CAPITAL SENIOR LIVING CORP
Form 10-K
March 12, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2011

Or

¨ **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	**75254**
Dallas, Texas	*(Zip Code)*
(Address of principal executive offices)	

Registrant s telephone number, including area code:

(972) 770-5600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 ¨

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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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.

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

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

The aggregate market value of the 26,437,996 shares of the Registrant s common stock, par value $0.01 per share (Common Stock), held by non-affiliates (defined to exclude all of the Registrants executive officers and directors) on December 31, 2011, based upon the closing price of the Registrant s Common Stock as reported by the New York Stock Exchange on June 30, 2011, was approximately $245.6 million. As of February 29, 2012, the Registrant had 28,139,663 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement pertaining to its 2012 Annual Meeting of Stockholders and filed or to be filed not later than 120 days after the end of the fiscal year pursuant to Regulation 14A are incorporated herein by reference into Part III of this report.

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CAPITAL SENIOR LIVING CORPORATION

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PART I

ITEM 1. ***BUSINESS.***

Overview

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 and its predecessors have provided senior living services since 1990. As of December 31, 2011, the Company operated 84 senior living communities in 23 states with an aggregate capacity of approximately 11,800 residents, including 35 senior living communities which the Company either owned or in which the Company had an ownership interest and 49 senior living communities that the Company leased. As of December 31, 2011, the Company also operated one home care agency. During 2011, approximately 95% of total revenues for the senior living communities operated by the Company were derived from private pay sources.

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.

Website

The Company s Internet website www.capitalsenior.com contains an Investor Relations section, which provides links to the Company s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Section 16 filings and any amendments to those reports and filings. These reports and filings are available through the Company s Internet website free of charge as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC).

Industry Background

The senior living industry encompasses a broad and diverse range of living accommodations and supportive services that are provided primarily to persons 75 years of age or older.

For the elderly who require limited services, independent living residences supplemented at times by home health care, offers a viable option. Most independent living communities typically offer community living packaged with basic services consisting of meals, housekeeping, laundry, 24-hour staffing, transportation, social and recreational activities and health care monitoring. Independent living residents typically are not reliant on assistance with activities of daily living (ADL s) although some residents may contract out for those services.

As a senior s need for assistance increases, care in an assisted living residence is often preferable and more cost-effective than home-based care or nursing home care. Typically, assisted living represents a combination of housing and support services designed to aid elderly residents with ADL s such as ambulation, bathing, dressing, eating, grooming, personal hygiene and monitoring or assistance with medications. Certain assisted living residences may also provide assistance to residents with low acuity medical needs, or may offer higher levels of personal assistance for incontinent residents or residents with Alzheimer s disease or other cognitive or physical frailties. Generally, assisted living residents require higher levels of care than residents of independent living residences and retirement living centers, but require lower levels of care than patients in skilled nursing facilities. For seniors who need the constant attention of a skilled nurse or medical practitioner, a skilled nursing facility may be required.

According to the American Seniors Housing Association Seniors Housing Construction Trends Report for 2011, 14.6% of the senior housing supply in the 100 largest metropolitan areas of the United States are assisted living units, 18.6% are independent living units, 43.0% are nursing care beds, 3.1% are memory care units and 20.7% relate to age restricted senior apartments.

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The senior living industry is highly fragmented and characterized by numerous small operators. Moreover, the scope of senior living services varies substantially from one operator to another. Many smaller senior living providers do not operate purpose-built residences, do not have extensive professional training for staff and provide only limited assistance with ADLs. The Company believes that many senior living operators do not provide the required comprehensive range of senior living services designed to permit residents to age in place within the community as residents develop further physical or cognitive frailties.

The Company believes that a number of demographic, regulatory and other trends will contribute to the continued growth in the senior living market, including the following:

Consumer Preference

The Company believes that senior living communities are increasingly becoming the setting preferred by prospective residents and their families for the care of the elderly. Senior living offers residents greater independence and allows them to age in place in a residential setting, which the Company believes results in a higher quality of life than that experienced in more institutional or clinical settings.

The likelihood of living alone increases with age. Most of this increase is due to an aging population in which women outlive men. Societal changes, such as high divorce rates and the growing numbers of persons choosing not to marry, have further increased the number of Americans living alone. This growth in the number of elderly living alone has resulted in an increased demand for services that historically have been provided by a spouse, other family members or live-in caregivers.

Demographics

According to the American Seniors Housing Association Seniors Housing Construction Trends Report for 2011, the largest 100 metropolitan areas of the United States contain approximately 66% of the total United States population, 62% of the age 65+ population, and 61% of the age 75+ population, based on the most recent population projections from the United States Census Bureau. As the number of persons aged 75 and over continues to grow, the Company believes that there will be corresponding increases in the number of persons who need assistance with ADLs.

Senior Affluence

The average net worth of senior citizens is typically higher than non-senior citizens, partially as a result of accumulated equity through home ownership. The Company believes that a substantial portion of the senior population has historically accumulated significant resources available for their retirement and long-term care needs. The Company s target population is comprised of moderate to upper income seniors who have, either directly or indirectly through familial support, the financial resources to pay for senior living communities, including an assisted living alternative to traditional long-term care. However, recent volatility and downturns in the housing, financial, and credit markets could negatively affect the ability of senior citizens to relocate into our communities, or the time at which they choose to do so, which could have a significant impact on our business, financial condition, cash flows, and results of operations.

Reduced Reliance on Family Care

Historically, the family has been the primary provider of care for seniors. The Company believes that the increase in the percentage of women in the work force, the reduction of average family size, and overall increased mobility in society is reducing the role of the family as the traditional caregiver for aging parents. The Company believes that these factors will make it necessary for many seniors to look outside the family for assistance as they age.

Restricted Supply of Nursing Beds

Several states in the United States have adopted Certificate of Need (CON) or similar statutes generally requiring that, prior to the addition of new skilled nursing beds, the addition of new services, or the making of certain capital expenditures, a state agency must determine that a need exists for the new beds or the proposed activities. The Company believes that this CON process tends to restrict the supply and availability of licensed nursing facility beds. High construction costs, limitations on government reimbursement for the full costs of construction, and start-up expenses also act to constrain growth in the supply of such facilities. At the same time, nursing facility operators are continuing to focus on improving occupancy and expanding services to subacute patients generally of a younger age and requiring significantly higher levels of nursing care. As a result, the Company believes that there has been a decrease in the number of skilled nursing beds available to patients with lower acuity levels and that this trend should increase the demand for the Company s senior living communities, including, particularly, the Company s assisted living communities.

Cost-Containment Pressures

In response to rapidly rising health care costs, governmental and private pay sources have adopted cost containment measures that have reduced admissions and encouraged reduced lengths of stays in hospitals and other acute care settings. The federal government had previously acted to curtail increases in health care costs under Medicare by limiting acute care hospital reimbursement for specific services to pre-established fixed amounts. Private insurers have begun to limit reimbursement for medical services in general to predetermined charges, and managed care organizations (such as health maintenance organizations) are attempting to limit hospitalization costs by negotiating for discounted rates for hospital and acute care services and by monitoring and reducing hospital use. In response, hospitals are discharging patients earlier and referring elderly patients, who may be too sick or frail to manage their lives without assistance, to nursing homes and assisted living residences where the cost of providing care is typically lower than hospital care. In addition, third-party payors are increasingly becoming involved in determining the appropriate health care settings for their insureds or clients, based primarily on cost and quality of care. Based on industry data, the typical day-rate in an assisted living facility is two-thirds of the cost for comparable care in a nursing home.

Operating Strategy

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 continuing to enhance the performance of its operations. The Company is implementing its operating strategy principally through the following methods:

Provide a Broad Range of Quality Personalized Care

Central to the Company s operating strategy is its focus on providing quality care and services that are personalized and tailored to meet the individual needs of each community resident. The Company s residences and services are designed to provide a broad range of care that permits residents to age in place as their needs change and as they develop further physical or cognitive frailties. By creating an environment that maximizes resident autonomy and provides individualized service programs, the Company seeks to attract seniors at an earlier stage, before they need the higher level of care provided in a skilled nursing facility. The Company also maintains a comprehensive quality assurance program designed to ensure the satisfaction of its residents and their family members. The Company conducts annual resident satisfaction surveys that allow residents at each community to express whether they are very satisfied, satisfied or dissatisfied with all major areas of a community, including, housekeeping, maintenance, activities and transportation, food service, security and management. In both 2011 and 2010, the Company achieved 95% overall approval ratings from the residents satisfaction surveys.

Offer Services Across a Range of Pricing Options

The Company s range of products and services is continually expanding to meet the evolving needs of its residents. The Company has developed a menu of products and service programs that may be further customized to serve both the moderate and upper income markets of a particular targeted geographic area. By offering a range of pricing options that are customized for each target market, the Company believes that it can develop synergies, economies of scale and operating efficiencies in its efforts to serve a larger percentage of the elderly population within a particular geographic market.

Improve Occupancy Rates

The Company continually seeks to maintain and improve occupancy rates by: (i) retaining residents as they age in place by extending optional care and service programs; (ii) attracting new residents through the on-site marketing programs focused on residents and family members; (iii) selecting communities in underserved markets; (iv) aggressively seeking referrals from professional community outreach sources, including area religious organizations, senior social service programs, civic and business networks, as well as the medical community; and (v) continually refurbishing and renovating its communities.

Improve Operating Efficiencies

The Company seeks to improve operating efficiencies at its communities by actively monitoring and managing operating costs. By having an established national portfolio of communities with regional management in place, the Company believes it has established a platform to achieve operating efficiencies through economies of scale in the purchase of bulk items, such as food and supplies and in the spreading of fixed costs, such as corporate overhead, over a larger revenue base, and to provide more effective management supervision and financial controls. The Company s growth strategy includes regional clustering of new communities to achieve further efficiencies.

Emphasize Employee Training and Retention

The Company devotes special attention to the hiring, screening, training, supervising and retention of its employees and caregivers to ensure that quality standards are achieved. In addition to normal on-site training, the Company conducts national management meetings and encourages sharing of expertise among managers. The Company s commitment to the total quality management concept is emphasized throughout its training program. This commitment to the total quality management concept means identification of the best practices in the senior living market and communication of those best practices to the Company s executive directors and their staff. The identification of best practices is realized by a number of means, including: emphasis on regional and executive directors keeping up with professional trade journals; interaction with other professionals and consultants in the senior living industry through seminars, conferences and consultations; visits to other properties; leadership and participation at national and local trade organization events; and information derived from marketing studies and resident satisfaction surveys. This information is continually processed by regional managers and the executive directors and communicated to the Company s employees as part of their training. The Company hires an executive director for each of its communities and provides them with autonomy, responsibility and accountability. The Company s staffing of each community with an executive director allows it to hire more professional employees at these positions, while the Company s developed career path helps it to retain the professionals it hires. The Company believes its commitment to and emphasis on employee training and retention differentiates the Company from many of its competitors.

Senior Living Services

The Company provides senior living services to the elderly, including independent living, assisted living, skilled nursing and home care services. By offering a variety of services and encouraging the active participation of the resident and the resident s family and medical consultants, the Company is able to customize its service plan to meet the specific needs and desires of each resident. As a result, the Company believes that it is able to maximize customer satisfaction and avoid the high cost of delivering unnecessary services to residents.

The Company s operating philosophy is to provide quality senior living communities and services to senior citizens and deliver a continuum of care for its residents as their needs change over time. This continuum of care, which integrates independent living and assisted living and is bridged by home care, sustains residents autonomy and independence based on their physical and mental abilities. As residents age, in many of the Company s communities, they are able to obtain the additional services they need within the same community, avoiding the disruptive and often traumatic move to a different facility.

Independent Living Services

The Company provides independent living services to seniors who typically do not yet need assistance or support with ADLs, but who prefer the physical and psychological comfort of a residential community that offers health care and other services. As of December 31, 2011, the Company owned or had ownership interests in 30 communities and leased 17 communities that provide independent living services, which include communities that combine assisted living services, with an aggregate capacity for approximately 6,800 residents.

Independent living services provided by the Company include daily meals, transportation, social and recreational activities, laundry, housekeeping and 24-hour staffing. The Company also fosters the wellness of its residents by offering access to health screenings (such as blood pressure checks), periodic special services (such as influenza inoculations), dietary and similar programs, as well as ongoing exercise and fitness classes. Classes are given by health care professionals to keep residents informed about health and disease management. Subject to applicable government regulation, personal care and medical services are available to independent living residents through either the community staff or through the Company s agency or other independent home care agencies. The Company s independent living residents pay a fee ranging from $1,415 to $6,105 per month, in general, depending on the specific community, program of services, size of the unit and amenities offered. The Company s contracts with its independent living residents are generally for a term of one year and are typically terminable by either party, under certain circumstances, upon 30 days notice.

Assisted Living Services

The Company offers a wide range of assisted living care and services, including personal care services, 24-hour staffing, support services, and supplemental services. As of December 31, 2011, the Company owned or had ownership interests in 14 communities and leased 41 communities that provide assisted living services, which include communities that combine independent living and other services, with an aggregate capacity for approximately 4,300 residents. The residents of the Company s assisted living residences generally need help with some or all ADLs, but do not require the more acute medical care traditionally given in nursing homes. Upon admission to the Company s assisted living communities, and in consultation with the resident, the resident s family and medical consultants, each resident is assessed to determine his or her health status, including functional abilities and need for personal care services. The resident also completes a lifestyles assessment to determine the resident s preferences. From these assessments, a care plan is developed for each resident to ensure that all staff members who render care meet the specific needs and preferences of each resident where possible. Each resident s care plan is reviewed periodically to determine when a change in care is needed.

The Company has adopted a philosophy of assisted living care that allows a resident to maintain a dignified independent lifestyle. Residents and their families are encouraged to be partners in the residents care and to take as much responsibility for their well being as possible. The basic types of assisted living services offered by the Company include the following:

Personal Care Services. These services include assistance with ADLs such as ambulation, bathing, dressing, eating, grooming, personal hygiene, and monitoring or assistance with medications.

Support Services. These services include meals, assistance with social and recreational activities, laundry services, general housekeeping, maintenance services and transportation services.

Supplemental Services. These services include extra transportation services, personal maintenance, extra laundry services, and special care services, such as services for residents with certain forms of dementia. Certain of these services require extra charges.

The Company s assisted living residents pay a fee ranging from $1,645 to $8,160 per month, in general, depending on the specific community, the level of personal care services, support service and supplemental services provided to the resident, size of the unit and amenities offered. The Company s contracts with its assisted living residents are generally for a term of one year and are typically terminable by either party, under certain circumstances, upon 30 days notice.

The Company maintains programs and special units at some of its assisted living communities for residents with certain forms of dementia, which provide the attention, care and services needed to help those residents maintain a higher quality of life. Specialized services include assistance with ADLs, behavior management and life skills based activities programs, the goal of which is to provide a normalized environment that supports residents remaining functional abilities. Whenever possible, residents assist with meals, laundry and housekeeping.

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Special units for residents with certain forms of dementia are located in a separate area of the community and have their own dining facilities, resident lounge areas, and specially trained staff. The special care areas are designed to allow residents the freedom to ambulate as they wish, while keeping them safely contained within a secure area with a minimum of disruption to other residents. Resident fees for these special units are dependent on the size of the unit, the design type and the level of services provided.

