CAPITAL SENIOR LIVING CORP
Form 10-Q
November 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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, Dallas, Texas	**75254**
(Address of Principal Executive Offices)	**(Zip Code)**

(972) 770-5600

(Registrant s Telephone Number, Including Area Code)

NONE

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

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

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

Large accelerated filer	¨	Accelerated filer	x
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 x

As of October 31, 2014, the Registrant had 29,093,006 outstanding shares of its Common Stock, $0.01 par value, per share.

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Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CAPITAL SENIOR LIVING CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,816	$ 13,611
Restricted cash	11,468	11,425
Accounts receivable, net	5,716	3,752
Accounts receivable from affiliates	6	416
Federal and state income taxes receivable	5,214	5,123
Deferred taxes	441	845
Property tax and insurance deposits	10,660	11,036
Prepaid expenses and other	3,525	6,605
Total current assets	64,846	52,813
Property and equipment, net	774,211	649,967
Investments in unconsolidated joint ventures		1,010
Other assets, net	40,696	41,759
Total assets	$ 879,753	$ 745,549
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,052	$ 3,813
Accounts payable to affiliates	11	1
Accrued expenses	32,524	29,321
Current portion of notes payable	37,636	11,918
Current portion of deferred income	13,376	11,215
Current portion of capital lease and financing obligations	981	948
Customer deposits	1,606	1,489
Total current liabilities	90,186	58,705
Deferred income	16,464	18,021
Capital lease and financing obligations, net of current portion	40,430	41,093
Deferred taxes	441	845
Other long-term liabilities	1,459	1,559

Notes payable, net of current portion	587,285	467,376
Commitments and contingencies		
Shareholders equity:		
Preferred stock, $.01 par value:		
Authorized shares 15,000; no shares issued or outstanding		
Common stock, $.01 par value:		
Authorized shares 65,000; issued and outstanding shares 29,095 and 28,845 in 2014 and 2013, respectively	294	292
Additional paid-in capital	149,482	143,721
Retained (deficit) earnings	(5,354)	14,871
Treasury stock, at cost 350 shares	(934)	(934)
Total shareholders equity	143,488	157,950
Total liabilities and shareholders equity	$ 879,753	$ 745,549

See accompanying notes to unaudited consolidated financial statements.

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CAPITAL SENIOR LIVING CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Resident and health care revenue	$ 98,466	$ 86,333	$ 280,240	$ 256,409
Affiliated management services revenue		205	415	586
Community reimbursement revenue	17	1,445	3,110	4,432
Total revenues	98,483	87,983	283,765	261,427
Expenses:				
Operating expenses (exclusive of facility lease expense and depreciation and amortization expense shown below)	59,992	52,936	171,268	154,186
General and administrative expenses	5,515	5,026	15,137	15,029
Facility lease expense	14,841	14,274	44,524	42,813
Stock-based compensation expense	1,599	869	5,676	3,158
Depreciation and amortization	13,840	10,533	35,607	33,183
Community reimbursement expense	17	1,445	3,110	4,432
Total expenses	95,804	85,083	275,322	252,801
Income from operations	2,679	2,900	8,443	8,626
Other income (expense):				
Interest income	12	17	40	138
Interest expense	(8,255)	(5,943)	(22,785)	(17,321)
Write-off of deferred loan costs and prepayment premiums			(6,979)	
Joint venture equity investment valuation gain			1,519	
(Loss) Gain on disposition of assets, net	(1)	13	(11)	12
Equity in earnings of unconsolidated joint ventures, net		43	105	76
Other income	5	10	22	28
Loss before provision for income taxes	(5,560)	(2,960)	(19,646)	(8,441)
Provision for income taxes	(199)	(7,003)	(579)	(5,668)
Net loss	$ (5,759)	$ (9,963)	$ (20,225)	$ (14,109)
Per share data:				
Basic net loss per share	$ (0.20)	$ (0.35)	$ (0.70)	$ (0.49)
Diluted net loss per share	$ (0.20)	$ (0.35)	$ (0.70)	$ (0.49)

Weighted average shares outstanding	basic	28,371	27,911	28,273	27,769
Weighted average shares outstanding	diluted	28,371	27,911	28,273	27,769
Comprehensive loss		$ (5,759)	$ (9,963)	$ (20,225)	$ (14,109)

See accompanying notes to unaudited consolidated financial statements.

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CAPITAL SENIOR LIVING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Nine Months Ended September 30,	
	2014	**2013**
Operating Activities		
Net loss	$ (20,225)	$ (14,109)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	35,607	33,183
Amortization of deferred financing charges	999	822
Amortization of deferred lease costs and lease intangibles	922	978
Deferred income	604	(344)
Deferred income taxes		5,505
Write-off of deferred loan costs and prepayment premiums	6,979	
Joint venture equity investment valuation gain	(1,519)	
Loss (Gain) on disposition of assets, net	11	(12)
Equity in earnings of unconsolidated joint ventures	(105)	(76)
Provision for bad debts	517	330
Stock-based compensation expense	5,676	3,158
Changes in operating assets and liabilities:		
Accounts receivable	(2,481)	241
Accounts receivable from affiliates	410	433
Property tax and insurance deposits	376	(1,058)
Prepaid expenses and other	3,080	(867)
Other assets	756	(3,101)
Accounts payable	249	(4,424)
Accrued expenses	3,203	4,142
Federal and state income taxes receivable/payable	(91)	3,523
Customer deposits	117	(22)
Net cash provided by operating activities	35,085	28,302
Investing Activities		
Capital expenditures	(13,394)	(9,888)
Cash paid for acquisitions	(145,555)	(53,741)
Proceeds from disposition of assets	4	18
Proceeds from SHPIII/CSL Transaction	2,532	
Distributions from unconsolidated joint ventures	102	97
Net cash used in investing activities	(156,311)	(63,514)
Financing Activities		
Proceeds from notes payable	267,685	56,939
Repayments of notes payable	(128,553)	(20,534)

Increase in restricted cash	(43)	(1,239)
Cash payments for capital lease and financing obligations	(630)	(558)
Cash proceeds from the issuance of common stock	169	2,761
Excess tax benefits on stock option exercised	(82)	(1,445)
Deferred financing charges paid	(3,115)	(684)
Net cash provided by financing activities	135,431	35,240
Increase in cash and cash equivalents	14,205	28
Cash and cash equivalents at beginning of period	13,611	18,737
Cash and cash equivalents at end of period	$ 27,816	$ 18,765
Supplemental Disclosures		
Cash paid during the period for:		
Interest	$ 20,873	$ 16,058
Income taxes	$ 714	$ 677

See accompanying notes to unaudited consolidated financial statements.

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CAPITAL SENIOR LIVING CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

1. BASIS OF PRESENTATION

Capital Senior Living Corporation, a Delaware corporation (together with its subsidiaries, the Company), is one of the largest operators of senior living communities in the United States in terms of resident capacity. The Company owns, operates and manages senior living communities in geographically concentrated regions throughout the United States. As of September 30, 2014, the Company operated 116 senior living communities in 26 states with an aggregate capacity of approximately 15,000 residents, including 66 senior living communities which the Company owned and 50 senior living communities that the Company leased. As of September 30, 2014, the Company also operated one home care agency. The accompanying consolidated financial statements include the financial statements of Capital Senior Living Corporation and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. The Company accounts for significant investments in unconsolidated companies, in which the Company has significant influence, using the equity method of accounting.

