
Depreciation & Amortization	2.8	2.7	3.7%
Income from Operations	\$4.4	\$2.5	76.0%
Other Income / (Expense)	(2.2)	(2.4)	(8.3%)
Taxes & Minority Interests	<u>(0.8)</u>	<u>0.0</u>	n/a
<b>Net Income</b>	<b>\$1.4</b>	<b>\$0.1</b>	<b>n/a</b>
<b>Earnings Per Share</b>	<b>\$0.05</b>	<b>-</b>	<b>n/a</b>
<b>Cash Earnings Per Share</b>	<b>\$0.16</b>	<b>\$0.10</b>	<b>60.0%</b>



## Balance Sheet Strength



- Since Q1 2006, CSU has significantly strengthened its balance sheet
  - Reduced total mortgage debt by \$51.6 million
  - Refinanced or retired \$162 million of variable rate debt
  - Reduced average interest rate from 7.5% to 6.1% fixed
- Resulting in \$8.3 million of annual interest expense savings



# Balance Sheet

- As of September 30, 2007 (*in millions*)

ASSETS	
Cash and Securities	\$ 24.0
Other Current Assets	21.1
Total Current Assets	45.1
Fixed Assets	309.9
Other Assets	35.0
<b>TOTAL ASSETS</b>	<b>\$390.0</b>

LIABILITIES & EQUITY	
Current Liabilities	\$ 27.5
Long-Term Debt	190.4
Other Liabilities	24.0
Total Liabilities	241.9
Stockholders' Equity	148.1
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$390.0</b>



# Investment Highlights



- **Favorable demographics** and **attractive industry fundamentals**
- **Expansion and conversion initiatives** with significant revenue and margin growth
- Strong same-store community **net income growth**
- **Acquisition opportunities** in highly fragmented industry
- Existing infrastructure results in **low marginal integration cost**
- Predominately private pay with **minimal federal regulation**
- **Financial leverage** through joint venture partners and REITS
- **Experienced management team** with demonstrated ability to operate, acquire and develop



# Capital Senior Living Corporation



Capital Senior Living Corporation