Continuing Care Retirement Community Services

The Company s continuing care retirement communities are senior living rental properties where the Company provides traditional long-term care through 24-hour-per-day skilled nursing care by registered nurses, licensed practical nurses and certified nursing assistants as well as assisted living and independent living care. The Company also offers a comprehensive range of restorative nursing and rehabilitation services in its communities including, but not limited to, physical, occupational, speech and medical social services. The Company s residents receiving skilled nursing services pay fees ranging from $2,185 to $7,625 per month, in general, depending on the specific community and the level of care provided. As of December 31, 2011, the Company owned one community and leased one community providing continuum of care services with an aggregate capacity for approximately 700 residents at all levels of care at those two communities.

Home Care Services

As of December 31, 2011, the Company provided home care services to clients at one senior living community through the Company s home care agency and made home care services available to clients at a majority of its senior living communities through third-party providers. The Company believes that the provision of private pay, home care services is an attractive adjunct to its independent living services because it allows the Company to make available more services to its residents as they age in place and increases the length of stay in the Company s communities. In addition, the Company makes available to residents certain customized physician, dentistry, podiatry and other health-related services that may be offered by third-party providers.

Operating Communities

The table below sets forth certain information with respect to senior living communities operated by the Company as of December 31, 2011.

			Resident Capacity1					Commencement of
Community		**Units**	**IL**	**AL**	**CCRC**	**Total**	**Ownership2**	**Operations3**
Owned:								
Canton Regency	Canton, OH	291			357	357	100%	03/91
Gramercy Hill	Lincoln, NE	146	62	103		165	100%	10/98
Heatherwood	Detroit, MI	158	185			185	100%	01/92
Independence Village	East Lansing, MI	151	161			161	100%	08/00
Independence Village	Peoria, IL	158	166			166	100%	08/00
Independence Village	Raleigh, NC	165	177			177	100%	08/00
Independence Village	Winston-Salem, NC	156	161			161	100%	08/00
Keystone Woods Assisted Living	Anderson, IN	58		70		70	100%	07/11
Laurel Hurst Laurel Woods	Columbus, NC	81	70	60		130	100%	10/11
North Pointe	Anderson, SC	40		70		70	100%	10/11
Sedgwick Plaza	Wichita, KS	144	134	35		169	100%	08/00
Summit Place	Anderson, SC	76	19	89		108	100%	10/11
Summit Point Living	Macedonia, OH	150	126	98		224	100%	08/11
Waterford at Columbia	Columbia, SC	120	141			141	100%	11/00
Waterford at Deer Park	Deer Park, TX	120	144			144	100%	11/00
Waterford at Edison Lakes	South Bend, IN	120	141			141	100%	12/00
Waterford at Fairfield	Fairfield, OH	120	140			140	100%	11/00

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			Resident Capacity1					
Community		**Units**	**IL**	**AL**	**CCRC**	**Total**	**Ownership2**	**Commencement of Operations3**
Waterford at Fort Worth	Fort Worth, TX	151	176			176	100%	06/00
Waterford at Highland Colony	Jackson, MS	120	143			143	100%	11/00
Waterford at Huebner	San Antonio, TX	120	135			135	100%	04/99
Waterford at Ironbridge	Springfield, MO	119	142			142	100%	06/01
Waterford at Mansfield	Mansfield, OH	119	142			142	100%	10/00
Waterford at Mesquite	Mesquite, TX	154	176			176	100%	09/99
Waterford at Pantego	Pantego, TX	120	143			143	100%	12/00
Waterford at Plano	Plano, TX	136	109	57		166	100%	12/00
Waterford at Shreveport	Shreveport, LA	117	136			136	100%	03/99
Waterford at Thousand Oaks	San Antonio, TX	120	135			135	100%	05/00
Wellington at Arapaho	Richardson, TX	137	112	57		169	100%	05/02
Wellington at Kokomo	Kokomo, IN	95		99		99	100%	07/11
Wellington at North Richland Hills, TX	North Richland Hills, TX	119	139			139	100%	01/02
Wellington at Oklahoma City	Oklahoma City, OK	120	143			143	100%	11/00
Wynnfield Crossing Assisted Living	Rochester, IN	50		79		79	100%	07/11
		4,051	3,658	817	357	4,832		
Leased:								
Ventas:								
Amberleigh	Buffalo, NY	267	387			387	N/A	01/92
Cottonwood Village	Cottonwood, AZ	163	131	58		189	N/A	03/91
Crown Pointe	Omaha, NE	134	139	26		165	N/A	08/00
Georgetowne Place	Fort Wayne, IN	162	242			242	N/A	10/05
Harrison at Eagle Valley[4]	Indianapolis, IN	124	138			138	N/A	03/91
Rose Arbor	Maple Grove, MN	137	86	87		173	N/A	06/06
Towne Centre	Merrillville, IN	327			358	358	N/A	03/91
Villa Santa Barbara	Santa Barbara, CA	126	64	62		126	N/A	08/00
West Shores	Hot Springs, AR	137	131	42		173	N/A	08/00
Whitley Place	Keller, TX	47		65		65	N/A	02/08
HCN:								
Azalea Trails Assisted Living	Tyler, TX	52		70		70	N/A	09/10
Buffalo Creek Assisted Living	Waxahachie, TX	52		70		70	N/A	09/10
Dogwood Trails Assisted Living	Palestine, TX	61		72		72	N/A	09/10
Hawkins Creek Assisted Living	Longview, TX	52		70		70	N/A	09/10
Hearth at Prestwick	Avon, IN	132		150		150	N/A	08/06
Hearth at Windermere	Fishers, IN	126		150		150	N/A	08/06
Heritage Oaks Assisted Living	Conroe, TX	74		90		90	N/A	09/10
Keepsake Village of Columbus	Columbus, IN	42		48		48	N/A	08/06
Magnolia Court Assisted Living	Nacogdoches, TX	52		70		70	N/A	09/10
Martin Crest Assisted Living	Weatherford, TX	52		70		70	N/A	09/10
Pecan Point Assisted Living	Sherman, TX	52		70		70	N/A	09/10
Santa Fe Trails Assisted Living	Cleburne, TX	52		70		70	N/A	09/10
Spring Lake Assisted Living	Paris, TX	52		70		70	N/A	09/10
Spring Meadows Libertyville	Libertyville, IL	197	208	45		253	N/A	04/11
Spring Meadows Naperville	Naperville, IL	193	186	45		231	N/A	04/11
Spring Meadows at Summit	Summit, NJ	88		98		98	N/A	04/11

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Community		Units	Resident Capacity1 IL	AL	CCRC	Total	Ownership2	Commencement of Operations3
Spring Meadows at Trumbull	Trumbull, CT	150	136	42		178	N/A	04/11
Stonefield Assisted Living	McKinney, TX	74		90		90	N/A	09/10
Walnut Creek Assisted Living	Mansfield, TX	52		70		70	N/A	09/10
Waterford at Ames	Ames, IA	59		122		122	N/A	02/06
Waterford at Miracle Hills	Omaha, NE	64		70		70	N/A	03/06
Waterford at Roxbury Park	Omaha, NE	62		70		70	N/A	02/06
Waterford at Van Dorn	Lincoln, NE	68		84		84	N/A	02/06
Waterford at Woodbridge	Plattsmouth, NE	40		45		45	N/A	02/06
HCP:								
Atrium of Carmichael	Sacramento, CA	152	155			155	N/A	01/92
Covenant Place of Abilene	Abilene, TX	50		55		55	N/A	08/04
Covenant Place of Burleson	Burleson, TX	74		80		80	N/A	08/04
Covenant Place of Waxahachie	Waxahachie, TX	50		55		55	N/A	08/04
Crescent Place	Cedar Hill, TX	80		85		85	N/A	11/05
Crescent Point	Cedar Hill, TX	112	134			134	N/A	08/04
Crosswood Oaks	Sacramento, CA	121	127			127	N/A	01/92
Good Place	North Richland Hills, TX	72		80		80	N/A	08/04
Meadow Lakes	North Richland Hills, TX	120	145			145	N/A	08/04
Tesson Heights	St. Louis, MO	184	134	72		206	N/A	10/98
Veranda Club	Boca Raton, FL	186	177	49		226	N/A	01/92
Charlotte Square	Charlotte, NC	73		125		125	N/A	12/06
Chesapeake Place	Chesapeake, VA	87		153		153	N/A	12/06
Greenville Place	Greenville, SC	87		153		153	N/A	12/06
Myrtle Beach Estates	Myrtle Beach, SC	80		142		142	N/A	12/06
		5,050	2,720	3,240	358	6,318		
Affiliates:								
SHPIII/CSL:								
Waterford at Levis Commons	Toledo, OH	146	152	55		207	10%	04/09
Waterford at Richmond Heights	Richmond Heights, OH	141	152	75		227	10%	04/09
Wellington at Dayton	Miamisburg, OH	146	150	90		240	10%	08/08
		433	454	220		674		
Total		9,534	6,832	4,277	715	11,824		

(1) Independent living (IL) residences, assisted living (AL) residences and continuing care retirement community (CCRC) beds.

(2) Those communities shown as 10% owned consist of the Company s ownership of 10% of the member interests in SHPIII/CSL (as defined below).

(3) Indicates the date on which the Company acquired or commenced operating the community. The Company operated certain of its communities pursuant to management agreements prior to acquiring interests in or leasing the communities.

(4) The Company s home care agency is on-site at The Harrison at Eagle Valley community.

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Management Contracts

The Company was party to a series of property management agreements (the SHPII/CSL Management Agreements) with four joint ventures (collectively SHPII/CSL) owned 95% by Senior Housing Partners II, L.P. (SHPII), a fund managed by Prudential Real Estate Investors (Prudential), and 5% by the Company, which collectively owned and operated four senior living communities (collectively the Spring Meadows Communities). The SHPII/CSL Management Agreements generally provided for management fees of 5% of gross revenue plus reimbursement for costs and expenses related to the communities. On April 8, 2011, SHP II/CSL sold the Spring Meadows Communities in a sale/leaseback transaction to Health Care REIT, Inc. (HCN). Upon closing the sale, the Company leased the four senior housing communities from HCN (the Spring Meadows Transaction). For additional information, refer to Note 4, Facility Lease Transactions , in the notes to the consolidated financial statements.

The Company is party to a series of property management agreements (the SHPIII/CSL Management Agreements) with three joint ventures (collectively SHPIII/CSL) owned 90% by Senior Housing Partners III, L.P. (SHPIII), a fund managed by Prudential Investment Management, Inc. (Prudential Investment) and 10% by the Company, which collectively own and operate three senior living communities. The SHPIII/CSL Management Agreements are for initial terms of ten years from the date the certificate of occupancy was issued and currently extend until various dates through January 2019. The SHPIII/CSL Management Agreements generally provide for management fees of 5% of gross revenue plus reimbursement for costs and expenses related to the communities.

Development Agreement Guarantees

In 2007, the Company and SHPIII entered into a series of joint venture agreements to develop three senior housing communities located in Ohio. The Company has guaranteed the communities will be completed and operated 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. The terms of these guarantees generally do not provide for a limitation on the maximum potential future payments. These joint venture communities are currently in lease up and one of the joint ventures has exhausted its lease up reserve. The Company will be required to fund any operating deficits until the joint venture reaches breakeven for three consecutive months. Any amounts funded by the Company under this guarantee, up to $0.5 million, may be recoverable from the joint venture in the event of liquidation. As of December 31, 2011, the Company had recognized deficit charges of approximately $1.0 million under these development agreement guarantees. During the third quarter of fiscal 2011, the Company met the breakeven requirements of the development agreement guarantees for two of these joint venture developments resulting in full satisfaction and termination of these respective guarantees.

Growth Strategies

The Company believes that the fragmented nature of the senior living industry and the limited capital resources available to many small, private operators provide an attractive opportunity for the Company to expand its existing base of senior living operations. The Company believes that its current operations with geographic concentrations throughout the United States serve as the foundation on which the Company can build senior living networks in targeted geographic markets and thereby provide a broad range of high quality care in a cost-efficient manner.

The following are the principal elements of the Company s growth strategy:

Organic Growth

The Company intends to continue to focus on the lease-up of its non-stabilized communities and to increase its occupancy, rents and operating margins of its stabilized communities. The Company continually seeks to improve occupancy rates and increase average rents by: (i) retaining residents as they age in place by extending optional care and service programs; (ii) attracting new residents through the on-site marketing programs focused on residents and family members and utilizing technology to enhance internet marketing; (iii) aggressively seeking referrals from professional community outreach sources, including area religious organizations, senior social service programs, civic and business networks, as well as the medical community; and (iv) continually refurbishing and renovating its communities, including converting existing units to higher levels of care.

Expansion and Conversions of Existing Communities

The Company intends to increase levels of care and capacity at certain of its existing communities through expansion and/or conversions of certain units. Increasing our levels of care and capacity is expected to increase revenue and operating income while meeting the needs of our residents who have an average age of 85 years old.

Pursue Strategic Acquisitions

The Company intends to continue to pursue acquisitions of senior living communities. Through strategic acquisitions, joint venture investments, or facility leases, the Company seeks to acquire communities in existing geographic markets as a means to increase market share, augment existing clusters, strengthen its ability to provide a broad range of care, and create operating efficiencies. As the industry continues to consolidate, the Company believes that opportunities will arise to acquire other senior living companies. The Company believes that the current fragmented nature of the senior living industry, combined with the Company s financial resources, geographic markets, and extensive contacts within the industry, can be expected to provide it with the opportunity to evaluate a number of potential acquisition opportunities in the future. In reviewing acquisition opportunities, the Company will consider, among other things, geographic location, competitive climate, reputation and quality of management and communities, and the need for renovation or improvement of the communities.

Expand Referral Networks

The Company intends to continue to develop relationships with local and regional hospital systems, managed care organizations and other referral sources to attract new residents to the Company s communities. In certain circumstances these relationships may involve strategic alliances or joint ventures. The Company believes that such arrangements or alliances, which could range from joint marketing arrangements to priority transfer agreements, will enable it to be strategically positioned within the Company s markets if, as the Company believes, senior living programs become an integral part of the evolving health care delivery system.

Operations

Centralized Management

The Company centralizes its corporate and other administrative functions so that the community-based management and staff can focus their efforts on resident care. The Company maintains centralized accounting, finance, human resources, training and other operational functions at its national corporate office in Dallas, Texas. The Company also has a corporate office in New York, New York. The Company s corporate offices are generally responsible for: (i) establishing Company-wide policies and procedures relating to, among other things, resident care and operations; (ii) performing accounting functions; (iii) developing employee training programs and materials; (iv) coordinating human resources; (v) coordinating marketing functions; and (vi) providing strategic direction. In addition, financing, development, construction and acquisition activities, including feasibility and market studies, and community design, development, and construction management are conducted at the Company s corporate offices.

The Company seeks to control operational expenses for each of its communities through proprietary expense management systems, standardized management reporting and centralized controls of capital expenditures, asset replacement tracking, and purchasing for larger and more frequently used supplies through a group purchasing program. Community expenditures are monitored by regional and district managers who are accountable for the resident satisfaction and financial performance of the communities in their region.