The accompanying Consolidated Balance Sheet, as of December 31, 2013, has been derived from audited consolidated financial statements of the Company for the year ended December 31, 2013, and the accompanying unaudited consolidated financial statements, as of and for the three and nine month periods ended September 30, 2014 and 2013, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations. For further information, refer to the financial statements and notes thereto for the year ended December 31, 2013, included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 3, 2014.

In the opinion of the Company, the accompanying consolidated financial statements contain all adjustments (all of which were normal recurring accruals) necessary to present fairly the Company s financial position as of September 30, 2014, results of operations for the three and nine month periods ended September 30, 2014 and 2013, and cash flows for the nine month periods ended September 30, 2014 and 2013. The results of operations for the three and nine month periods ended September 30, 2014, are not necessarily indicative of the results for the year ending December 31, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in Unconsolidated Joint Ventures

The Company accounted for its investments in three unconsolidated joint ventures under the equity method of accounting. The Company had not consolidated these joint venture interests because the Company had concluded that the other member of each joint venture had substantive kick-out rights or substantive participating rights. Under the equity method of accounting, the Company recorded its investments in unconsolidated joint ventures at cost and adjusted such investments for its share of earnings and losses of the joint ventures. On June 30, 2014, the Company acquired 100% of the member interests in these joint ventures. For additional information refer to Note 4, Acquisitions.

Lease Accounting

The Company determines whether to account for its leases as either operating, capital or financing leases depending on the underlying terms of each lease agreement. This determination of classification is complex and requires significant judgment relating to certain information including the estimated fair value and remaining economic life of the community, the Company s cost of funds, minimum lease payments and other lease terms. As of September 30, 2014, the Company leased 50 senior living communities, 48 of which the Company classified as operating leases and two of which the Company classified as capital lease and financing obligations. The Company incurs lease acquisition costs and amortizes these costs over the term of the respective 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 respective lease term. Facility lease expense in the Company s Consolidated Statements of Operations and

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Comprehensive Loss includes rent expense plus amortization expense relating to leasehold acquisition costs slightly offset by the amortization of deferred gains and lease incentives. There are various financial covenants and other restrictions in the Company s lease agreements. The Company was in compliance with all of its lease covenants at September 30, 2014.

Credit Risk and Allowance for Doubtful Accounts

The Company s resident receivables are generally due within 30 days from the date billed. Accounts receivable are reported net of an allowance for doubtful accounts, and represent the Company s estimate of the amount that ultimately will be collected. The adequacy of the Company s allowance for doubtful accounts is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, as well as a review of specific accounts, and adjustments are made to the allowance as necessary. Credit losses on resident receivables have historically been within management s estimates, and management believes that the allowance for doubtful accounts adequately provides for expected losses.

Employee Health and Dental Benefits and Insurance Reserves

The Company offers certain full-time employees an option to participate in its health and dental plans. The Company is self-insured up to certain limits and is insured if claims in excess of these limits are incurred. 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 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 September 30, 2014; however, actual claims and expenses may differ. Any subsequent changes in estimates are recorded in the period in which they are determined.

The Company uses a combination of insurance and self-insurance for workers compensation. Determining the reserve for workers compensation losses and costs that the Company has incurred as of the end of a reporting period involves significant judgments based on projected future events including potential settlements for pending claims, known incidents which may result in claims, estimates of incurred but not yet reported claims, changes in insurance premiums, estimated litigation costs and other factors. The Company regularly adjusts these estimates to reflect changes in the foregoing factors. However, since this reserve is based on estimates, the actual expenses incurred may differ from the amounts reserved. Any subsequent changes in estimates are recorded in the period in which they are determined.

Income Taxes

At September 30, 2014, the Company had recorded on its Consolidated Balance Sheet net deferred tax assets of approximately $0.4 million and net deferred tax liabilities of approximately $0.4 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. The effective tax rates for the first nine month periods and third quarters of fiscal 2014 and 2013 differ from the statutory tax rates due to state income taxes, permanent tax differences, and changes in the deferred tax asset valuation allowance. The Company is impacted by the Texas Margin Tax (TMT), which effectively imposes tax on modified gross revenues for communities within the State of Texas. During the third quarter of fiscal 2014 and third quarter of fiscal 2013, the Company consolidated 36

Texas communities and the TMT increased the overall provision for income taxes.

Income taxes are computed using the asset and liability method and current income taxes are recorded based on amounts refundable or payable in the current year. Deferred income taxes are recorded based on the estimated future tax effects of loss carryforwards and temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which we expect those carryforwards and temporary differences to be recovered or settled. Management regularly evaluates the future realization of deferred tax assets and provides a valuation allowance, if considered necessary, based on such evaluation. As part of the evaluation, management has evaluated taxable income in carryback years, future reversals of taxable temporary differences, feasible tax planning strategies, and future expectations of income. Based upon this analysis, an adjustment to the valuation allowance of $2.1 million and $7.5 million was recorded during the third quarters of fiscal 2014 and 2013, respectively, to increase the valuation allowance provided to $16.3 million and $7.5 million at September 30, 2014 and 2013, respectively, and reduce the Company s net

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deferred tax assets to the amount that is more likely than not to be realized. However, in the event that we were to determine that it would be more likely than not that the Company would realize the benefit of deferred tax assets in the future in excess of their net recorded amounts, adjustments to deferred tax assets would increase net income in the period such determination was made. Additionally, 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 criteria, 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 such position is more likely than not (*i.e.*, a greater than 50% 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 generally no longer subject to federal and state income tax audits for tax years prior to 2010.

Net Loss Per Share

Basic net loss per common share is computed by dividing net loss remaining after allocation to unvested restricted shares by the weighted average number of common shares outstanding for the period. Potentially dilutive securities consist of unvested restricted shares and shares that could be issued under outstanding stock options. Potentially dilutive securities are excluded from the computation of net loss per common share if their effect is antidilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net loss	$ (5,759)	$ (9,963)	$ (20,225)	$ (14,109)
Net loss allocated to unvested restricted shares	$ (143)	$ (309)	$ (513)	$ (441)
Undistributed net loss allocated to common shares	$ (5,616)	$ (9,654)	$ (19,712)	$ (13,668)
Weighted average shares outstanding basic	28,371	27,911	28,273	27,769
Effects of dilutive securities:				
Employee equity compensation plans				
Weighted average shares outstanding diluted	28,371	27,911	28,273	27,769
Basic net loss per share	$ (0.20)	$ (0.35)	$ (0.70)	$ (0.49)
Diluted net loss per share	$ (0.20)	$ (0.35)	$ (0.70)	$ (0.49)

Awards of unvested restricted stock representing approximately 715,000 and 884,000 shares were outstanding for the three months ended September 30, 2014 and 2013, respectively, and awards of unvested restricted stock representing

approximately 725,000 and 887,000 shares were outstanding for the nine months ended September 30, 2014 and 2013, respectively, and were included in the computation of allocable net loss.