Regional Management

The Company provides oversight and support to each of its senior living communities through experienced regional and district managers. A district manager will oversee the marketing and operations of three to six communities clustered in a small geographic area. A regional manager will cover a larger geographic area

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consisting of seven to twelve communities. In most cases, the district and regional managers will office out of the Company s senior living communities. Currently, there are regional managers based in the Eastern, Central Plains, Midwest, Southwest, Texas and West regions.

The executive director at each community reports to a regional or district manager. The regional and district managers report on the operations of each community directly to senior management at the Company s corporate office. The district and regional managers make regular site visits to each of their communities. The site visits involve a physical plant inspection, quality assurance review, staff training, financial and systems audits, regulatory compliance, and team building.

Community-Based Management

An executive director manages the day-to-day operations at each senior living community, including oversight of the quality of care, delivery of resident services, and monitoring of financial performance. The executive director is also responsible for all personnel, including food service, maintenance, activities, security, assisted living, housekeeping, and, where applicable, nursing. In most cases, each community also has department managers who direct the environmental services, nursing or care services, business management functions, dining services, activities, transportation, housekeeping, and marketing functions.

The assisted living and skilled nursing components of the senior living communities are managed by licensed professionals, such as a nurse and/or a licensed administrator. These licensed professionals have many of the same operational responsibilities as the Company s executive directors, but their primary responsibility is to oversee resident care. Many of the Company s senior living communities and its two skilled nursing facilities are part of a campus setting, which include independent living. This campus arrangement allows for cross-utilization of certain support personnel and services, including administrative functions that result in greater operational efficiencies and lower costs than freestanding facilities.

The Company actively recruits personnel to maintain adequate staffing levels at its existing communities and hires new staff for new or acquired communities prior to opening. The Company has adopted comprehensive recruiting and screening programs for management positions that utilize corporate office team interviews and thorough background and reference checks. The Company offers system-wide training and orientation for all of its employees at the community level through a combination of Company-sponsored seminars and conferences.

Quality Assurance

Quality assurance programs are coordinated and implemented by the Company s corporate and regional staff. The Company s quality assurance is targeted to achieve maximum resident and resident family member satisfaction with the care and services delivered by the Company. The Company s primary focus in quality control monitoring includes routine in-service training and performance evaluations of caregivers and other support employees. Additional quality assurance measures include:

Resident and Resident s Family Input. On a routine basis, the Company provides residents and their family members the opportunity to provide valuable input regarding the day-to-day delivery of services. On-site management at each community has fostered and encouraged active resident councils and resident committees who meet independently. These resident bodies meet with on-site management on a monthly basis to offer input and suggestions as to the quality and delivery of services. Additionally, at each community the Company conducts annual resident satisfaction surveys to further monitor the satisfaction levels of both residents and their family members. These surveys are sent directly to a third party firm for tabulation then to the Company s corporate headquarters for distribution to onsite staff. For both 2011 and 2010, the Company achieved 95% approval ratings from its residents. For any departmental area of service scoring below a 90%, a plan of correction is developed jointly by on-site, regional and corporate staff for immediate implementation.

Regular Community Inspections. Each community is inspected, on at least a quarterly basis, by regional and/or corporate staff. Included as part of this inspection is the monitoring of the overall appearance and maintenance of the community interiors and grounds. The inspection also includes monitoring staff professionalism and departmental reviews of maintenance, housekeeping, activities, transportation, marketing, administration and food and health care services, if applicable. The inspections also include observing residents in their daily activities and the community s compliance with government regulations.

Independent Service Evaluations. The Company engages the services of outside professional independent consulting firms to evaluate various components of the community operations. These services include mystery shops, competing community analysis, pricing recommendations and product positioning. This provides management with valuable unbiased product and service information. A plan of action regarding any areas requiring improvement or change is implemented based on information received. At communities where health care is delivered, these consulting service reviews include the on-site handling of medications, record keeping and general compliance with all governmental regulations.

Sales and Marketing

Most communities are staffed by on-site sales directors and additional marketing/sales staff depending on the community size and occupancy status. The primary focus of the on-site marketing staff is to create awareness of the Company and its services among prospective residents and family members, professional referral sources and other key decision makers. These efforts incorporate an aggressive marketing plan to include monthly, quarterly and annual goals for leasing, new lead generation, prospect follow up, community outreach and resident and family referrals. Additionally, the marketing plan includes a calendar of promotional events and a comprehensive media program. On-site marketing departments perform a competing community assessment quarterly. Corporate and regional marketing directors monitor the on-site marketing departments effectiveness and productivity on a monthly basis. Routine detailed marketing department audits are performed on an annual basis or more frequently if deemed necessary. Corporate and regional personnel assist in the development of marketing strategies for each community and produce creative media, assist in direct mail programs and necessary marketing collateral. Ongoing sales training of on-site marketing/sales staff is implemented by corporate and regional marketing directors.

In the case of new development, the corporate and regional staff develops a comprehensive community outreach program that is implemented at the start of construction. A marketing pre-lease program is developed and on-site marketing staff are hired and trained to begin the program implementation six to nine months prior to the community opening. Extensive use of media, including radio, television, print, direct mail, telemarketing, and internet marketing is implemented during this pre-lease phase.

After the community is opened and sustaining occupancy levels are attained, the on-site marketing staff is more heavily focused on resident and resident family referrals, as well as professional referrals. A maintenance program for continued lead generation is then implemented.

Government Regulation

Changes in existing laws and regulations, adoption of new laws and regulations and new interpretations of existing laws and regulations could have a material effect on the Company s operations. Failure by the Company to comply with applicable regulatory requirements could have a material adverse effect on the Company s business, financial condition, cash flows, and results of operations. Accordingly, the Company monitors legal and regulatory developments on local and national levels.

The health care industry is subject to extensive regulation and frequent regulatory change. At this time, no federal laws or regulations specifically regulate assisted or independent living residences. While a number of states have not yet enacted specific assisted living regulations, certain of the Company s assisted living communities are subject to regulation, licensing, CON and permitting by state and local health care and social service agencies and other regulatory authorities. While such requirements vary from state to state, they typically relate to staffing, physical design, required services and resident characteristics. The Company believes that such regulation will increase in the future. In addition, health care providers are receiving increased scrutiny under anti-trust laws as integration and consolidation of health care delivery increases and affects competition. The Company s communities are also subject to various zoning restrictions, local building codes, and other ordinances, such as fire safety codes. Failure by the Company to comply with applicable regulatory requirements could have a material adverse effect on the Company s business, financial condition, and results of operations. Regulation of the assisted living industry is evolving. The Company is unable to predict the content of new regulations and their effect on its business. There can be no assurance that the Company s operations will not be adversely affected by regulatory developments.

The Company believes that its communities are in substantial compliance with applicable regulatory requirements. However, unannounced surveys or inspections may occur annually or bi-annually, or following a regulator s receipt of a complaint about a community. In the ordinary course of business, one or more of the Company s communities could be cited for deficiencies resulting from such inspections or surveys. Most inspection deficiencies are resolved through an agreed-to plan of corrective action relating to the community s operations, but the reviewing agency typically has the authority to take further action against a licensed or certified community, which could result in the imposition of fines, imposition of a provisional or conditional license, suspension or revocation of a license, suspension or denial of admissions, loss of certification as a provider under federal health care programs or imposition of other sanctions, including criminal penalties. Loss, suspension or modification of a license may also cause us to default under our loan or lease agreements and/or trigger cross-defaults. Sanctions may be taken against providers or facilities without regard to the providers or facilities history of compliance. We may also expend considerable resources to respond to federal and state investigations or other enforcement action under applicable laws or regulations. To date, none of the deficiency reports received by us has resulted in a suspension, fine or other disposition that has had a material adverse effect on our revenues. However, any future substantial failure to comply with any applicable legal and regulatory requirements could result in a material adverse effect to our business as a whole. In addition, states Attorneys General vigorously enforce consumer protection laws as those laws relate to the senior living industry. State Medicaid Fraud and Abuse Units may also investigate assisted living communities even if the community or any of its residents do not receive federal or state funds.

Under the Americans with Disabilities Act of 1990 (ADA), all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. A number of additional federal, state and local laws exist that also may require modifications to existing and planned properties to permit access to the properties by disabled persons. While the Company believes that its communities are substantially in compliance with present requirements or are exempt therefrom, if required changes involve a greater expenditure than anticipated or must be made on a more accelerated basis than anticipated, additional costs would be incurred by the Company. Further legislation may impose additional burdens or restrictions with respect to access by disabled persons, the costs of compliance with which could be substantial.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA), in conjunction with the federal regulations promulgated thereunder by the Department of Health and Human Services, has established, among other requirements, standards governing the privacy of certain protected and individually identifiable health information (PHI) that is created, received or maintained by a range of covered entities. HIPAA has also established standards governing uniform health care transactions, the codes and identifiers to be used by the covered entities and standards governing the security of certain electronic transactions conducted by covered entities. Penalties for violations can range from civil money penalties for errors and negligent acts to criminal fines and imprisonment for knowing and intentional misconduct. HIPAA is a complex set of regulations and many unanswered questions remain with respect to the manner in which HIPAA applies to businesses such as those operated by the Company.

In addition, the Company is subject to various federal, state and local environmental laws and regulations. Such laws and regulations often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of hazardous or toxic substances. The costs of any required remediation or removal of these substances could be substantial and the liability of an owner or operator as to any property is generally not limited under such laws and regulations and could exceed the property s value and the aggregate assets of the owner or operator. The presence of these substances or failure to remediate such contamination properly may also adversely affect the owner s ability to sell or rent the property, or to borrow using the property as collateral. Under these laws and regulations, an owner, operator or an entity that arranges for the disposal of hazardous or toxic substances, such as asbestos-containing materials, at a disposal site may also be liable for the costs of any required remediation or removal of the hazardous or toxic substances at the disposal site. In connection with the ownership or operation of its properties, the Company could be liable for these costs, as well as certain other costs, including governmental fines and injuries to persons or properties. The Company has completed Phase I environmental audits of substantially all of the communities in which the Company owns interests, typically at the time of acquisition, and such audits have not revealed any material environmental liabilities that exist with respect to these communities.

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Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at such property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean up costs. The Company is not aware of any environmental liability with respect to any of its owned, leased or managed communities that the Company believes would have a material adverse effect on its business, financial condition, or results of operations. The Company believes that its communities are in compliance in all material respects with all federal, state and local laws, ordinances and regulations regarding hazardous or toxic substances or petroleum products. The Company has not been notified by any governmental authority, and is not otherwise aware of any material non-compliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with any of the communities the Company currently operates.

The Company believes that the structure and composition of government and, specifically, health care regulations will continue to change and, as a result, regularly monitors developments in the law. The Company expects to modify its agreements and operations from time to time as the business and regulatory environments change. While the Company believes it will be able to structure all its agreements and operations in accordance with applicable law, there can be no assurance that its arrangements will not be successfully challenged.

Competition

The senior living industry is highly competitive, and the Company expects that all segments of the industry will become increasingly competitive in the future. Although there are a number of substantial companies active in the senior living industry and in the markets in which the Company operates, the industry continues to be very fragmented and characterized by numerous small operators. The Company primarily competes with Assisted Living Concepts, Brookdale Senior Living Inc., Emeritus Corporation, Five Star Quality Care, Inc. and Sunrise Senior Living, Inc. The Company believes that the primary competitive factors in the senior living industry are: (i) location; (ii) reputation for and commitment to a high quality of service; (iii) quality of its on-site staff and support services offered (such as food services); (iv) price of services; and (v) physical appearance and amenities associated with the communities. The Company competes with other companies providing independent living, assisted living, skilled nursing, home health care, and other similar service and care alternatives, some of whom may have greater financial resources than the Company. Because seniors tend to choose senior living communities near their homes, the Company s principal competitors are other senior living and long-term care communities in the same geographic areas as the Company s communities. The Company also competes with other health care businesses with respect to attracting and retaining nurses, technicians, aides and other high quality professional and non-professional employees and managers.

Employees

As of December 31, 2011, the Company employed 4,895 persons, of which 2,545 were full-time employees (63 of whom are located at the Company s corporate offices) and 2,350 were part-time employees. None of the Company s employees are currently represented by a labor union and the Company is not aware of any union organizing activity among its employees. The Company believes that its relationship with its employees is good.

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Executive Officers and Other Key Employees of the Registrant

The following table sets forth certain information concerning each of the Company s executive officers and other key employees as of December 31, 2011:

Name	Age	Position(s) with the Company
Lawrence A. Cohen	58	Chief Executive Officer and Vice Chairman of the Board
Keith N. Johannessen	55	President and Chief Operating Officer
Ralph A. Beattie	62	Executive Vice President and Chief Financial Officer
Rob L. Goodpaster	58	Vice President National Marketing
David W. Beathard, Sr.	64	Vice President Operations
David R. Brickman	53	Vice President, Secretary and General Counsel
Joseph G. Solari	47	Vice President Acquisitions
Gloria Holland	44	Vice President Finance
Glen H. Campbell	67	Vice President Development
Robert F. Hollister	56	Property Controller

Lawrence A. Cohen has served as one of our directors since November 1996 and as Vice Chairman of the Board since November 1996. He has served as our Chief Executive Officer since May 1999 and was our Chief Financial Officer from November 1996 to May 1999. From 1991 to 1996, Mr. Cohen served as President and Chief Executive Officer of Paine Webber Properties Incorporated. Mr. Cohen serves on the boards of various charitable organizations and is active in several industry associations. Mr. Cohen was a founding member and is on the Executive Committee of the Board of Directors of the American Seniors Housing Association, serves on the board of the Assisted Living Federation of America (ALFA), and serves on the Operator Advisory Board of the National Investment Center for the Seniors Housing & Care Industry. Mr. Cohen is a licensed attorney and is also a Certified Public Accountant. He received an LLM from New York University School of Law, a JD from St. John s University School of Law, and a BBA in Accounting from The George Washington University. Mr. Cohen has had positions with businesses involved in senior living for 27 years.

Keith N. Johannessen has been a director since February 2004. Mr. Johannessen has served as our President since March 1994 and Chief Operating Officer since May 1999. He has more than 33 years of operational experience in seniors housing. Mr. Johannessen began his senior housing career in 1978 with Life Care Services Corporation and then joined Oxford Retirement Services, Inc as Executive Vice President. He later served as Senior Manager in the health care practice of Ernst & Young LLP prior to joining the Company in 1993. Mr. Johannessen has served on the State of the Industry and Model Assisted Living Regulations Committees of the American Seniors Housing Association. He holds a BA degree.

Ralph A. Beattie joined the Company as Executive Vice President and Chief Financial Officer in May 1999. From 1997 to 1999, he served as Executive Vice President and the Chief Financial Officer of Universal Sports America, Inc., which was honored as the number one growth company in Dallas for 1998. For the eight years prior to that he was Executive Vice President and Chief Financial Officer for Haggar Clothing Company, during which time Haggar successfully completed its initial public offering. Mr. Beattie has earned his Masters of Business Administration from Carnegie Mellon University and is both a Certified Management Accountant and a Certified Financial Planner.

Rob L. Goodpaster has served as Vice President National Marketing of the Company and its predecessors since December 1992. From 1990 to 1992, Mr. Goodpaster was National Director for Marketing for Autumn America, an owner and operator of senior housing facilities. Mr. Goodpaster has been active in professional industry associations and formerly served on the Board of Directors for the National Association for Senior Living Industries. Mr. Goodpaster has been active in the operational, development and marketing aspects of senior housing for 35 years.