Treasury Stock

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

Recently Issued Accounting Guidance

In April 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new and expanded disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The guidance provided in ASU 2014-08 is applied prospectively and is effective for fiscal years beginning on or after December 15, 2014; however, early adoption is permitted.

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3. TRANSACTIONS WITH AFFILIATES

SHPIII/CSL Miami

In May 2007, the Company with Senior Housing Partners III, L.P. (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 earned development and management fees and could receive incentive distributions. The Company had contributed $0.8 million to SHPIII/CSL Miami for its 10% interest. The Company accounted for its investment in SHPIII/CSL Miami under the equity method of accounting and recognized earnings (losses) in the equity of SHPIII/CSL Miami of $8,500 and $(600) during the six month periods ended June 30, 2014 and 2013, respectively. In addition, the Company earned $0.1 million in management fees on the SHPIII/CSL Miami community in each of the six month periods ended June 30, 2014 and 2013. On June 30, 2014, the Company acquired 100% of the member interests in SHPIII/CSL Miami. For additional information refer to Note 4, Acquisitions.

SHPIII/CSL Richmond Heights

In November 2007, the Company with 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 earned development and management fees and could receive incentive distributions. The Company had contributed $0.8 million to SHPIII/CSL Richmond Heights for its 10% interest. The Company accounted for its investment in SHPIII/CSL Richmond Heights under the equity method of accounting and recognized earnings in the equity of SHPIII/CSL Richmond Heights of $70,700 and $23,700 during the six month periods ended June 30, 2014 and 2013, respectively. In addition, the Company earned $0.2 million and $0.1 million in management fees on the SHPIII/CSL Richmond Heights community during the six month periods ended June 30, 2014 and 2013, respectively. On June 30, 2014, the Company acquired 100% of the member interests in SHPIII/CSL Richmond Heights. For additional information refer to Note 4, Acquisitions.

SHPIII/CSL Levis Commons

In December 2007, the Company with 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 earned development and management fees and could receive incentive distributions. The Company had contributed $0.8 million to SHPIII/CSL Levis Commons for its 10% interest. The Company accounted for its investment in SHPIII/CSL Levis Commons under the equity method of accounting and recognized earnings in the equity of SHPIII/CSL Levis Commons of $25,400 and $9,900 during the six month periods ended June 30, 2014 and 2013, respectively. In addition, the Company earned $0.1 million in management fees on the SHPIII/CSL Levis Commons community in each of the six month periods ended June 30, 2014 and 2013. On June 30, 2014, the Company acquired 100% of the member interests in SHPIII/CSL Levis Commons. For additional information refer to Note 4, Acquisitions.

4. ACQUISITIONS

Fiscal 2014

Effective August 27, 2014, the Company closed the acquisition of one senior living community located in Plymouth, Wisconsin, for approximately $13.5 million (the Plymouth Transaction). The community consists of 69 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 Company s Consolidated Statements of Operations

and Comprehensive Loss. The Company obtained financing from Fannie Mae for approximately $10.4 million of the acquisition price at a fixed rate of 4.70% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective August 4, 2014, the Company closed the acquisition of one senior living community located in Roanoke, Virginia, for approximately $16.8 million (the Roanoke Transaction). The community consists of 60 assisted living units and 34 independent 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 Company s Consolidated Statements of Operations and Comprehensive Loss. The Company obtained financing from Fannie Mae for approximately $12.9 million of the acquisition price at a fixed rate of 4.59% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective August 4, 2014, the Company closed the acquisition of one senior living community located in Oshkosh, Wisconsin, for approximately $17.1 million (the Oshkosh Transaction). The community consists of 90 assisted living units. The Company incurred

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approximately $0.1 million in transaction costs related to this acquisition which have been included in general and administrative expenses within the Company s Consolidated Statements of Operations and Comprehensive Loss. The Company obtained financing from Fannie Mae for approximately $13.2 million of the acquisition price at a fixed rate of 4.59% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective June 30, 2014, the Company acquired 100% of the members equity interests in SHPIII/CSL Miami, SHPIII/CSL Richmond Heights, and SHPIII/CSL Levis Commons for approximately $83.6 million (the SHPIII/CSL Transaction). Prior to the acquisition, Senior Housing Partners III, a fund managed by Prudential Investment Management Inc. (Prudential Investment) maintained a 90% equity interest in each joint venture with the remaining 10% equity interest in each joint venture held by wholly owned subsidiaries of the Company. Based on the Company acquiring the remaining ownership interests of the joint ventures, the Company concluded the acquisition took the form of a step-acquisition or a business combination achieved in stages. Further, with the Company obtaining complete ownership of the joint ventures, the act of obtaining control triggered the application of the acquisition model in Accounting Standards Codification (ASC) 805, *Business Combinations*, which resulted in the new equity ownership interest being remeasured at fair value and the acquired assets and assumed liabilities measured at their full fair values. The remeasurement fair value of the equity interests were determined based on the cash proceeds, including incentive distributions, received by the Company in accordance with each respective joint venture partnership agreement. Accordingly, the Company recognized a gain of approximately $1.5 million during the second quarter of fiscal 2014 which was reflected as a joint venture equity investment valuation gain within the Company s Consolidated Statements of Operations and Comprehensive Loss.

On June 30, 2014, in conjunction with the SHPIII/CSL Transaction, the Company obtained $16.4 million of mortgage debt from Fannie Mae for the acquisition of SHPIII/CSL Miami. The new mortgage loan has a 10-year term with a fixed interest rate of 4.30% and the principal amortized over a 30-year term. The Company also obtained $23.7 million of mortgage debt from Fannie Mae for the acquisition of SHPIII/CSL Richmond Heights. The new mortgage loan has a 10-year term with a fixed interest rate of 4.48% and the principal amortized over a 30-year term. The Company obtained interim, interest only, financing of $21.6 million from Wells Fargo Bank, N.A. (Wells Fargo) for the acquisition of SHPIII/CSL Levis Commons with a variable interest rate of LIBOR plus 2.75% and a 24-month term. The balance of the acquisition price was paid from the Company s existing cash resources. 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 Company s Consolidated Statements of Operations and Comprehensive Loss.

Effective March 26, 2014, the Company closed the acquisition of one senior living community located in Lambertville, Michigan, for $14.6 million (the Aspen Grove Transaction). The community consists of 78 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 Company s Consolidated Statements of Operations and Comprehensive Loss. The Company obtained financing from Fannie Mae for $11.0 million of the acquisition price at a fixed rate of 5.43% with a 12-year term with the balance of the acquisition price paid from the Company s existing cash resources.

As a result of these acquisitions, for which the purchase accounting is preliminary as it is subject to final valuation adjustments, the Company recorded additions to property and equipment of approximately $132.9 million and other assets of approximately $12.7 million, primarily consisting of in-place lease intangibles, within the Company s Consolidated Balance Sheets which will be depreciated or amortized over the estimated useful lives.

Fiscal 2013

Effective December 24, 2013, the Company closed the acquisition of three senior living communities located in Plainfield, Fort Wayne, and Charlestown, Indiana, for $57.0 million (the Indiana Transaction). The communities consist of 48 independent living units and 304 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 Company s Consolidated Statements of Operations and Comprehensive Loss. The Company obtained financing from Fannie Mae for approximately $43.7 million of the acquisition price at fixed rates of 5.56% with 10-year terms with the balance of the acquisition price paid from the Company s existing cash resources.

Effective December 24, 2013, the Company closed the acquisition of one senior living community located in Spartanburg, South Carolina, for approximately $7.9 million (the Dillon Pointe Transaction). The community consists of 36 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 Company s Consolidated Statements of Operations and Comprehensive Loss. The Company obtained financing from Fannie Mae for approximately $5.6 million of the acquisition price at a fixed rate of 5.56% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

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Effective October 31, 2013, the Company closed the acquisition of one senior living community located in Milford, Massachusetts, for approximately $15.8 million (the Whitcomb House Transaction). The community consists of 68 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 Company s Consolidated Statements of Operations and Comprehensive Loss. The Company obtained financing from Fannie Mae for approximately $11.9 million of the acquisition price at a fixed rate of 5.38% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective October 23, 2013, the Company closed the acquisition of one senior living community located in Fitchburg, Wisconsin, for approximately $16.0 million (the Fitchburg Transaction). The community consists of 82 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 Company s Consolidated Statements of Operations and Comprehensive Loss. The Company obtained financing from Fannie Mae for approximately $11.9 million of the acquisition price at a fixed rate of 5.50% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective September 30, 2013, the Company closed the acquisition of one senior living community located in Oakwood, Georgia, for approximately $11.8 million (the Oakwood Transaction). The community consists of 64 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 Company s Consolidated Statements of Operations and Comprehensive Loss. The Company obtained interim financing from Berkadia Commercial Mortgage LLC (Berkadia) for approximately $8.5 million of the acquisition price at a variable interest rate of LIBOR plus 3.75% with a maturity date of October 10, 2015, with the balance of the acquisition price paid from the Company s existing cash resources.

Effective September 5, 2013, the Company closed the acquisition of one senior living community located in Middletown, Ohio, for $9.9 million (the Middletown Transaction). The community consists of 61 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 Company s Consolidated Statements of Operations and Comprehensive Loss. The Company obtained financing from Fannie Mae for approximately $7.6 million of the acquisition price at a fixed interest rate of 5.93% with a 10-year term, with the balance of the acquisition price paid from the Company s existing cash resources.

Effective June 28, 2013, the Company closed the acquisition of one senior living community located in Greencastle, Indiana, for $6.3 million (the Autumn Glen Transaction). The community consists of 52 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 Company s Consolidated Statements of Operations and Comprehensive Loss. The Company obtained interim financing from Berkadia for approximately $4.6 million of the acquisition price at a variable interest rate of LIBOR plus 3.75% with a maturity date of July 10, 2015, with the balance of the acquisition price paid from the Company s existing cash resources.

Effective May 31, 2013, the Company closed the acquisition of one senior living community located in St. Joseph, Missouri, for $19.1 million (the Vintage Transaction). The community consists of 80 assisted living units and 22 independent 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 Company s Consolidated Statements of Operations and Comprehensive Loss. The Company obtained financing from Fannie Mae for approximately $14.5 million of the acquisition price at a fixed interest rate of 5.30% with a 12-year term, with the balance of the acquisition price paid from the Company s existing cash resources.

Effective March 7, 2013, the Company closed the acquisition of one senior living community located in Elkhorn, Nebraska, for approximately $6.7 million (the Elkhorn Transaction). The community consists of 64 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 Company s Consolidated Statements of Operations and Comprehensive Loss. The Company obtained financing from Fannie Mae for $4.0 million of the acquisition price at a fixed interest rate of 4.66% with a 10-year term, with the balance of the acquisition price paid from the Company s existing cash resources.

As a result of these acquisitions, the Company recorded additions to property and equipment of approximately $135.4 million and other assets of approximately $15.1 million, primarily consisting of in-place lease intangibles, within the Company s Consolidated Balance Sheets which will be depreciated or amortized over the estimated useful lives.

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5. DEBT TRANSACTIONS

On August 27, 2014, in conjunction with the Plymouth Transaction, the Company obtained $10.4 million of mortgage debt from Fannie Mae. The new mortgage loan has a 10-year term with a 4.70% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.1 million in deferred financing costs related to this loan, which is being amortized over 10 years.

On August 4, 2014, in conjunction with the Roanoke Transaction, the Company obtained $12.9 million of mortgage debt from Fannie Mae. The new mortgage loan has a 10-year term with a 4.59% fixed interest rate and the principal amortized over a 30-year term and is cross-collateralized and cross-defaulted with the mortgage debt obtained in conjunction with the Oshkosh Transaction. The Company incurred approximately $0.1 million in deferred financing costs related to this loan, which is being amortized over 10 years.

On August 4, 2014, in conjunction with the Oshkosh Transaction, the Company obtained $13.2 million of mortgage debt from Fannie Mae. The new mortgage loan has a 10-year term with a 4.59% fixed interest rate and the principal amortized over a 30-year term and is cross-collateralized and cross-defaulted with the mortgage debt obtained in conjunction with the Roanoke Transaction. The Company incurred approximately $0.1 million in deferred financing costs related to this loan, which is being amortized over 10 years.

On June 30, 2014, in conjunction with the SHPIII/CSL Transaction, the Company obtained $16.4 million of mortgage debt from Fannie Mae for the acquisition of SHPIII/CSL Miami. The new mortgage loan has a 10-year term with a fixed interest rate of 4.30% and the principal amortized over a 30-year term. The Company also obtained $23.7 million of mortgage debt from Fannie Mae for the acquisition of SHPIII/CSL Richmond Heights. The new mortgage loan has a 10-year term with a fixed interest rate of 4.48% and the principal amortized over a 30-year term. The Company obtained interim, interest only, financing of $21.6 million from Wells Fargo for the acquisition of SHPIII/CSL Levis Commons with a variable interest rate of LIBOR plus 2.75% and a 24-month term. The Company incurred approximately $0.5 million in deferred financing costs related to these loans, which are being amortized over the respective loan terms.

On June 27, 2014, the Company refinanced mortgage loans totaling approximately $111.9 million from Freddie Mac associated with 15 of its senior living communities (the Freddie Mac Refinance). The Company obtained approximately $135.5 million of mortgage debt for 12 of the senior living communities from Fannie Mae. These new mortgage loans have 10-year terms with fixed interest rates of 4.24% and the principal amortized over 30-years. The Company obtained interim, interest only, financing of $9.3 million from Berkadia Commercial Mortgage LLC (Berkadia) for two of the senior living communities with a variable interest rate of LIBOR plus 4.50% and a 12-month term. The Company also obtained interim, interest only, financing of $11.8 million from Berkadia for one of the senior living communities with a variable interest rate of LIBOR plus 4.50% and a 24-month term. The Company incurred approximately $1.7 million in deferred financing costs related to these loans, which are being amortized over the respective loan terms. As a result of the refinance, the Company received approximately $36.5 million in cash proceeds. As a result of the early repayment of the existing mortgage debt with Freddie Mac, the Company accelerated the amortization of approximately $0.5 million in unamortized deferred financing costs and incurred a prepayment premium of approximately $6.5 million.