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David W. Beathard, Sr. has served as Vice President Operations of the Company and its predecessors since August 1996. From 1992 to 1996, Mr. Beathard owned and operated a consulting firm, which provided operational, marketing, and feasibility consulting regarding senior housing facilities. Mr. Beathard has been active in the operational, sales and marketing, and construction oversight aspects of senior housing for 38 years.

David R. Brickman has served as Vice President and General Counsel of the Company and its predecessors since July 1992 and has served as Secretary of the Company since May 2007. From 1989 to 1992, Mr. Brickman served as in-house counsel with LifeCo Travel Management Company, a corporation that provided travel services to U.S. corporations. Mr. Brickman earned a Juris Doctor and Masters of Business Administration from the University of South Carolina and a Masters in Health Administration from Duke University. He currently serves on the Board of Advisors for the Southern Methodist University Corporate Counsel Symposium. He is also a member of the National Center for Assisted Living In-house Counsel Roundtable Task Force, the ALFA Government Relations Roundtable, as well as the Long-Term Care Risk Legal Forum. Mr. Brickman has either practiced law or performed in-house counsel functions for 25 years.

Joseph G. Solari joined the Company as Vice President Acquisitions in September 2010. Mr. Solari has more than 15 years of experience originating, structuring, negotiating and executing the acquisition, sale and divestiture of healthcare real estate and real estate operating companies. Prior to joining the Company, from 2007 to 2009, Mr. Solari was Managing Director, Acquisitions for Ventas, Inc., where he was responsible for the firm s real estate investment activities in the seniors housing and skilled nursing industries. Prior to Ventas, Inc., from 1999 to 2007, Mr. Solari spent eight years in the healthcare investment banking group of Houlihan Lokey, where he was responsible for the origination and execution of merger and acquisition, private placement and financial restructuring engagements for the firm s healthcare clients, with particular focus on facility-based, healthcare services companies. Mr. Solari earned his Masters in Business Administration degree from Virginia Commonwealth University.

Gloria M. Holland has served as Vice President Finance of the Company since June 2004. From 2001 to 2004, Ms. Holland served as Assistant Treasurer and a corporate officer for Aurum Technology, Inc., a privately held company that provided technology and outsourcing to community banks. From 1996 to 2001, Ms. Holland held positions in Corporate Finance and Treasury at Brinker International, an owner and operator of casual dining restaurants. From 1989 to 1996, Ms. Holland was a Vice President in the Corporate Banking division of NationsBank and predecessor banks. Ms. Holland received a BBA in Finance from the University of Mississippi in 1989.

Glen H. Campbell has served as Vice President Development of the Company since September 1997. From 1990 to 1997 Mr. Campbell served as Vice President of Development for Greenbrier Corporation, an assisted living development and management company. From 1985 to 1990 Mr. Campbell served as Director of Facility Management for Retirement Corporation of America. Mr. Campbell has been active in the design and development of retirement communities for 37 years.

Robert F. Hollister, a Certified Public Accountant, has served as Property Controller for the Company and its predecessors since April 1992. From 1985 to 1992, Mr. Hollister was Chief Financial Officer and Controller of Kavanaugh Securities, Inc., a National Association of Securities Dealers broker dealer. Mr. Hollister is a member of the American Institute of Certified Public Accountants.

Subsidiaries

Capital Senior Living Corporation is the parent company of several direct and indirect subsidiaries. Although Capital Senior Living Corporation and its subsidiaries are referred to for ease of reference in this Form 10-K as the Company, these subsidiaries are separately incorporated and maintain their legal existence separate and apart from the parent, Capital Senior Living Corporation.

ITEM 1A. *RISK FACTORS.*

Our business involves various risks. When evaluating our business the following information should be carefully considered in conjunction with the other information contained in our periodic filings with the SEC. Additional risks and uncertainties not known to us currently or that currently we deem to be immaterial also may

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impair our business operations. If we are unable to prevent events that have a negative effect from occurring, then our business may suffer. Negative events are likely to decrease our revenue, increase our costs, make our financial results poorer and/or decrease our financial strength, and may cause our stock price to decline.

We have significant debt and our failure to generate cash flow sufficient to cover required interest and principal payments could result in defaults of the related debt.

As of December 31, 2011, we had mortgage and other indebtedness totaling approximately $233.1 million. We cannot assure you that we will generate cash flow from operations or receive proceeds from refinancings, other financings or the sales of assets sufficient to cover required interest and principal payments. Any payment or other default could cause the applicable lender to foreclose upon the communities securing the indebtedness with a consequent loss of income and asset value to us. Further, because some of our mortgages contain cross-default and cross-collateralization provisions, a payment or other default by us with respect to one community could affect a significant number of our other communities.

We have significant operating lease obligations and our failure to generate cash flows sufficient to cover these lease obligations could result in defaults under the lease agreements.

As of December 31, 2011, we leased 49 communities with future lease obligations totaling approximately $522.8 million, with minimum lease obligations of $52.0 million in fiscal 2012. We cannot assure you that we will generate cash flow from operations or receive proceeds from refinancings, other financings or the sales of assets sufficient to cover these required operating lease obligations. Any payment or other default under any such lease could result in the termination of the lease, with a consequent loss of income and asset value to us. Further, because our leases contain cross-default provisions, a payment or other default by us with respect to one leased community could affect all of our other leased communities with related lessors. Certain of our leases contain various financial and other restrictive covenants, which could limit our flexibility in operating our business. Failure to maintain compliance with the lease obligations as set forth in our lease agreements could have a material adverse impact on us. The termination of a significant portion of our facility lease agreements could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

Our failure to comply with financial covenants and other restrictions contained in debt instruments and lease agreements could result in the acceleration of the related debt or lease or in the exercise of other remedies.

Our outstanding indebtedness and leases are secured by our communities, and, in certain cases, a guaranty by one or more of our subsidiaries. Therefore, an event of default under the outstanding indebtedness or leases, subject to cure provisions in certain instances, would give the respective lenders or lessors, as applicable, the right to declare all amounts outstanding to be immediately due and payable, terminate the lease, or foreclose on collateral securing the outstanding indebtedness and leases.

There are various financial covenants and other restrictions in certain of our debt instruments and lease agreements, including provisions which:

- require us to meet specified financial tests at the subsidiary company level, which include, but are not limited to, tangible net worth requirements;
- require us to meet specified financial tests at the community level, which include, but are not limited to, lease coverage tests; and
- require consent for changes in control of us.

If we fail to comply with any of these requirements, then the related indebtedness or lease obligations could become due and payable prior to their stated dates. We cannot assure that we could pay these debt or lease obligations if they became due prior to their stated dates.

We will require additional financing and/or refinancings in the future and may issue equity securities.

Our ability to obtain such financing or refinancing on terms acceptable to us could have a material adverse effect on our business, financial condition, cash flows, and results of operations. Our ability to meet

our long-term capital requirements, including the repayment of certain long-term debt obligations, will depend, in part, on our ability to obtain additional financing or refinancings on acceptable terms from available financing sources, including through the use of mortgage financing, joint venture arrangements, by accessing the debt and/or equity markets and possibly through operating leases or other types of financing, such as lines of credit. Recent turmoil in the financial markets has severely restricted the availability of funds for borrowing and may make it more difficult or costly for us to raise capital. There can be no assurance that financing or refinancings will be available or that, if available, will be on terms acceptable to us. Moreover, raising additional funds through the issuance of equity securities could cause existing stockholders to experience dilution and could adversely affect the market price of our common stock. The disruptions in the financial markets have had and may continue to have a significant adverse effect on the market value of our common stock and other adverse effects on us and our business. Our inability to obtain additional financing or refinancings on terms acceptable to us could delay or eliminate some or all of our growth plans, necessitate the sales of assets at unfavorable prices or both, and would have a material adverse effect on our business, financial condition, cash flows, and results of operations.

Any future floating rate debt and lease obligations could expose us to rising interest rates.

Currently all of our debt carries fixed interest rates. However, future indebtedness and lease obligations, if applicable, may be based on floating interest rates prevailing from time to time. Therefore, increases in prevailing interest rates could increase in the future our interest or lease payment obligations and could in the future have a material adverse effect on our business, financial condition, cash flows, and results of operations.

We cannot assure that we will be able to effectively manage our growth.

We intend to expand our operations, directly or indirectly, through the acquisition of existing senior living communities, the expansion of some of our existing senior living communities and/or through an increase in the number of communities which we manage under management agreements. The success of our growth strategy will depend, in large part, on our ability to implement these plans and to effectively operate these communities. If we are unable to manage our growth effectively, our business, financial condition, cash flows, and results of operations may be adversely affected.

We cannot assure that we will attempt to, or be able to, acquire additional senior living communities, or expand existing senior living communities.

The acquisition of existing communities or other businesses involves a number of risks. Existing communities available for acquisition frequently serve or target different markets than those presently served by us. We may also determine that renovations of acquired communities and changes in staff and operating management personnel are necessary to successfully integrate those communities or businesses into our existing operations. The costs incurred to reposition or renovate newly acquired communities may not be recovered by us. In undertaking acquisitions, we also may be adversely impacted by unforeseen liabilities attributable to the prior operators of those communities or businesses, against whom we may have little or no recourse. The success of our acquisition strategy will be determined by numerous factors, including our ability to identify suitable acquisition candidates; the competition for those acquisitions; the purchase price; the requirement to make operational or structural changes and improvements; the financial performance of the communities or businesses after acquisition; our ability to finance the acquisitions; and our ability to integrate effectively any acquired communities or businesses into our management, information, and operating systems. We cannot assure that our acquisition of senior living communities or other businesses will be completed at the rate currently expected, if at all, or if completed, that any acquired communities or businesses will be successfully integrated into our operations.

Our ability to successfully expand existing senior living communities will depend on a number of factors, including, but not limited to, our ability to acquire suitable sites at reasonable prices; our success in obtaining necessary zoning, licensing, and other required governmental permits and authorizations; and our ability to control construction costs and accurately project completion schedules. Additionally, we anticipate that the expansion of existing senior living communities may involve a substantial commitment of capital for a period of time of two years or more until the new senior living communities or expansions are operating and producing revenue, the consequence of which could be an adverse impact on our liquidity.

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Termination of resident agreements and resident attrition could affect adversely our revenues and earnings.

State regulations governing assisted living facilities require written resident agreements with each resident. Most of these regulations also require that each resident have the right to terminate the resident agreement for any reason on reasonable notice. Consistent with these regulations, the resident agreements signed by us allow residents to terminate their agreement on 30 days notice. Thus, we cannot contract with residents to stay for longer periods of time, unlike typical apartment leasing arrangements that involve lease agreements with specified leasing periods of up to a year or longer. If a large number of residents elected to terminate their resident agreements at or around the same time, then our revenues and earnings could be adversely affected. In addition, the advanced age of our average resident means that the resident turnover rate in our senior living facilities may be difficult to predict.

We largely rely on private pay residents and circumstances that adversely affect the ability of the elderly to pay for our services could have a material adverse effect on us.

Approximately 95% of our total revenues from communities that we operated were attributable to private pay sources and approximately 5% of our revenues from these communities were attributable to reimbursements from Medicare and Medicaid during fiscal 2011. We expect to continue to rely primarily on the ability of residents to pay for our services from their own or family financial resources. The current unfavorable economic conditions in the housing, financial, and credit markets, inflation, or other circumstances that adversely affect the ability of the elderly to pay for our services could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

We are subject to risks related to third-party management agreements.

At December 31, 2011, we managed three senior living communities for joint ventures in which we have a minority interest pursuant to multi-year management agreements. The management agreements have initial terms of 10 years. Under these agreements we provide management services to joint venture owners to operate senior living communities and have provided, and may in the future provide, management and consulting services to third parties on market and site selection, pre-opening sales and marketing, start-up training and management services for facilities under development and construction. Either party to the agreements may terminate them upon the occurrence of an event of default caused by the other party. In addition, subject to our rights to cure deficiencies, community owners may terminate us as manager if any licenses or certificates necessary for operation are revoked, or if we have a change of control. Also, a community owner may terminate the management agreement relating to a particular community if we are in default under other management agreements relating to other communities owned by the same community owner or its affiliates. In addition, in certain cases the community owner may terminate the agreement upon 30 days notice to us in the event of a sale of the community.

Failure to perform our obligations under our joint venture arrangements could have a material adverse effect on us.

We hold 10% minority interests in three joint ventures with affiliates of Prudential Investment. We also manage the communities owned by these joint ventures. Under the terms of the joint venture agreements with Prudential Investment covering three properties, we are obligated to meet certain cash flow targets and failure to meet these cash flow targets could result in termination of the management agreements.

The Company, on the three joint venture developments with Prudential Investment, has development agreement guarantees that the communities will be completed and operated at the 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 costs overruns and other unforeseen costs. The terms of these guarantees generally do not provide for a limitation on the maximum potential future payments. These joint ventures are currently in lease up and one of the joint ventures has exhausted all of its reserves. The Company will be required to fund operating deficits until the joint venture reaches breakeven for three consecutive months. Any amounts funded by the Company under this commitment, up to $0.5 million, may be recoverable from the joint venture in the event of liquidation. As of December 31, 2011, the Company had recognized deficit charges of approximately $1.0 million under these development agreement guarantees. During the third quarter of fiscal 2011, the Company met the requirements of the development agreement guarantees for two of these joint venture developments resulting in full satisfaction and termination of those guarantees.

All of the management agreements with the joint ventures contain termination and renewal provisions. We do not control these joint venture decisions covering termination or renewal. Performance of the above obligations or termination or non-renewal of the management agreements could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

The senior living services industry is very competitive and some competitors may have substantially greater financial resources than us.

The senior living services industry is highly competitive, and we expect that all segments of the industry will become increasingly competitive in the future. We compete with other companies providing independent living, assisted living, skilled nursing, home health care and other similar services and care alternatives. We also compete with other health care businesses with respect to attracting and retaining nurses, technicians, aides and other high quality professional and non-professional employees and managers. Although we believe there is a need for senior living communities in the markets where we operate residences, we expect that competition will increase from existing competitors and new market entrants, some of whom may have substantially greater financial resources than us. In addition, some of our competitors operate on a not-for-profit basis or as charitable organizations and have the ability to finance capital expenditures on a tax-exempt basis or through the receipt of charitable contributions, neither of which are available to us. Furthermore, if the development of new senior living communities outpaces the demand for those communities in the markets in which we have senior living communities, those markets may become saturated. Regulation in the independent and assisted living industry, which represents a substantial portion of our senior living services, is not substantial. Consequently, development of new senior living communities could outpace demand. An oversupply of those communities in our markets could cause us to experience decreased occupancy, reduced operating margins and lower profitability.

We rely on the services of key executive officers and the loss of these officers or their services could have a material adverse effect on us.

We depend on the services of our executive officers for our management. The loss of some of our executive officers and the inability to attract and retain qualified management personnel could affect our ability to manage our business and could adversely affect our business, financial condition, cash flows, and results of operations.

A significant increase in our labor costs could have a material adverse effect on us.

We compete with other providers of senior living services with respect to attracting and retaining qualified management personnel responsible for the day-to-day operations of each of our communities and skilled personnel responsible for providing resident care. A shortage of nurses or trained personnel may require us to enhance our wage and benefits package in order to compete in the hiring and retention of these personnel or to hire more expensive temporary personnel. We also will be dependent on the available labor pool of semi-skilled and unskilled employees in each of the markets in which we operate. No assurance can be given that our labor costs will not increase, or that, if they do increase, they can be matched by corresponding increases in rates charged to residents. Any significant failure by us to control our labor costs or to pass on any increased labor costs to residents through rate increases could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

We are subject to risks related to the provision for employee health care benefits and recent health care reform legislation.

We use a combination of insurance and self-insurance for employee health care plans. We record expenses under these plans based on estimates of the costs of expected claims, administrative costs and stop-loss premiums. These estimates are then adjusted to reflect actual costs incurred. Actual costs under these plans are subject to variability depending primarily upon participant enrollment and demographics, the actual costs of claims and whether stop-loss insurance covers these claims. In the event that our cost estimates differ from actual costs, we could incur additional unplanned health care costs which could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

In March 2010, comprehensive health care reform legislation under the Patient Protection and Affordable Care Act (HR 3590) and the Health Care Education and Affordability Reconciliation Act (HR 4872) was passed and signed into law. This legislation expands health care coverage to many uninsured individuals and expands health care coverage to those already insured under existing plans. The health care reform legislation includes, among other things, guaranteed coverage requirements, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded, and imposes new and significant taxes on health insurers and health care benefits. Provisions of the health care reform legislation become effective at various dates over the next several years. The United States Department of Health and Human Services, National Association of Insurance Commissioners, Department of Labor and Treasury Department have yet to issue necessary enabling regulations and guidance with respect to the health care reform legislation. Due to the breadth and complexity of the health care reform legislation, the lack of implementing regulations and interpretative guidance, and the phased-in nature of the implementation, it is difficult to predict the overall impact this legislation will have over the coming years; however, this legislation could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

There is an inherent risk of liability in the provision of personal and health care services, not all of which may be covered by insurance.

The provision of personal and health care services in the long-term care industry entails an inherent risk of liability. In recent years, participants in the long-term care industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant defense costs. Moreover, senior living communities offer residents a greater degree of independence in their daily living. This increased level of independence may subject the resident and, therefore, us to risks that would be reduced in more institutionalized settings. We currently maintain insurance in amounts we believe are comparable to those maintained by other senior living companies based on the nature of the risks, our historical experience and industry standards, and we believe that this insurance coverage is adequate. However, we may become subject to claims in excess of our insurance or claims not covered by our insurance, such as claims for punitive damages, terrorism and natural disasters. A claim against us not covered by, or in excess of, our insurance could have a material adverse effect upon us.

In addition, our insurance policies must be renewed annually. Based upon poor loss experience, insurers for the long-term care industry have become increasingly wary of liability exposure. A number of insurance carriers have stopped writing coverage to this market, and those remaining have increased premiums and deductibles substantially. Therefore, we cannot assure that we will be able to obtain liability insurance in the future or that, if that insurance is available, it will be available on acceptable economic terms.

We are subject to government regulations and compliance, some of which are burdensome and some of which may change to our detriment in the future.

Federal and state governments regulate various aspects of our business. The development and operation of senior living communities and the provision of health care services are subject to federal, state and local licensure, certification and inspection laws that regulate, among other matters, the number of licensed beds, the provision of services, the distribution of pharmaceuticals, billing practices and policies, equipment, staffing (including professional licensing), operating policies and procedures, fire prevention measures, environmental matters and compliance with building and safety codes. Failure to comply with these laws and regulations could result in the denial of reimbursement, the imposition of fines, temporary suspension of admission of new residents, suspension or decertification from the Medicare program, restrictions on the ability to acquire new communities or expand existing communities and, in extreme cases, the revocation of a community s license or closure of a community. We believe that such regulation will increase in the future and we are unable to predict the content of new regulations or their effect on our business, any of which could materially adversely affect us.

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Various states, including several of the states in which we currently operate, control the supply of licensed skilled nursing beds, assisted living communities and home health care agencies through CON or other programs. In those states, approval is required for the construction of new health care communities, the addition of licensed beds and some capital expenditures at those communities, as well as the opening of a home health care agency. To the extent that a CON or other similar approval is required for the acquisition or construction of new communities, the expansion of the number of licensed beds, services, or existing communities, or the opening of a home health care agency, we could be adversely affected by our failure or inability to obtain that approval, changes in the standards applicable for that approval, and possible delays and expenses associated with obtaining that approval. In addition, in most states, the reduction of the number of licensed beds or the closure of a community requires the approval of the appropriate state regulatory agency and, if we were to seek to reduce the number of licensed beds at, or to close, a community, we could be adversely affected by a failure to obtain or a delay in obtaining that approval.

Federal and state anti-remuneration laws, such as anti-kickback laws, govern some financial arrangements among health care providers and others who may be in a position to refer or recommend patients to those providers. These laws prohibit, among other things, some direct and indirect payments that are intended to induce the referral of patients to, the arranging for services by, or the recommending of, a particular provider of health care items or services. Federal anti-kickback laws have been broadly interpreted to apply to some contractual relationships between health care providers and sources of patient referral. Similar state laws vary, are sometimes vague, and seldom have been interpreted by courts or regulatory agencies. Violation of these laws can result in loss of licensure, civil and criminal penalties, and exclusion of health care providers or suppliers from participation in Medicare and Medicaid programs. There can be no assurance that those laws will be interpreted in a manner consistent with our practices.

Under the Americans with Disabilities Act of 1990, all places of public accommodation are required to meet federal requirements related to access and use by disabled persons. A number of additional federal, state and local laws exist that also may require modifications to existing and planned communities to create access to the properties by disabled persons. Although we believe that our communities are substantially in compliance with present requirements or are exempt therefrom, if required changes involve a greater expenditure than anticipated or must be made on a more accelerated basis than anticipated, additional costs would be incurred by us. Further legislation may impose additional burdens or restrictions with respect to access by disabled persons, the costs of compliance with which could be substantial.

The Health Insurance Portability and Accountability Act of 1996, in conjunction with the federal regulations promulgated thereunder by the Department of Health and Human Services, has established, among other requirements, standards governing the privacy of certain protected and individually identifiable health information that is created, received or maintained by a range of covered entities. HIPAA has also established standards governing uniform health care transactions, the codes and identifiers to be used by the covered entities and standards governing the security of certain electronic transactions conducted by covered entities. Penalties for violations can range from civil money penalties for errors and negligent acts to criminal fines and imprisonment for knowing and intentional misconduct. HIPAA is a complex set of regulations and many unanswered questions remain with respect to the manner in which HIPAA applies to businesses such as those operated by us.

An increasing number of legislative initiatives have been introduced or proposed in recent years that would result in major changes in the health care delivery system on a national or a state level. Among the proposals that have been introduced are price controls on hospitals, insurance market reforms to increase the availability of group health insurance to small businesses, requirements that all businesses offer health insurance coverage to their employees and the creation of government health insurance plans that would cover all citizens and increase payments by beneficiaries. We cannot predict whether any of the above proposals or other proposals will be adopted and, if adopted, no assurances can be given that their implementation will not have a material adverse effect on our business, financial condition or results of operations.

We may be subject to liability for environmental damages.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at the property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean up costs incurred by those parties in connection with the contamination. These laws typically impose clean-up responsibility and liability without regard to whether the owner knew of or caused the presence of the contaminants, and liability under these laws has been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of responsibility. The costs of investigation, remediation or removal of the substances may be substantial, and the presence of the substances, or the failure to properly remediate the property, may adversely affect the owner s ability to sell or lease the property or to borrow using the property as collateral. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. Persons who arrange for the disposal or treatment of hazardous or toxic substances also may be liable for the costs of removal or remediation of the substances at the disposal or treatment facility, whether or not the facility is owned or operated by the person. Finally, the owner of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. If we become subject to any of these claims the costs involved could be significant and could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

Anti-takeover provisions in our governing documents, governing law, material agreements and our shareholder rights plan may discourage, delay or prevent a merger or acquisition that our stockholders may consider favorable or prevent the removal of our current board of directors and management.

Certain provisions of our amended and restated certificate of incorporation and our amended and restated by-laws may discourage, delay or prevent a merger or acquisition that our stockholders may consider favorable or prevent the removal of our current board of directors and management. We have a number of anti-takeover devices in place that will hinder takeover attempts, including: a staggered board of directors consisting of three classes of directors, each of whom serve three-year terms; removal of directors only for cause, and only with the affirmative vote of at least a majority of the voting interest of stockholders entitled to vote; right of our directors to issue preferred stock from time to time with voting, economic and other rights superior to those of our common stock without the consent of our stockholders; provisions in our amended and restated certificate of incorporation and amended and restated by-laws limiting the right of our stockholders to call special meetings of stockholders; advance notice requirements for stockholders with respect to director nominations and actions to be taken at annual meetings; requirement for two-thirds stockholder approval for amendment of our by-laws and certain provisions of our certificate of incorporation; and no provision in our amended and restated certificate of incorporation for cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of our common stock can elect all the directors standing for election.

Several of our leases, loan documents and other material agreements require approval in case of a change of control of our company. These provisions may have the effect of delaying or preventing a change of control of our company even if this change of control would benefit our stockholders.

In addition to the anti-takeover provisions described above, we are subject to Section 203 of the Delaware General Corporation Law. Section 203 generally prohibits a person beneficially owning, directly or in directly, 15% or more of our outstanding common stock from engaging in a business combination with us for three years after the person acquired the stock. However, this prohibition does not apply if (A) our directors approve in advance the person s ownership of 15% or more of the shares or the business combination or (B) the business combination is approved by our stockholders by a vote of at least two-thirds of the outstanding shares not owned by the acquiring person. Also, our board of directors adopted and our stockholders approved a stockholder rights plan, which may discourage a third party from making an unsolicited proposal to acquire 20% or more of our common stock.

Because we do not presently have plans to pay dividends on our common stock, stockholders must look solely to appreciation of our common stock to realize a gain on their investment.

It is the policy of our Board of Directors to retain any future earnings to finance the operation and expansion of the Company s business. Accordingly, the Company has not and does not currently anticipate declaring or paying cash dividends on your common stock in the foreseeable future. The payment of cash dividends in the

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future will be at the sole discretion of our Board of Directors and will depend on, among other things, the Company s earnings, operations, capital requirements, financial condition, restrictions in then existing financing agreements and other factors deemed relevant by our Board of Directors. Accordingly, stockholders must look solely to appreciation of our common stock to realize a gain on their investment. This appreciation may not occur.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The executive and administrative offices of the Company are located at 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254, and consist of approximately 26,000 square feet. The lease on the premises extends through May 2013. The Company believes that its corporate office facilities are adequate to meet its requirements through at least fiscal 2012 and that suitable additional space will be available, as needed, to accommodate further physical expansion of corporate operations. The Company also leases executive office space in New York, New York pursuant to a two-year lease agreement.

As of December 31, 2011, the Company owned, leased and/or managed the senior living communities referred to in Item 1 above under the caption Operating Communities.

ITEM 3. LEGAL PROCEEDINGS.

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.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a) Market Price of and Dividends on the Registrant s Common Equity and Related Stockholder Matters.

Market Information and Holders

The Company s shares of common stock are listed for trading on the New York Stock Exchange (NYSE) under the symbol CSU . The following table sets forth, for the periods indicated, the high and low sales prices for the Company s common stock, as reported on the NYSE. At February 29, 2012, there were approximately 132 stockholders of record of the Company s common stock.

	2011		2010	
Year	**High**	**Low**	**High**	**Low**
First Quarter	$ 10.91	$ 6.60	$ 5.49	$ 4.21
Second Quarter	10.82	8.26	5.85	4.34
Third Quarter	10.10	5.67	5.61	4.73
Fourth Quarter	8.54	5.44	7.10	5.15

Dividends

It is the policy of the Company s Board of Directors to retain all future earnings to finance the operation and expansion of the Company s business. Accordingly, the Company has not and does not anticipate declaring or paying cash dividends on the common stock in the foreseeable future. The payment of cash dividends in the future will be at the sole discretion of the Company s Board of Directors and will depend on, among other things, the Company s earnings, operations, capital requirements, financial condition, restrictions in then existing financing agreements, and other factors deemed relevant by the Board of Directors.

Securities Authorized for Issuance under Equity Compensation Plans

The following table presents information relating to the Company s equity compensation plans as of December 31, 2011:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of the Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity compensation plans approved by security holders	285,100	$ 6.28	1,409,795
Equity compensation plans not approved by security holders			
Total	285,100	$ 6.28	1,409,795

Performance Graph

The following Performance Graph shows the cumulative total return for the five-year period ended December 31, 2011, in the value of $100 invested in: (1) the Company s common stock; (2) the Standard & Poor s Broad Market Index (the S&P 500); and (3) the common stock of the Peer Group (as defined below) of companies, whose returns represent the arithmetic average of such companies. The values with each investment as of the beginning of each year are based on share price appreciation and the reinvestment with dividends on the respective ex-dividend dates.

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COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Capital Senior Living Corporation, the S&P 500 Index, and a Peer Group

* $100 invested on 12/31/06 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

The preceding graph assumes $100 invested at the beginning of the measurement period, including reinvestment of dividends, in the Company s common stock, the S&P 500, and the Peer Group and was plotted using the following data:

	Cumulative Total Returns					
	12/06	**12/07**	**12/08**	**12/09**	**12/10**	**12/11**
Capital Senior Living Corporation	100.00	93.33	28.01	47.18	62.97	74.62
S & P 500	100.00	105.49	66.46	84.05	96.71	98.75
Peer Group	100.00	73.52	16.28	38.86	47.03	39.53

The Company s Peer Group, which was selected in good faith on an industry basis, consists of Assisted Living Concepts, Inc., Brookdale Senior Living, Inc., Emeritus Corporation, Five Star Quality Care, Inc., and Sunrise Senior Living, Inc.

(b) Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities.

Not Applicable.

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(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

The following information is provided pursuant to Item 703 of Regulation S-K. The Company did not repurchase any shares of its common stock pursuant to the Company s share repurchase program (as described below) during the year ended December 31, 2011. The information set forth in the table below reflects shares repurchased by the Company pursuant to this program prior to the year ended December 31, 2011.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
Total at September 30, 2011	349,800	$ 2.67	349,800	$ 9,065,571
October 1 October 31, 2011				
November 1 November 30, 2011				
December 1 December 31, 2011				
Total at December 31, 2011	349,800	$ 2.67	349,800	$ 9,065,571

(1) 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. 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. All shares that have been purchased by the Company under this program were purchased in open-market transactions.

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ITEM 6. ***SELECTED FINANCIAL DATA.***

The following table presents selected financial data of the Company which has been derived from the audited consolidated financial statements of the Company. The selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes thereto included in this Annual Report.