On May 31, 2014, the Company renewed certain insurance policies and entered into a finance agreement totaling approximately $1.7 million. The finance agreement has a fixed interest rate of 1.92% with principal being repaid over a 9-month term.

On March 26, 2014, in conjunction with the Aspen Grove Transaction, the Company obtained $11.0 million of mortgage debt from Fannie Mae. The new mortgage loan has a 12-year term with a 5.43% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.2 million in deferred financing costs related to this loan, which is being amortized over 12 years.

On March 25, 2011, the Company issued standby letters of credit, totaling approximately $2.6 million, for the benefit of Health Care REIT, Inc. (HCN) on certain leases between HCN and the Company.

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

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

The senior housing communities owned by the Company and encumbered by mortgage debt are provided as collateral under their respective loan agreements. At September 30, 2014 and December 31, 2013, these communities carried a total net book value of approximately $723.6 million and $601.2 million, respectively, with total mortgage loans outstanding of approximately $623.9 million and $476.2 million, respectively.

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In connection with the Company s loan commitments described above, the Company incurred financing charges that were deferred and amortized over the terms of the respective notes. At September 30, 2014 and December 31, 2013, the Company had gross deferred loan costs of approximately $8.4 million and $7.7 million, respectively. Accumulated amortization was approximately $2.2 million and $3.2 million at September 30, 2014 and December 31, 2013, respectively.

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 September 30, 2014 and December 31, 2013.

6. EQUITY

Preferred Stock

The Company is authorized to issue preferred stock in series and to fix and state the voting powers and such designations, preferences and relative participating, optional or other special rights of the shares of each such series and the qualifications, limitations and restrictions thereof. Such action may be taken by the Company s board of directors without stockholder approval. The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of preferred stock. No preferred stock was outstanding as of September 30, 2014 and December 31, 2013.

Share Repurchases

On January 22, 2009, the Company s board of directors approved a share repurchase program that authorized the Company to purchase up to $10.0 million of the Company s common stock. Purchases may be made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or by any combination of such methods, in accordance with applicable insider trading and other securities laws and regulations. The size, scope and timing of any purchases will be based on business, market and other conditions and factors, including price, regulatory and contractual requirements or consents, and capital availability. The repurchase program does not obligate the Company to acquire any particular amount of common stock and the share repurchase authorization has no stated expiration date. Shares of stock repurchased under the program will be held as treasury shares. Pursuant to this authorization, during fiscal 2009, the Company purchased 349,800 shares at an average cost of $2.67 per share for a total cost to the Company of approximately $0.9 million. All such purchases were made in open market transactions. The Company has not purchased any additional shares of its common stock pursuant to the Company s share repurchase program subsequent to fiscal 2009.

7. STOCK-BASED COMPENSATION

The Company recognizes compensation expense for share-based stock awards to certain employees and directors, including grants of employee stock options and awards of restricted stock, in the Company s Consolidated Statements of Operations and Comprehensive Loss based on their fair values.

On May 8, 2007, the Company s stockholders approved the 2007 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation (as amended, the 2007 Plan), which provides for, among other things, the grant of restricted stock awards and stock options to purchase shares of the Company s common stock. The 2007 Plan authorizes the Company to issue up to 2.6 million shares of common stock and the Company has reserved shares of common stock for future issuance pursuant to awards under the 2007 Plan. Effective May 8, 2007, the 1997 Omnibus Stock and Incentive Plan (as amended, the 1997 Plan) was terminated and no additional shares will be granted under the 1997 Plan. The

Company has reserved shares of common stock for future issuance upon the exercise of stock options that remain outstanding pursuant to the 1997 Plan.

Stock Options

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

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A summary of the Company s stock option activity and related information for the nine month period ended September 30, 2014, is presented below:

	Outstanding at Beginning of Period	Granted	Exercised	Forfeited	Outstanding at End of Period	Options Exercisable
Shares	19,000		13,000		6,000	6,000
Weighted average exercise price per share	$ 7.10	$	$ 6.48	$	$ 8.44	$ 8.44

The options outstanding and the options exercisable at September 30, 2014, each had an intrinsic value of approximately $0.1 million.

Restricted Stock

The Company may grant restricted stock awards to certain employees, officers, and directors in order to attract, retain, and provide incentives for such individuals and to more closely align stockholder and employee interests. For restricted stock awards without performance-based vesting conditions, the Company records compensation expense for the entire award on a straight-line basis over the requisite service period, which is generally a period of three to four years, but such awards are considered outstanding at the time of grant since the holders thereof are entitled to dividends and voting rights. For restricted stock awards with performance-based vesting conditions, total compensation expense is recognized over the requisite service period for each separately vesting tranche of the award as if the award is, in substance, multiple awards once the performance target is deemed probable of achievement. Performance goals are evaluated periodically, and if such goals are not ultimately met or it is not probable the goals will be achieved, no compensation expense is recognized and any previously recognized compensation expense is reversed.

The Company recognizes compensation expense of a restricted stock award over its respective vesting or performance period based on the fair value of the award on the grant date, net of forfeitures. A summary of the Company s restricted stock awards activity and related information for the nine month period ended September 30, 2014, is presented below:

	Outstanding at Beginning of Period	Granted	Vested	Forfeited/Cancelled	Outstanding at End of Period
Shares	870,217	341,716	392,047	104,643	715,243

The restricted stock outstanding at September 30, 2014, had an intrinsic value of approximately $15.2 million.

During the nine months ended September 30, 2014, the Company granted 341,716 shares of restricted common stock to certain employees and directors of the Company, of which 121,667 shares were subject to performance-based vesting conditions. The average market value of the common stock on the date of grant was $25.41. These awards of restricted shares vest over a one to four-year period and had an intrinsic value of approximately $8.7 million on the date of grant. During the nine months ended September 30, 2014, the Company cancelled 104,643 shares of restricted common stock granted of which 15,000 shares related to forfeitures associated with certain employee separations from the Company and the remaining 89,643 shares related to stock awards for which certain performance-based vesting

conditions had not been met.

Stock-Based Compensation

The Company uses the Black-Scholes option pricing model to estimate the grant date fair value of its stock options. The Black-Scholes model requires the input of certain assumptions including expected volatility, expected dividend yield, expected life of the option and the risk free interest rate. The expected volatility used by the Company is based primarily on an analysis of historical prices of the Company s common stock. The expected term of options granted is based primarily on historical exercise and vesting patterns on the Company s outstanding stock options. The risk free rate is based on zero-coupon U.S. Treasury yields in effect at the date of grant with the same period as the expected option life. The Company does not currently plan to pay dividends on its common stock and therefore has used a dividend yield of zero in determining the fair value of its awards. The option forfeiture rate assumption used by the Company, which affects the expense recognized as opposed to the fair value of the awards, is based primarily on the Company s historical option forfeiture patterns. The Company issued no stock options during each of the first nine months of fiscal 2014 and 2013.

The Company has total stock-based compensation expense, including estimated forfeitures, of $8.4 million, which was not recognized as of September 30, 2014, and expects this expense to be recognized over approximately a one to four-year period.