	At and for the Year Ended December 31,				
	2011	**2010**	**2009**	**2008**	**2007**
	(In thousands, except per share data)				
Statements of Income Data:					
Total revenues	$ 263,502	$ 211,929	$ 191,991	$ 193,274	$ 189,052
Income from operations(1)	17,911	18,515	16,612	17,015	20,006
Net income (loss)	3,025	4,254	2,759	3,724	4,360
Net income per share:					
Basic income per share	0.11	0.16	0.10	0.14	0.17
Diluted income per share	$ 0.11	$ 0.16	$ 0.10	$ 0.14	$ 0.16
Balance Sheet Data:					
Cash and cash equivalents (excluding restricted cash)	$ 22,283	$ 31,248	$ 28,972	$ 25,880	$ 23,359
Working capital(2)	20,786	31,080	18,442	13,445	12,565
Total assets	462,326	382,781	380,503	388,120	390,053
Long-term debt, excluding current portion	224,940	170,026	173,822	177,541	185,733
Stockholders equity	$ 169,141	$ 163,823	$ 158,130	$ 155,149	$ 150,157
Other Data:					
Communities (at end of period)					
Owned or leased	81	70	50	50	49
Joint ventures & managed	3	7	16	14	15
Total	84	77	66	64	64
Resident capacity:					
Owned or leased	11,150	9,566	7,950	7,701	7,636
Joint ventures & managed	674	1,434	2,234	1,750	1,908
Total	11,824	11,000	10,184	9,451	9,544

(1) Income from operations for fiscal 2007 was revised from amounts originally reported to reduce facility lease costs to include amortization of deferred gains on sales of assets of $3,243, which had no impact on net income.

(2) Working capital for fiscal 2010, 2009, 2008, and 2007 was revised from amounts originally reported to reclassify assets held for sale of $354 to property and equipment, which had no impact on total assets. Additionally, working capital for fiscal 2007 was revised from amounts originally reported to reclassify capital replacement reserves and certain escrow deposits of $220, from current assets to other assets, which had no impact on total assets.

ITEM 7. ***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, could, believe, expect, anticipate, estimate or continue or the negative

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thereof or other variations thereon or comparable 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 include the Company s ability to 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 on a historical consolidated basis for the years ended December 31, 2011, 2010, and 2009, and (ii) liquidity and capital resources of the Company and should be read in conjunction with the Company s historical consolidated financial statements and the selected financial data 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 December 31, 2011, the Company operated 84 senior living communities in 23 states with an aggregate capacity of approximately 11,800 residents, including 35 senior living communities which the Company either owned or in which the Company had an ownership interest, and 49 senior living communities that the Company leased. As of December 31, 2011, 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 Company primarily derives its revenue by providing senior living and healthcare services to the elderly and operating senior living communities under joint venture arrangements. Despite challenging economic conditions, when comparing fiscal 2011 to fiscal 2010, the Company was able to increase total revenues approximately $51.6 million, or 24.3%, of which approximately 97.4% of these revenues consisted of senior living and healthcare services compared to 92.9% in fiscal 2010.

In October 2011, the Company closed the acquisition of three senior living communities, one located in Columbus, North Carolina, and two located in Anderson, South Carolina, for $30.0 million (the Pulliam Transaction). The communities consist of 56 independent living units and 141 assisted living units. The Company obtained financing through Fannie Mae for $22.1 million of the acquisition price at a fixed rate of 4.92% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

In August 2011, the Company closed the acquisition of a senior living community located in Macedonia, Ohio, for $27.3 million (the Summit Point Transaction). The community consists of 100 independent living units and 50 assisted living units. The Company obtained long-term fixed rate financing through Fannie Mae on September 27, 2011, at a fixed rate of 4.92% with a 10-year term to replace the interim financing provided by

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KeyBank for $19.0 million of the acquisition price at a variable rate of LIBOR plus 2.25% with a maturity date of December 31, 2011, with the balance of the acquisition price paid from the Company s existing cash resources.

In July 2011, the Company closed the acquisition of two senior living communities located in Anderson, Indiana, and Rochester, Indiana, for $16.0 million (the Keystone Woods and Wynnfield Crossing Transaction). The communities consist of 109 assisted living units. The Company obtained financing through Fannie Mae for $6.8 million of the acquisition price for the property located in Rochester, Indiana, at a fixed rate of 5.69% with a 10-year term with the balance being paid from the Company s existing cash resources. The Company obtained financing through Fannie Mae for $4.8 million of the acquisition price for the property located in Anderson, Indiana, at a fixed rate of 4.97% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

In July 2011, the Company closed the acquisition of a senior living community located in Kokomo, Indiana, for $10.2 million (the GreenTree at Kokomo Transaction). The community consists of 78 assisted living units. The Company obtained financing through Fannie Mae for $6.8 million of the acquisition price at a fixed rate of 5.69% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

In April 2011, SHPII/CSL closed the Spring Meadows Transaction. Upon closing the sale, the Company leased the four Spring Meadows Communities from HCN. As a result of this transaction, the Company received cash proceeds, including incentive distributions, from the sale by SHPII/CSL of approximately $17.0 million, net of closing costs, resulting in a gain to the Company of approximately $16.1 million which has been deferred and is being recognized as a reduction in facility lease expense over the initial 15 year lease term.

The Company was able to reduce general and administrative expenses, excluding transaction costs of $1.3 million in fiscal 2011 and $0.2 million in fiscal 2010, as a percentage of total revenues from 5.3% in fiscal 2010 to 4.6% in fiscal 2011. These reductions were primarily the result of the Company s ability to leverage resources and identify areas where overhead could be reduced without compromising superior levels of service and care to our residents.

The senior living industry continues to be impacted by challenging conditions in the housing, credit and financial markets, generally resulting in lower than anticipated operating results. Throughout fiscal 2011, in response to these conditions, the Company has continued to focus on maintaining an emphasis on occupancy increases, improvement in rental rates, expense management and growth in net operating income per unit, conversions of existing units to higher levels of care, acquisitions of senior living communities in regions where the Company has existing operations, and other opportunities to enhance cash flow and shareholder value.

Joint Venture Transactions and Management Contracts

As of December 31, 2011, the Company managed three communities owned by joint ventures in which the Company has a minority interest. For communities owned by joint ventures, the Company typically receives a management fee of 5% of gross revenues.

The Company s joint venture 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 right to offer to purchase such community.

SHPII/CSL Transactions

In November 2004, the Company formed SHPII/CSL with SHPII. SHPII/CSL was owned 95% by SHPII, a fund managed by Prudential, and 5% by the Company. In November 2004, SHPII/CSL acquired the Spring Meadows Communities which currently comprise 628 units with a combined capacity of 758 residents. The Company contributed $1.3 million for its interests in SHPII/CSL and accounted for its investment in SHPII/CSL under the equity method of accounting.

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The Company was party to the SHPII/CSL Management Agreements with SHPII/CSL, which collectively owned and operated the Spring Meadows Communities. The SHPII/CSL Management Agreements extended until various dates through November 2014. The SHPII/CSL Management Agreements generally provided for management fees of 5% of gross revenue plus reimbursement for costs and expenses related to the communities.

On April 8, 2011, SHPII/CSL closed the Spring Meadows Transaction. Upon closing the sale, the Company leased the four Spring Meadows Communities from HCN. The lease has an initial term of 15 years, with one 15-year renewal extension available at the Company s option. The initial lease rate is 7.25% and is subject to certain conditional lease escalation clauses. The Company incurred $0.9 million in lease acquisition costs which have been deferred and are being amortized over the initial 15 year lease term. The Company has accounted for this lease as an operating lease. As a result of this transaction, the Company received cash proceeds, including incentive distributions, from the sale by SHPII/CSL of approximately $17.0 million, net of closing costs, resulting in a gain to the Company of approximately $16.1 million, which has been deferred and is being recognized in the Company s Consolidated Statements of Income as a reduction in facility lease expense over the initial 15-year lease term. The Company may receive additional proceeds after the joint venture settles customary post-closing costs.

SHP III Transactions

In May 2007, the Company and SHPIII formed SHPIII/CSL Miami, LLC (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 currently consists of 101 independent living units and 45 assisted living units and opened in August 2008. The Company contributed $0.8 million to SHPIII/CSL Miami for its 10% interest and accounts for its investment in SHPIII/CSL Miami under the equity method of accounting.

In November 2007, the Company and SHPIII formed SHPIII/CSL Richmond Heights, LLC (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 currently consists of 96 independent living units and 45 assisted living units and opened in April 2009. The Company 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. The Company contributed land to SHP III/CSL Richmond Heights as a capital contribution during formation of the joint venture in November 2007 resulting in a $0.2 million gain to the Company. The gain had been deferred when the land was initially contributed to SHP III/CSL Richmond Heights due to the continuing involvement of the Company as a result of a development agreement guarantee. The Company met the breakeven requirements of the development agreement guarantee during the third quarter of fiscal 2011 resulting in full satisfaction and termination of the guarantee and recognition of the deferred gain as a component of Gain on disposition of assets, net, within the Company s Consolidated Statement of Income.

In December 2007, the Company and SHPIII formed SHPIII/CSL Levis Commons, LLC (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 currently consists of 101 independent living units and 45 assisted living units and opened in April 2009. The Company 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.

The Company is party to the SHPIII/CSL Management Agreements with SHPIII/CSL. The SHPIII/CSL Management Agreements are for initial terms of 10-years from the date the certificate of occupancy was issued and currently extend until various dates through January 2019. The SHPIII/CSL Management Agreements generally provide for management fees of 5% of gross revenue plus reimbursement for costs and expenses related to the communities.

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Facility Leases

The Company currently leases 49 senior living communities from certain real estate investment trusts (REITs). The lease terms are generally for 10-15 years with renewal options for 5-20 years at the Company s option. Under these lease agreements the Company is responsible for all operating costs, maintenance and repairs, insurance and property taxes.

As of December 31, 2011, the Company leased ten senior living facilities (collectively the Ventas Lease Agreements), from Ventas Healthcare Properties, Inc. (Ventas). The Ventas Lease Agreements each have an initial term of approximately ten years, with two five-year renewal extensions available at the Company s option. The initial lease rate under each of the Ventas Lease Agreements range from 7.75% to 8% and are subject to certain conditional escalation clauses which will be recognized when probable or incurred. The initial terms on the Ventas Lease Agreements expire on various dates through January 2018. The Company incurred $2.2 million in lease acquisition costs related to the Ventas Lease Agreements. These deferred lease acquisition costs are being amortized over the initial 10-year lease terms and are included in facility lease expense in the Company s statement of income. The Company accounts for each of the Ventas Lease Agreements as an operating lease.

As of December 31, 2011, the Company leased 15 senior living facilities (collectively the HCP Lease Agreements), from HCP, Inc. (HCP). The HCP Lease Agreements each have an initial term of ten years, with two 10-year renewal extensions available at the Company s option. The initial lease rate under the HCP Lease Agreements range from 7.25% to 8% and are subject to certain conditional escalation clauses, which will be recognized when probable or incurred. The initial terms on the HCP Lease Agreements expire on various dates through October 2018. The Company incurred $1.5 million in lease acquisition costs related to the HCP Lease Agreements. These deferred lease acquisition costs are being amortized over the initial 10-year lease terms and are included in facility lease expense in the Company s statement of income. The Company accounts for each of the HCP Lease Agreements as an operating lease.

As of December 31, 2011, the Company leased 24 senior living facilities (collectively the HCN Lease Agreements), from HCN. The HCN Lease Agreements each have an initial term of 15 years, with one 15-year renewal extension available at the Company s option. The initial lease rate under the HCN Lease Agreements range from 7.25% to 8.5% and are subject to certain conditional escalation clauses, which will be recognized when probable or incurred. The initial terms on the HCN Lease Agreements expire on various dates through April 2026. The Company incurred $2.1 million in lease acquisition costs related to the HCN Lease Agreements. These deferred lease acquisition costs are being amortized over the initial 15-year lease terms and are included in facility lease expense in the Company s statement of income. The Company accounts for each of the HCN Lease Agreements as an operating lease.

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The following table summarizes each of the Company s lease agreements (dollars in millions):

Landlord	Date of Lease	Number of Communities	Value of Transaction	Term	Initial Lease Rate(1)	Lease Acquisition Costs(2)	Deferred Gains /Lease Concessions(3)
Ventas	September 30, 2005	6	$ 84.6	10 years (Two five-year renewals)	8%	$ 1.4	$ 4.6
Ventas	October 18, 2005	1	19.5	10 years (Two five-year renewals)	8%	0.2	
Ventas	March 31,2006	1	29.0	10 years (Two five-year renewals)	8%	0.1	14.3
Ventas	June 8, 2006	1	19.1	9.5 years (Two five-year renewals)	8%	0.4	
Ventas	January 31, 2008	1	5.0	10 years (Two five-year renewals)	7.75%	0.2	
HCP	May 1, 2006	3	54.0	(4) (Two ten-year renewals)	8%	0.2	12.8
HCP	May 31, 2006	6	43.0	10 years (Two ten-year renewals)	8%	0.2	0.6
HCP	December 1, 2006	4	51.0	(4) (Two ten-year renewals)	8%	0.7	
HCP	December 14, 2006	1	18.0	(4) (Two ten-year renewals)	7.75%	0.3	
HCP	April 11, 2007	1	8.0	(4) (Two ten-year renewals)	7.25%	0.1	
HCN	April 16, 2010	5	48.5	15 years (One 15-year renewal)	8.25%	0.6	0.8
HCN	May 1, 2010	3	36.0	15 years (One 15-year renewal)	8.25%	0.2	0.4
HCN	September 10, 2010	12	104.6	15 years (One 15-year renewal)	8.50%	0.4	2.0
HCN	April 8, 2011	4	141.0	15 years (One 15-year renewal)	7.25%	0.9	16.1
Subtotal						5.9	51.6
Accumulated amortization through December 31, 2011						(2.2)	
Accumulated deferred gain recognized through December 31, 2011							(19.5)

Net lease acquisition costs / deferred gains / lease concessions as of December 31, 2011	$ 3.7	$ 32.1

(1) Initial lease rates are measured against agreed upon fair market values and are subject to conditional lease escalation provisions as set forth in each lease agreement.

(2) Lease acquisition costs are being amortized over the leases initial term.

(3) Deferred gains of $49.0 million and lease concessions of $2.6 million are being recognized in the Company s Statements of Income as a reduction in facility lease expense over the leases initial term. Lease concessions of $0.6 million relate to the HCP transaction on May 31, 2006, and $2.0 million relate to the Signature Transaction on September 10, 2010.

(4) Initial lease term expires on October 31, 2018.

Facility lease expense in the Company s Statements of Income includes rent expense plus amortization expense relating to leasehold acquisition costs offset by the amortization of deferred gains and lease incentives.

There are various financial covenants and other restrictions in our lease agreements. Under the terms of certain lease agreements, the Company has been required to pay additional cash collateral of approximately $1.7 million as of December 31, 2011. Once the Company reaches certain performance targets, the additional cash collateral paid is returnable to the Company. In anticipation of a potential lease covenant violation related to its portfolio of ten properties with a certain landlord, the Company has negotiated certain amendments delaying the effective date of a coverage ratio requirement until June 30, 2012. As a result, the Company was not in default on any aspect of its coverage ratio requirement as of December 31, 2011. Since current and projected operations are not anticipated to meet the lease coverage ratio requirement as of June 30, 2012, the Company and landlord have agreed to terms that provide a long-term solution to this matter. The solution is anticipated to be effective as of June 30, 2012, subject to usual and customary closing conditions. However, if a long-term solution is not finalized or the Company is unable to negotiate modifications to or extensions of existing amendments, the Company may be found in default of the lease agreement. In the event of default, the landlord has the right to declare all amounts outstanding to be immediately due and payable or terminate the lease, as well as other remedies. Earnings related to these properties were not significant to the consolidated operating results of the Company for the fiscal year ended December 31, 2011.

Acquisitions

Effective October 19, 2011, the Company closed the Pulliam Transaction for $30.0 million. The communities consist of 56 independent living units and 141 assisted living units. The Company incurred approximately $0.4 million in transaction costs related to this acquisition which have been included in General and administrative expenses within the Consolidated Statement of Income. The Company obtained financing through Fannie Mae for $22.1 million of the acquisition price at a fixed rate of 4.92% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective August 1, 2011, the Company closed the Summit Point Transaction for $27.3 million. The community consists of 100 independent living units and 50 assisted living units. The Company incurred approximately $0.2 million in transaction costs related to this acquisition which have been included in General and administrative expenses within the Consolidated Statement of Income. The Company obtained interim financing through KeyBank on August 1, 2011, for $19.0 million of the acquisition price at a variable rate of LIBOR plus 2.25% with a maturity date of December 31, 2011, with the balance of the acquisition price paid from the Company s existing cash resources. The Company obtained long-term fixed rate financing through Fannie Mae on September 27, 2011, for $19.0 million to replace the KeyBank interim loan at a fixed rate of 4.92% with a 10-year term.

Effective July 29, 2011, the Company closed the Keystone Woods and Wynnfield Crossing Transaction for $16.0 million. The communities consist of 109 assisted living units. The Company incurred approximately $0.3 million in transaction costs related to this acquisition which have been included in General and administrative expenses within the Consolidated Statement of Income. The Company obtained financing through Fannie Mae on July 29, 2011, for $6.75 million of the acquisition price for the property located in Rochester, Indiana, at a fixed rate of 5.69% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources. The Company obtained financing through Fannie Mae on September 27, 2011, for $4.8 million of the acquisition price for the property located in Anderson, Indiana, at a fixed rate of 4.97% with a 10-year term with the balance being paid from the Company s existing cash resources.

Effective July 15, 2011, the Company closed the GreenTree at Kokomo Transaction for $10.2 million. The community consists of 78 assisted living units. The Company incurred approximately $0.1 million in transaction costs related to this acquisition which have been included in General and Administrative expenses within the Consolidated Statement of Income. The Company obtained financing through Fannie Mae on July 29, 2011, for $6.75 million of the acquisition price at a fixed rate of 5.69% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Debt Transactions

On December 1, 2011, the Company renewed certain insurance policies and entered into a finance agreement totaling $3.5 million. The finance agreement has a fixed interest rate of 2.264% with principal being repaid over a 15-month term.

On October 31, 2011, 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 2.87% with principal being repaid over an 11-month term.

On October 19, 2011, the Company obtained $22.1 million of mortgage debt on three senior living communities with Fannie Mae. The new mortgage loans each have a ten-year term with interest rates fixed at 4.92% with principal amortized over a 30-year term and are cross-collateralized and cross-defaulted. The Company incurred $0.3 million in deferred financing costs related to these loans, which is being amortized over ten years.

On September 27, 2011, the Company obtained $23.8 million of mortgage debt on two senior living communities with Fannie Mae. The new mortgage loans each have a ten-year term with interest rates fixed at 4.92% for $19.0 million of the mortgage debt and 4.97% for $4.8 million of the mortgage debt with principal amortized over a 30-year term. The $4.8 million mortgage loan is cross-collateralized and cross-defaulted with the mortgage loans obtained by the Company with Fannie Mae on July 29, 2011. The Company incurred $0.3 million in deferred financing costs related to these loans, which is being amortized over ten years.

On August 1, 2011, in conjunction with the acquisition of one senior living community, the Company obtained interim financing through KeyBank for $19.0 million at a variable interest rate of LIBOR plus 2.25% with a maturity date of December 31, 2011. The Company obtained long-term fixed rate financing through Fannie Mae on September 27, 2011, to replace this loan.

On July 29, 2011, the Company obtained $13.5 million of mortgage debt on two senior living communities with Fannie Mae. The new mortgage loans each have a ten-year term with interest rates fixed at 5.69% and with principal amortized over a 30-year term. The loans are cross-collateralized and cross-defaulted with the $4.8 million mortgage loan obtained by the Company with Fannie Mae on September 27, 2011. The Company incurred $0.2 million in deferred financing costs related to these loans, which is being amortized over ten years. In conjunction with the acquisition of these senior living communities the Company assumed $0.1 million in promissory notes for three vehicles that are used for transportation of employees and residents. The blended interest rate is 7.55% and the outstanding balance has been included within the Company s Consolidated Balance Sheet as a component of Notes Payable at December 31, 2011.

On May 31, 2011, the Company renewed certain insurance policies and entered into a finance agreement totaling $1.2 million. The finance agreement has a fixed interest rate of 2.945% with principal being repaid over a 10-month term.

On March 25, 2011, in connection with the Spring Meadows Transaction, the Company issued standby letters of credit, totaling $2.6 million, for the benefit of HCN on certain leases between HCN and the Company.

On September 10, 2010, in conjunction with the Signature Transaction, the Company obtained certain insurance policies and entered into a finance agreement totaling $0.3 million. The finance agreement has a fixed interest rate of 3.30% with principal being repaid over a 7-month term.

On September 10, 2010, the Company issued standby letters of credit, totaling $2.2 million, for the benefit of HCN on certain leases between HCN and the Company.

On May 31, 2010, the Company renewed certain insurance policies and entered into a finance agreement totaling $3.7 million. The finance agreement has a fixed interest rate of 3.30% with principal being repaid over a 12-month term.

On April 16, 2010, the Company issued standby letters of credit, totaling $1.7 million, for the benefit of HCN on certain leases between HCN and the Company.

On April 15, 2010, the Company negotiated a pay-off settlement with a Lehman securitized trust for a promissory note of one of the Company s wholly owned subsidiaries that matured on September 1, 2009. The securitized promissory note carried an outstanding principal balance of $4.6 million which was collateralized with the assets of the subsidiary and was nonrecourse to the Company. The pay-off settlement was for $3.7 million, excluding amounts reserved and escrowed, with no further obligation to the Company s subsidiary and resulted in a gain to the Company of approximately $0.7 million.

The senior housing communities owned by the Company and encumbered by mortgage debt are provided as collateral under their respective loan agreements. At December 31, 2011 and 2010, these communities carried a total net book value of $339.4 million and $212.7 million, respectively, with total mortgage loans outstanding of $229.3 million and $174.0 million, respectively.

In connection with the Company s loan commitments described above, the Company incurred financing charges that were deferred and amortized over the life of the notes. At December 31, 2011 and 2010, the Company had gross deferred loan costs of $4.3 million and $3.3 million, respectively. Accumulated amortization was $1.9 million and $1.5 million at December 31, 2011 and 2010, respectively. Amortization expense is expected to be $0.4 million in each of the next five fiscal years.

The Company must maintain certain levels of tangible net worth and comply with other restrictive covenants under the terms of certain promissory notes. The Company was in compliance with all of its debt covenants at December 31, 2011 and 2010.

Recent Events

Effective March 1, 2012, the Company closed the acquisition of one senior living community located in Granbury, Texas, for $7.0 million. The community consists of 82 assisted living units. The Company obtained financing through Fannie Mae for $5.4 million of the acquisition price at a fixed rate of 4.38% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

On March 8, 2012, the Company completed supplemental financing of $5.6 million with Fannie Mae at a fixed rate of 4.47% on three communities with existing mortgage debt maturing in June 2017. The supplemental loans are cross collateralized and cross defaulted with the original mortgage debt.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements and related notes. Management bases its estimates and assumptions on historical experience, observance of industry trends and various other sources of information and factors, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially could result in materially different results under different assumptions and conditions. The Company believes the following critical accounting policies require management s most difficult, subjective and complex judgments.

Revenue Recognition

Resident and health care revenue is recognized at estimated net realizable amounts, based on historical experiences, due from residents in the period to which the rental and other services are provided.

Revenues from the Medicare and Medicaid programs accounted for approximately 5% of the Company s revenue in each of fiscal 2011 and 2010, and 6% of the Company s revenue in fiscal 2009. As of December 31, 2011, fourteen of the Company s communities are providers of services under Medicaid programs. Accordingly, the communities are entitled to reimbursement under the foregoing program at established rates that are lower than private pay rates. Patient service revenue for Medicaid patients is recorded at the reimbursement rates as the rates are set prospectively by the state upon the filing of an annual cost report. Two of the Company s communities are providers of services under the Medicare program and are entitled to payment under the program in amounts determined based on rates established by the federal government.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Management services revenue is recognized when earned. Management services revenue relates to providing certain management and administrative support services under management contracts, which currently have terms expiring through 2026.

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Substantially all community fees received from residents are non-refundable and are recorded initially by the Company as deferred revenue. The deferred amounts are amortized over the respective residents initial lease term which is consistent with the contractual obligation associated with the estimated stay of the resident.

Community reimbursement revenue is comprised of reimbursable expenses from non-consolidated communities that the Company operates under long-term management agreements.

Investments in Unconsolidated Joint Ventures

The Company accounts for its investments in unconsolidated joint ventures under the equity method of accounting. The Company owns member interests in three joint ventures at December 31, 2011. The Company has not consolidated these joint venture interests because the Company has concluded that the other members of each joint venture have substantive kick-out rights or substantive participating rights. Under the equity method of accounting, the Company records its investments in unconsolidated joint ventures at cost and adjusts such investments for its share of earnings and losses of the joint venture.

Development Agreement Guarantees

In 2007, the Company and SHPIII entered into a series of joint venture agreements to develop three senior housing communities located in Ohio. The Company has guaranteed the communities will be completed and operated 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. The terms of these guarantees generally do not provide for a limitation on the maximum potential future payments. These joint venture communities are currently in lease up and one of the joint ventures had exhausted its lease up reserve. The Company will be required to fund any operating deficits until the joint venture reaches breakeven for three consecutive months. Any amounts funded by the Company under this commitment, up to $0.5 million, may be recoverable from the joint venture in the event of liquidation. As of December 31, 2011, the Company had recognized deficit charges of approximately $1.0 million under these development agreement guarantees. During the third quarter of fiscal 2011, the Company met the breakeven requirements of the development agreement guarantees for two of these joint venture developments resulting in full satisfaction and termination of those respective guarantees.

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. The lease rates under the Company s lease agreements are subject to certain conditional escalation clauses which are recognized when probable or incurred and are based on changes in the consumer price index or certain operational performance measures. As of December 31, 2011, the Company leased 49 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 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 income includes rent expense plus amortization expense relating to leasehold acquisition costs offset by the amortization of deferred gains and lease incentives.

Employee Health and Dental Benefits

The Company offers employees an option to participate in its self-insured health and dental plans. The cost of employee health and dental benefits, net of employee contributions, is shared between the corporate office and the senior living communities based on the respective number of plan participants. Funds collected are used to pay the actual program costs including estimated annual claims, third-party administrative fees, network provider fees, communication costs, and other related administrative costs incurred by the plans. Claims are paid as they are submitted to the Company s third-party administrator. The Company records a liability for outstanding

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claims and claims that have been incurred but not yet reported. This liability is based on the historical claim reporting lag and payment trends of health insurance claims. Management believes that the liability for outstanding losses and expenses is adequate to cover the ultimate cost of losses and expenses incurred at December 31, 2011; however, actual claims and expenses may differ. Any subsequent changes in estimates are recorded in the period in which they are determined.

Long-Lived Assets

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets. At each balance sheet date, the Company reviews the carrying value of its property and equipment to determine if facts and circumstances suggest that they may be impaired or that the depreciation period may need to be changed. The Company considers internal factors such as net operating losses along with external factors relating to each asset, including contract changes, local market developments, and other publicly available information. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount the carrying value exceeds the fair market value, generally based on discounted cash flows, of the long-lived asset. The Company analyzed certain long-lived assets with operating losses, under the undiscounted cash flow method, for impairment. Based on this analysis, the Company does not believe there are any indicators that would require an adjustment to the carrying value of the property and equipment or their remaining useful lives as of December 31, 2011 and 2010.

Income Taxes

At December 31, 2011, the Company had recorded on its Consolidated Balance Sheet net deferred tax assets of approximately $7.3 million. 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. 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 income and believes 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. However, the benefits of the net deferred tax assets might not be realized if actual results differ from expectations.

The Company evaluates uncertain tax positions through consideration of accounting and reporting 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 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. 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 2006.

Recently Issued Accounting Guidance

In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-29, *Business Combinations* (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. This ASU specifies that when financial statements are presented, the revenue and earnings of the combined entity should be disclosed as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU 2010-29 is effective for business combinations with acquisition dates on or after January 1, 2011. The Company adopted this update in fiscal 2011.

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Results of Operations

The following tables set forth, for the periods indicated, selected historical Consolidated Statements of Income data in thousands of dollars and expressed as a percentage of total revenues.

	Year Ended December 31,					
	2011		2010		2009	
	$	%	$	%	$	%
Revenues:						
Resident and healthcare revenue	$ 256,584	97.4%	$ 196,936	92.9%	$ 171,194	89.2%
Unaffiliated management services revenue			60	0.0	72	0.0
Affiliated management services revenue	883	0.3	2,044	1.0	2,698	1.4
Community reimbursement income	6,035	2.3	12,889	6.1	18,027	9.4
Total revenues	263,502	100.0	211,929	100.0	191,991	100.0
Expenses:						
Operating expenses (exclusive of facility lease expense and depreciation and amortization shown below)	154,042	58.5	119,614	56.4	104,790	54.6
General and administrative expenses	13,198	5.0	11,535	5.5	11,883	6.2
Facility lease expense	52,233	19.8	34,253	16.2	25,872	13.4
Provision for bad debts	287	0.1	174	0.1	344	0.2
Stock-based compensation	1,497	0.6	919	0.4	1,201	0.6
Depreciation and amortization	18,299	6.9	14,030	6.6	13,262	6.9
Community reimbursement expense	6,035	2.3	12,889	6.1	18,027	9.4
Total expenses	245,591	93.2	193,414	91.3	175,379	91.3
Income from operations	17,911	6.8	18,515	8.7	16,612	8.7
Other income (expense):						
Interest income	102	0.0	48	0.0	67	0.0
Interest expense	(11,900)	(4.5)	(11,241)	(5.3)	(11,819)	(6.2)
Gain on disposition of assets, net	171	0.0				
Gain on settlement of debt			684	0.3		
Equity in (losses) earnings of unconsolidated joint ventures	(760)	(0.3)	(331)	(0.1)	107	0.1
Income before income taxes	5,524	2.2	7,675	3.6	4,967	2.6
Provision for income taxes	(2,499)	(1.0)	(3,421)	(1.6)	(2,208)	(1.2)
Net income	$ 3,025	1.2%	$ 4,254	2.0%	$ 2,759	1.4%

Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Revenues

Total revenues were $263.5 million for the year ended December 31, 2011, compared to $211.9 million for the year ended December 31, 2010, representing an increase of approximately $51.6 million, or 24.3%. This increase in revenue is primarily the result of a $59.6 million increase in resident and healthcare revenue offset by a decrease in affiliated management services revenue of $1.2 million and a $6.8 million decrease in community reimbursement revenue.