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8. CONTINGENCIES

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

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of financial instruments at September 30, 2014, and December 31, 2013, are as follows (in thousands):

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 27,816	$ 27,816	$ 13,611	$ 13,611
Restricted cash	11,468	11,468	11,425	11,425
Notes payable	624,921	601,472	479,294	459,708

The following methods and assumptions were used in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents and Restricted cash: The carrying amounts reported in the Company s Consolidated Balance Sheets for cash and cash equivalents and restricted cash approximate fair value.

Notes payable: The fair value of notes payable is estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements, which represent level 2 inputs as defined in the accounting standards codification.

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

Certain information contained in this report constitutes Forward-Looking Statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which can be identified by the use of forward-looking terminology such as may, will, would, intend, could, believe, expect, anticipate, estimate or continue or the negative 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 Securities and Exchange Commission (SEC).

Overview

The following discussion and analysis addresses (i) the Company s results of operations for the three and nine month periods ended September 30, 2014 and 2013, and (ii) liquidity and capital resources of the Company, and should be read in conjunction with the Company s consolidated financial statements contained elsewhere in this report and the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

The Company is one of the largest operators of senior living communities in the United States. The Company s operating strategy is to provide value to its senior living residents by providing quality senior living services at reasonable prices, while achieving and sustaining a strong, competitive position within its geographically concentrated regions, 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, 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.

As of September 30, 2014, the Company operated 116 senior living communities in 26 states with an aggregate capacity of approximately 15,000 residents, including 66 senior living communities that the Company owned and 50 senior living communities that the Company leased. As of September 30, 2014, the Company also operated one home care agency.

Significant Financial and Operational Highlights

The Company primarily derives its revenue by providing senior living and healthcare services to the elderly. When comparing the third quarter of fiscal 2014 to the third quarter of fiscal 2013, the Company generated total revenues of approximately $98.5 million compared to total revenues of approximately $88.0 million, respectively, representing an increase of approximately $10.5 million, or 11.9%, of which approximately 100.0% of these revenues consisted of senior living resident and healthcare services provided during the third quarter of fiscal 2014 compared to 98.1% during the third quarter of fiscal 2013. The increase in revenues primarily results from the senior living communities

acquired by the Company during fiscal 2014 and subsequent to the second quarter of fiscal 2013.

The weighted average financial occupancy rate for our consolidated communities for the third quarters of fiscal 2014 and 2013 was 87.2% and 85.8%, respectively. Additionally, the Company experienced an increase in average monthly rental rates for its consolidated communities of 1.4% when comparing the third quarter of fiscal 2014 to the third quarter of fiscal 2013. The weighted average financial occupancy rate for our consolidated communities for the first nine months of fiscal 2014 and 2013 was 87.6% and 86.4%, respectively. Additionally, the Company experienced an increase in average monthly rental rates for its consolidated communities of 2.0% when comparing the first nine months of fiscal 2014 to the first nine months of fiscal 2013.

Effective August 27, 2014, the Company closed the acquisition of one senior living community located in Plymouth, Wisconsin, for approximately $13.5 million. The community consists of 69 assisted living units. The Company obtained financing from Fannie Mae for approximately $10.4 million of the acquisition price at a fixed rate of 4.70% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

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Effective August 4, 2014, the Company closed the acquisition of one senior living community located in Roanoke, Virginia, for approximately $16.8 million. The community consists of 60 assisted living units and 34 independent living units. The Company obtained financing from Fannie Mae for approximately $12.9 million of the acquisition price at a fixed rate of 4.59% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective August 4, 2014, the Company closed the acquisition of one senior living community located in Oshkosh, Wisconsin, for approximately $17.1 million. The community consists of 90 assisted living units. The Company obtained financing from Fannie Mae for approximately $13.2 million of the acquisition price at a fixed rate of 4.59% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective June 30, 2014, the Company closed the SHPIII/CSL Transaction acquiring 100% of the members equity interests in SHPIII/CSL Miami, SHPIII/CSL Richmond Heights, and SHPIII/CSL Levis Commons for approximately $83.6 million. The Company obtained financing from Fannie Mae for the acquisition of SHPIII/CSL Miami for $16.4 million of the acquisition price at a fixed rate of 4.30% with a 10-year term. The Company obtained financing from Fannie Mae for the acquisition of SHPIII/CSL Richmond Heights for $23.7 million of the acquisition price at a fixed rate of 4.48% with a 10-year term. The Company obtained interim interest only financing from Wells Fargo for the acquisition of SHPIII/CSL Levis Commons for $21.6 million of the acquisition price at a variable rate of LIBOR plus 2.75% with a 24-month term. The balance of the acquisition price was paid from the Company s existing cash resources. As a result of this transaction, the Company received cash proceeds, including incentive distributions, of approximately $2.5 million and recognized a joint venture equity investment valuation gain of approximately $1.5 million.

On June 27, 2014, the Company refinanced mortgage loans totaling approximately $111.9 million from Freddie Mac associated with 15 of its senior living communities. The Company obtained approximately $135.5 million of mortgage debt for 12 of the senior living communities from Fannie Mae. These new mortgage loans have 10-year terms with fixed interest rates of 4.24% and the principal amortized over 30-years. The Company obtained interim, interest only, financing of $9.3 million from Berkadia for two of the senior living communities with a variable interest rate of LIBOR plus 4.50% and a 12-month term. The Company also obtained interim, interest only, financing of $11.8 million from Berkadia for one of the senior living communities with a variable interest rate of LIBOR plus 4.50% and a 24-month term. The Company incurred approximately $1.7 million in deferred financing costs related to these loans, which are being amortized over the respective loan terms. As a result of the refinance, the Company received approximately $36.5 million in cash proceeds. As a result of the early repayment of the existing mortgage debt with Freddie Mac, the Company accelerated the amortization of approximately $0.5 million in unamortized deferred financing costs and incurred a prepayment premium of approximately $6.5 million.

Effective March 26, 2014, the Company closed the Aspen Grove Transaction. The community consists of 78 assisted living units. The Company obtained financing from Fannie Mae for $11.0 million of the acquisition price at a fixed rate of 5.43% with a 12-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Joint Venture Transactions and Management Contracts

The Company managed three communities owned by joint ventures in which the Company had a minority interest. For communities owned by joint ventures, the Company typically received a management fee of 5% of gross revenues.

The Company s joint venture management fees were based on a percentage of gross revenues. As a result, the cash flow and profitability of such contracts to the Company were more dependent on the revenues generated by such communities and less dependent on net cash flow than for owned or leased communities.

On June 30, 2014, the Company closed the SHPIII/CSL Transaction, acquiring 100% of the member interests of SHPIII/CSL Miami, SHPIII/CSL Levis Commons, and SHPIII/CSL Richmond Heights. For additional information refer to Note 4, Acquisitions , within the notes to unaudited consolidated financial statements.

SHPIII Transactions

In May 2007, the Company and SHPIII formed SHPIII/CSL Miami to develop a senior housing community in Miamisburg, Ohio. Under the joint venture and related agreements, the Company earned development and management fees and could receive incentive distributions. The senior housing community opened in August 2008 and currently consists of 97 independent living units and 49 assisted living units. The Company had contributed $0.8 million to SHPIII/CSL Miami for its 10% interest and accounted for its investment in SHPIII/CSL Miami under the equity method of accounting.

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In November 2007, the Company and SHPIII formed SHPIII/CSL Richmond Heights to develop a senior housing community in Richmond Heights, Ohio. Under the joint venture and related agreements, the Company earned development and management fees and could receive incentive distributions. The senior housing community opened in April 2009 and currently consists of 61 independent living units and 80 assisted living units. The Company had contributed $0.8 million to SHPIII/CSL Richmond Heights for its 10% interest and accounted for its investment in SHPIII/CSL Richmond Heights under the equity method of accounting.

In December 2007, the Company and SHPIII formed SHPIII/CSL Levis Commons to develop a senior housing community near Toledo, Ohio. Under the joint venture and related agreements, the Company earned development and management fees and could receive incentive distributions. The senior housing community opened in April 2009 and currently consists of 90 independent living units and 56 assisted living units. The Company had contributed $0.8 million to SHPIII/CSL Levis Commons for its 10% interest and accounted for its investment in SHPIII/CSL Levis Commons under the equity method of accounting.

The Company was party to a series of property management agreements (the SHPIII/CSL Management Agreements) with SHPIII/CSL Miami, SHPIII/CSL Richmond Heights, and SHPIII/CSL Levis Commons (collectively SHPIII/CSL), which joint ventures were owned 90% by SHPIII, a fund managed by Prudential Investment, and 10% by the Company, which collectively owned and operated SHPIII/CSL. The SHPIII/CSL Management Agreements were for initial terms of ten years from the date the certificate of occupancy was issued and extended until various dates through January 2019. The SHPIII/CSL Management Agreements generally provided for management fees of 5% of gross revenue plus reimbursement for costs and expenses related to the communities.

As discussed above, on June 30, 2014, the Company closed the SHPIII/CSL Transaction, acquiring 100% of the member interests of SHPIII/CSL Miami, SHPIII/CSL Levis Commons, and SHPIII/CSL Richmond Heights. For additional information refer to Note 4, Acquisitions , within the notes to unaudited consolidated financial statements.

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Facility Lease Transactions

The Company currently leases 50 senior living communities from certain real estate investment trusts (REITs), 48 of which are accounted for as operating leases and two of which are accounted for as capital lease and financing obligations. The lease terms are generally for 10-15 years with renewal options for 5-20 years at the Company s option. Under these agreements the Company is responsible for all operating costs, maintenance and repairs, insurance and property taxes. 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	(4) (Two five-year renewals)	8%	$ 1.4	$ 4.6
Ventas	October 18, 2005	1	19.5	(4) (Two five-year renewals)	8%	0.2	
Ventas	June 8, 2006	1	19.1	(4) (Two five-year renewals)	8%	0.4	
Ventas	January 31, 2008	1	5.0	(4) (Two five-year renewals)	7.75%	0.2	
Ventas	June 27, 2012	2	43.3	(4) (Two five-year renewals)	6.75%	0.8	
HCP	May 1, 2006	3	54.0	(5) (Two ten-year renewals)	8%	0.3	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	(5) (Two ten-year renewals)	8%	0.7	
HCP	December 14, 2006	1	18.0	(5) (Two ten-year renewals)	7.75%	0.3	
HCP	April 11, 2007	1	8.0	(5) (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	16.3

Subtotal	6.7	37.5
Accumulated amortization through September 30, 2014	(3.4)	
Accumulated deferred gains / lease concessions recognized through September 30, 2014		(17.5)
Net lease acquisition costs / deferred gains / lease concessions as of September 30, 2014	$ 3.3	$ 20.0

(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 respective lease agreement.
(2) Lease acquisition and modification costs are being amortized over the respective lease terms.
(3) Deferred gains of $34.9 million and lease concessions of $2.6 million are being recognized in the Company s Consolidated Statements of Operations and Comprehensive Loss as a reduction in facility lease expense over the respective initial lease term. Lease concessions of $0.6 million relate to the lease transaction with HCP, Inc. (HCP) on May 31, 2006, and of $2.0 million relate to the lease transaction with HCN on September 10, 2010.
(4) Effective June 27, 2012, the Company executed a lease amendment with Ventas, Inc. (Ventas). All of the leased communities in the Ventas lease portfolio were modified to be coterminous expiring on September 30, 2020, with two 5-year renewal extensions available at the Company s option.
(5) On November 11, 2013, the Company executed a third amendment to the master lease agreement associated with nine of its leases with HCP to facilitate a $3.3 million capital improvement project and extend the respective lease terms through October 31, 2020, with two 10-year renewal extensions available at the Company s option.

Facility lease expense in the Company s Consolidated Statements of Operations and Comprehensive Loss includes rent expense plus amortization expense relating to leasehold acquisition costs slightly offset by the amortization of deferred gains and lease incentives. There are various financial covenants and other restrictions in the Company s lease agreements. The Company was in compliance with all of its lease covenants at September 30, 2014 and December 31, 2013.

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Recently Issued Accounting Guidance

In April 2014 the FASB issued ASU 2014-08*, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new and expanded disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The guidance provided in ASU 2014-08 is applied prospectively and is effective for fiscal years beginning on or after December 15, 2014; however, early adoption is permitted.

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, and Section 16 filings and any amendments to those reports and filings. These reports and filings are available free of charge through the Company s Internet website as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

Results of Operations

The following table sets forth for the periods indicated selected Consolidated Statements of Operations and Comprehensive Loss data in thousands of dollars and expressed as a percentage of total revenues.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
	$	%	$	%	$	%	$	%
Revenues:								
Resident and healthcare revenue	$ 98,466	100.0	$ 86,333	98.1	$ 280,240	98.8	$ 256,409	98.1
Affiliated management service revenue			205	0.2	415	0.1	586	0.2
Community reimbursement revenue	17	0.0	1,445	1.7	3,110	1.1	4,432	1.7
Total revenue	98,483	100.0	87,983	100.0	283,765	100.0	261,427	100.0
Expenses:								
Operating expenses (exclusive of depreciation and amortization shown below)	59,992	60.9	52,936	60.2	171,268	60.4	154,186	59.0
General and administrative expenses	5,515	5.6	5,026	5.7	15,137	5.3	15,029	5.7
Facility lease expense	14,841	15.1	14,274	16.2	44,524	15.7	42,813	16.4
Stock-based compensation	1,599	1.6	869	1.0	5,676	2.0	3,158	1.2
Depreciation and amortization	13,840	14.1	10,533	12.0	35,607	12.5	33,183	12.7
Community reimbursement expense	17	0.0	1,445	1.6	3,110	1.1	4,432	1.7
Total expenses	95,804	97.3	85,083	96.7	275,322	97.0	252,801	96.7

Income from operations	2,679	2.7	2,900	3.3	8,443	3.0	8,626	3.3
Other income (expense):								
Interest income	12	0.0	17	0.0	40	0.0	138	0.2
Interest expense	(8,255)	(8.4)	(5,943)	(6.8)	(22,785)	(8.0)	(17,321)	(6.6)
Write-off of deferred loan costs and prepayment premium					(6,979)	(2.5)		
Joint venture equity investment valuation gain					1,519	0.5		
(Loss) Gain on disposition of assets, net	(1)	0.0	13	0.0	(11)	0.0	12	0.0
Equity in earnings of unconsolidated joint ventures, net			43	0.1	105	0.1	76	0.1
Other income	5	0.0	10	0.0	22	0.0	28	0.0
Loss before provision for income taxes	(5,560)	(5.7)	(2,960)	(3.4)	(19,646)	(6.9)	(8,441)	(3.2)
Provision for income taxes	(199)	(0.2)	(7,003)	(7.9)	(579)	(0.2)	(5,668)	(2.2)
Net loss	$ (5,759)	(5.9)	$ (9,963)	(11.3)	$ (20,225)	(7.1)	$ (14,109)	(5.4)

Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

Revenues.