The increase in resident and healthcare revenue primarily results from an increase of $7.4 million from the Pulliam Transaction, Summit Point Transaction, Keystone Woods and Wynnfield Crossing Transaction, and GreenTree at Kokomo Transaction, an increase of $18.7 million from the Spring Meadows Transaction, an increase of $7.8 million from the consolidation of eight communities that were previously owned by Midwest Portfolio Holdings, L.P. (Midwest I) and Midwest Portfolio Holdings II, L.P. (Midwest II), each of which were joint ventures between the Company and GE Healthcare Financial Services, that were sold to HCN and the communities leased back by the Company in the last half of April 2010 (the Midwest Transaction), an increase of $20.8 million from the addition of the leasehold interests in 12 communities acquired in a lease transaction with HCN and Signature Assisted Living of Texas, LLC (the HCN/Signature Transaction) in September 2010, and an increase in average monthly rental rates of 2.2% and occupancy of 0.4% at the Company s other consolidated communities.

The decrease in affiliated management services revenue of $1.2 million primarily results from the Spring Meadows Transaction.

Community reimbursement revenue is comprised of reimbursable expenses from non-consolidated communities that the Company operates under long-term management agreements. The decrease in community reimbursement revenue primarily results from the Spring Meadows Transaction.

Expenses

Total expenses were $245.6 million in fiscal 2011 compared to $193.4 million in fiscal 2010, representing an increase of $52.2 million, or 27.0%. This increase is primarily the result of a $34.4 million increase in operating expenses, a $1.7 million increase in general and administrative expenses, a $18.0 million increase in facility lease expense, a $0.1 million increase in the provision for bad debts, a $0.6 million increase in stock-based compensation and a $4.3 million increase in depreciation and amortization expense offset by a decrease in community reimbursement expense of $6.8 million.

The increase in operating expenses primarily results from an increase of $4.8 million from the Pulliam Transaction, Summit Point Transaction, Keystone Woods and Wynnfield Crossing Transaction, and GreenTree at Kokomo Transaction, an increase of $9.9 million due to the Spring Meadows Transaction, an increase of $4.6 million due to the Midwest Transaction, an increase of $11.3 million due to the HCN/Signature Transaction, and an increase in operating costs at the Company s other consolidated communities of $3.8 million primarily due to an increase in labor and benefit costs of $1.9 million, an increase in utilities of $0.4 million, an increase in food costs of $0.5 million, an increase in real estate taxes of $0.4 million, an increase in advertising and referral fees of $0.2 million, and an increase in other general healthcare operating costs of $0.4 million.

The increase in general and administrative expenses primarily results from an increase of $1.0 million for due diligence and legal expenses incurred in connection with the Company s acquisitions, an increase of $0.4 million in salaries and benefit costs for existing and additional full time employees added during the fiscal year, and an increase of $0.3 million for employee benefit claims paid, which resulted in higher health insurance costs to the Company.

The increase in facility lease expense results from an increase of $7.5 million due to the Spring Meadows Transaction, an increase of $2.3 million due to the Midwest Transaction, an increase of $7.6 million due to the HCN/Signature Transaction, which includes amortization of $1.4 million for in-place lease costs, and an increase of $0.6 million for contingent annual rental rate escalations for certain existing leases.

The increase in depreciation and amortization expense primarily results from an increase of $3.7 million from the Pulliam Transaction, Summit Point Transaction, Keystone Woods and Wynnfield Crossing Transaction, and GreenTree at Kokomo Transaction, an increase of $0.1 million due to the Spring Meadows Transaction, an increase of $0.1 million due to the Midwest Transaction, an increase of $0.1 million due to the HCN/Signature Transaction, and an increase of $0.3 million as a result of an increase in depreciable assets at the Company s other consolidated communities.

Stock-based compensation increased $0.6 million due to a decrease in the number of unvested restricted shares outstanding.

Community reimbursement expense represents payroll and administrative costs paid by the Company for the benefit of non-consolidated communities and joint ventures. The decrease in community reimbursement expense primarily results from the Spring Meadows Transaction and the Midwest Transaction.

Other income and expense

Interest income reflects interest earned on the investment of cash balances and interest earned on escrowed funds. Interest income increased primarily due to higher average cash balances and interest rates in fiscal 2011 when compared to fiscal 2010.

Interest expense increased $0.7 million to $11.9 million in fiscal 2011 compared to $11.2 million in fiscal 2010 due to the Company maintaining higher debt balances for borrowings associated with the Company s acquisitions.

Gain on disposition of assets in the third quarter of fiscal 2011 represents recognition of the gain associated with the contribution of land by the Company to SHP III/CSL Richmond Heights in November 2007. The gain had been deferred when the land was initially contributed to SHP III/CSL Richmond Heights due to the continuing involvement of the Company as a result of a development agreement guarantee. The Company met the breakeven requirements of the development agreement guarantee during the third quarter of fiscal 2011 resulting in full satisfaction and termination of the guarantee.

Gain on settlement of debt represents the recognition of the gain associated with the pay-off settlement of the promissory note with the Lehman securitized trust in April 2010.

Provision for income taxes

Provision for income taxes for fiscal 2011 was $2.5 million, or 45.2% of income before taxes, compared to a provision for income taxes of $3.4 million, or 44.6% of income before taxes, for fiscal 2010. The effective tax rates for fiscal 2011 and 2010 differ from the statutory tax rates due to state income taxes and permanent tax differences. The Company is impacted by the Texas Margin Tax (TMT) and Michigan Business Tax (MBT), which effectively impose taxes on modified gross revenues for communities within the States of Texas and Michigan. The Company consolidated 29 Texas communities and two Michigan communities in fiscal 2011 and the TMT and MBT increased the overall provision for income taxes. 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 income and believes, based upon this analysis, that the realization of the net deferred tax asset is reasonably assured and therefore has not provided for a valuation allowance.

Net income

As a result of the foregoing factors, the Company reported net income of $3.0 million for the fiscal year ended December 31, 2011 compared to net income of $4.3 million for the fiscal year ended December 31, 2010.

Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009

Revenues

Total revenues were $211.9 million for the year ended December 31, 2010, compared to $192.0 million for the year ended December 31, 2009, representing an increase of approximately $19.9 million, or 10.4%. This increase in revenue is primarily the result of a $25.7 million increase in resident and healthcare revenue offset by a decrease in affiliated management services revenue of $0.7 million and a $5.1 million decrease in community reimbursement revenue.

The increase in resident and healthcare revenue primarily results from an increase of $15.5 million from the consolidation of eight communities previously owned by Midwest I and Midwest II that were sold to HCN and leased back by the Company in April 2010, an increase of $9.3 million from the addition of the leasehold interests in 12 communities from Signature in September 2010, and an increase in occupancy of 0.3% which was partially offset by a decrease in average rental rates of 0.5% at the Company s other consolidated communities.

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The decrease in affiliated management services revenue of $0.7 million primarily results from the sale of the eight communities owned by Midwest I and Midwest II to HCN and leased back by the Company in April 2010.

Community reimbursement revenue is comprised of reimbursable expenses from non-consolidated communities that the Company operates under long-term management agreements. The decrease in community reimbursement revenue of $5.1 million primarily results from the sale of the eight communities owned by Midwest I and Midwest II to HCN and leased back by the Company in April 2010.

Expenses

Total expenses were $193.4 million in fiscal 2010 compared to $175.4 million in fiscal 2009, representing an increase of $18.0 million, or 10.3%. This increase is primarily the result of a $14.8 million increase in operating expenses, a $8.4 million increase in facility lease expense, and a $0.8 million increase in depreciation and amortization expense offset by a $0.3 million decrease in general and administrative expenses, a $0.3 million decrease in stock-based compensation, a $0.2 million decrease in the provision for bad debts, and a decrease in community reimbursement expense of $5.1 million.

The increase in operating expenses primarily results from an increase of $8.9 million from the consolidation of eight communities previously owned by Midwest I and Midwest II that were sold to HCN and leased back by the Company in April 2010, an increase of $5.0 million from the addition of the leasehold interests in 12 communities from Signature in September 2010, and an increase in operating costs at the Company s other consolidated communities of $0.9 million primarily due to an increase in labor and benefit costs of $0.6 million and utilities of $0.3 million.

The increase in facility lease expense primarily results from an increase of $4.8 million from the consolidation of eight communities previously owned by Midwest I and Midwest II that were sold to HCN and leased back by the Company in April 2010, $2.7 million from the addition of the leasehold interests in 12 communities from Signature in September 2010, and $0.9 million for contingent annual rental rate escalations for certain existing leases.

Depreciation and amortization expense increased $0.8 million primarily as a result of an increase in depreciable assets at the Company s consolidated communities.

General and administrative expenses decreased $0.3 million primarily due to a decrease in employee benefit claims paid, which resulted in lower health insurance costs to the Company.

Stock-based compensation decreased $0.3 million due to a decrease in the number of unvested restricted shares outstanding.

The provision for bad debts decreased $0.2 million due to better collection results of resident accounts receivable during fiscal 2010.

Community reimbursement expense represents payroll and administrative costs paid by the Company for the benefit of non-consolidated communities and joint ventures. The decrease in community reimbursement expense of $5.1 million primarily results from the sale of the eight communities owned by Midwest I and Midwest II to HCN and leased back by the Company in April 2010.

Other income and expense

Interest income results from interest earned on investment of cash balances and escrowed funds. Interest income decreased primarily due to lower interest rates in fiscal 2010 when compared to fiscal 2009.

Interest expense decreased $0.6 million to $11.2 million in fiscal 2010 compared to $11.8 million in fiscal 2009. This decrease in interest expense primarily results from lower debt outstanding combined with a slightly lower average interest rate during fiscal 2010 compared to fiscal 2009.

Gain on settlement of debt represents the recognition of the gain associated with the pay-off settlement of the promissory note with the Lehman securitized trust in April 2010.

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Provision for income taxes

Provision for income taxes for fiscal 2010 was $3.4 million, or 44.6% of income before taxes, compared to a provision for income taxes of $2.2 million, or 44.5% of income before taxes, for fiscal 2009. The effective tax rates for fiscal 2010 and 2009 differ from the statutory tax rates due to state income taxes and permanent tax differences. The Company is impacted by the TMT and MBT, which effectively impose taxes on modified gross revenues for communities within the States of Texas and Michigan, respectively. As of December 31, 2010, the Company consolidated 29 Texas communities and two Michigan communities and the TMT and MBT increased the overall provision for income taxes. 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 income and believes, based upon this analysis, that the realization of the net deferred tax asset is reasonably assured and therefore has not provided for a valuation allowance.

Net income

As a result of the foregoing factors, the Company reported net income of $4.3 million for the fiscal year ended December 31, 2010 compared to net income of $2.8 million for the fiscal year ended December 31, 2009.

Quarterly Results

The following table presents certain unaudited quarterly financial information for each of the four quarters ended December 31, 2011 and 2010, respectively. This information has been prepared on the same basis as the audited consolidated financial statements of the Company appearing elsewhere in this report and include, in the opinion of the Company s management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the quarterly results when read in conjunction with the audited consolidated financial statements of the Company and the related notes thereto.

	2011 Calendar Quarters			
	First	**Second**	**Third**	**Fourth**
	(In thousands, except per share amounts)			
Total revenues	$ 59,824	$ 64,335	$ 68,191	$ 71,152
Income from operations	5,181	4,460	3,896	4,374
Net income	1,298	871	510	346
Net income per share, basic	$ 0.05	$ 0.03	$ 0.02	$ 0.01
Net income per share, diluted	$ 0.05	$ 0.03	$ 0.02	$ 0.01
Weighted average shares outstanding, basic	26,884	27,002	27,026	27,066
Weighted average shares outstanding, fully diluted	26,993	27,081	27,072	27,094

	2010 Calendar Quarters			
	First	**Second**	**Third**	**Fourth**
	(In thousands, except per share amounts)			
Total revenues	$ 47,908	$ 50,513	$ 53,600	$ 59,908
Income from operations	4,066	4,714	3,760	5,975
Net income	725	1,458	481	1,590
Net income per share, basic	$ 0.03	$ 0.05	$ 0.02	$ 0.06
Net income per share, diluted	$ 0.03	$ 0.05	$ 0.02	$ 0.06
Weighted average shares outstanding, basic	26,540	26,575	26,607	26,624
Weighted average shares outstanding, fully diluted	26,638	26,670	26,703	26,732

Liquidity and Capital Resources

The impact of the current economic environment could result in decreases in the fair value of assets, slowing of transactions, and tightening liquidity and credit markets. These impacts could make securing debt for acquisitions or refinancings for the Company, its joint ventures, or buyers of the Company s properties more

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difficult or on terms not acceptable to the Company. Additionally, the Company may be more susceptible to being negatively impacted by operating or performance deficits based on the exposure associated with certain development guarantees or lease coverage requirements.

In addition to approximately $22.3 million of unrestricted cash balances on hand as of December 31, 2011, the Company s principal sources of liquidity are expected to be cash flows from operations, cash flows from SHPIII/CSL Miami, SHPIII/CSL Richmond Heights, SHPIII/CSL Levis Commons, supplemental debt financings, and/or proceeds from the sale of assets. The Company expects its available cash and cash flows from operations, cash flows from SHPIII/CSL Miami, SHPIII/CSL Richmond Heights, and SHPIII/CSL Levis Commons, and proceeds from the sale of assets to be sufficient to fund its short-term working capital requirements. The Company s long-term capital requirements, primarily for acquisitions and other corporate initiatives, could be dependent on its ability to access additional funds through joint ventures and the debt and/or equity markets. The Company from time to time considers and evaluates transactions related to its portfolio including supplemental debt financings, purchases and sales, reorganizations and other transactions. There can be no assurance that the Company will continue to generate cash flows at or above current levels or that the Company will be able to obtain the capital necessary to meet the Company s short and long-term capital requirements.

In summary, the Company s cash flows were as follows (in thousands):

	Year Ended December 31,		
	2011	**2010**	**2009**
Net cash provided by operating activities	$ 14,084	$ 15,550	$ 19,635
Net cash used in investing activities	(77,437)	(5,282)	(7,304)
Net cash provided by (used in) financing activities	54,388	(7,992)	(9,239)
(Decrease) Increase in cash and cash equivalents	$ (8,965)	$ 2,276	$ 3,092

Operating Activities

The Company had net cash provided by operating activities of $14.1 million, $15.6 million, and $19.6 million in fiscal 2011, 2010, and 2009, respectively. The net cash provided by operating activities for fiscal 2011 primarily results from net income of $3.0 million, net non-cash charges of $17.6 million, an increase in accounts payable and accrued expenses of $3.6 million, and an increase in customer deposits of $0.2 million offset by an increase in accounts receivable of $0.8 million, an increase in property tax and insurance deposits of $0.3 million, an increase in prepaid expenses and other assets of $7.7 million, and an increase in federal and state income taxes receivable of $1.5 million. For fiscal 2010, the net cash provided by operating activities primarily resulted from net income of $4.3 million, net non-cash charges of $17.4 million, and an increase in accrued expenses of $3.8 million offset by an increase in accounts receivable of $1.1 million, an in