Total revenues were $98.5 million for the three months ended September 30, 2014, compared to $88.0 million for the three months ended September 30, 2013, representing an increase of $10.5 million, or 11.9%. This increase in revenue is the result of an increase in resident and healthcare revenue of $12.1 million slightly offset by a decrease in affiliated management services revenue of $0.2 million and a decrease in community reimbursement revenue of $1.4 million.

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The increase in resident and healthcare revenue primarily results from an increase of $13.3 million from the senior living communities acquired by the Company during fiscal 2014 and subsequent to the second quarter of fiscal 2013 and an increase of $0.8 million from the Company s other consolidated same-store communities due to an increase in occupancy of 1.0%, partially offset by a decrease of $2.0 million due to the Company no longer providing skilled nursing services at two of its senior living communities which are in the process of being repositioned with the facilities being converted to offer assisted living care and services and a decrease in average monthly rental rates of 0.9% at the Company s other consolidated same-store communities.

Affiliated management service revenue is comprised of management fees earned from unconsolidated joint ventures that the Company operated under management agreements. On June 30, 2014, the Company acquired 100% of the member interests in these joint ventures. For additional information refer to Note 4, Acquisitions , within the notes to unaudited consolidated financial statements.

Community reimbursement revenue is comprised of reimbursable expenses from unconsolidated joint ventures that the Company operated under management agreements. On June 30, 2014, the Company acquired 100% of the member interests in these joint ventures. For additional information refer to Note 4, Acquisitions , within the notes to unaudited consolidated financial statements.

Expenses.

Total expenses were $95.8 million in the third quarter of fiscal 2014 compared to $85.1 million in the third quarter of fiscal 2013, representing an increase of $10.7 million, or 12.6%. This increase is the result of a $7.1 million increase in operating expenses, a $0.5 million increase in general and administrative expenses, a $0.5 million increase in facility lease expense, a $0.7 million increase in stock-based compensation expense, and a $3.3 million increase in depreciation and amortization expense, partially offset by a decrease in community reimbursement expense of $1.4 million.

The increase in operating expenses primarily results from an increase of $8.3 million from the senior living communities acquired by the Company during fiscal 2014 and subsequent to the second quarter of fiscal 2013 and an increase in general overall operating costs at the Company s other consolidated same-store communities of $1.2 million, partially offset by a decrease of $2.4 million due to the Company no longer providing skilled nursing services at two of its senior living communities which are in the process of being repositioned with the facilities being converted to offer assisted living care and services. The increase in operating costs of $1.2 million at the Company s other consolidated same-store communities primarily results from an increase in employee wages and benefits of $0.6 million, an increase in property taxes of $0.2 million, and an increase in general operating expenses of $0.4 million.

The increase in general and administrative expenses primarily results from an increase of $0.3 million in wages and benefits for existing and additional full-time employees hired subsequent to the second quarter of fiscal 2013 and an increase of $0.2 million for due diligence and legal expenses incurred in connection with the Company s acquisitions.

The increase in facility lease expense primarily results from contingent annual rental rate escalations for certain existing leases.

The increase in stock-based compensation expense results from the Company granting additional shares of restricted stock awards to certain employees, officers, and directors.

The increase in depreciation and amortization expense primarily results from an increase of $6.9 million from the senior living communities acquired by the Company during fiscal 2014 and subsequent to the second quarter of fiscal 2013 and an increase of $0.2 million as a result of an increase in depreciable assets at the Company s other consolidated same-store communities, partially offset by a decrease in in-place lease amortization of $3.8 million for senior living communities acquired by the Company during fiscal 2013 and 2012 which were fully amortized during fiscal 2013 or the second quarter of fiscal 2014.

Community reimbursement expense represents payroll and administrative costs paid by the Company for the benefit of unconsolidated joint ventures that the Company operated under management agreements. On June 30, 2014, the Company acquired 100% of the member interests in these joint ventures. For additional information refer to Note 4, Acquisitions , within the notes to unaudited consolidated financial statements.

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Other income and expense.

Interest income generally reflects interest earned on the investment of cash balances and escrowed funds or interest associated with certain income tax refunds or property tax settlements.

Interest expense increased $2.3 million in the third quarter of fiscal 2014 when compared to the third quarter of fiscal 2013 primarily due to the additional mortgage debt associated with the senior living communities acquired by the Company during fiscal 2014 and subsequent to the second quarter of fiscal 2013.

Equity in earnings of unconsolidated joint ventures, net, represents the Company s share of the net earnings on its investments in SHPIII/CSL Miami, SHPIII/CSL Richmond Heights, and SHPIII/CSL Levis Commons. On June 30, 2014, the Company acquired 100% of the member interests in these joint ventures. For additional information refer to Note 4, Acquisitions , within the notes to unaudited consolidated financial statements.

Provision for income taxes.

Provision for income taxes for the third quarter of fiscal 2014 was $0.2 million, or 3.6% of loss before income taxes, compared to provision for income taxes of $7.0 million, or 236.6% of loss before income taxes, for the third quarter of fiscal 2013. The effective tax rates for the third quarters of fiscal 2014 and 2013 differ from the statutory tax rates due to state income taxes, permanent tax differences, and changes in the deferred tax asset valuation allowance. The Company is impacted by the TMT, which effectively imposes tax on modified gross revenues for communities within the State of Texas. During the third quarter of fiscal 2014 and third quarter of fiscal 2013 the Company consolidated 36 Texas communities and the TMT 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. As part of the evaluation, management has evaluated taxable income in carryback years, future reversals of taxable temporary differences, feasible tax planning strategies, and future expectations of income. Based upon this evaluation, an adjustment to the deferred tax asset valuation allowance of $2.1 million and $7.5 million was recorded during the third quarters of fiscal 2014 and 2013, respectively, to reduce the Company s net deferred tax assets to the amount that is more likely than not to be realized.

Net loss and comprehensive loss.

As a result of the foregoing factors, the Company reported net loss and comprehensive loss of $(5.8 million) for the three months ended September 30, 2014, compared to net loss and comprehensive loss of $(10.0 million) for the three months ended September 30, 2013. The net loss and comprehensive loss of $(5.8 million) reported by the Company for the three months ended September 30, 2014, resulted in the Company realizing a retained deficit of $(5.4 million) within the Company s Consolidated Balance Sheet. The retained deficit is primarily the accumulated result of the Company recognizing accelerated amortization expense of $36.5 million associated with in-place leases from the Company s acquisition program which began during fiscal 2010.

Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

Revenues.

Total revenues were $283.8 million for the nine months ended September 30, 2014 compared to $261.4 million for the nine months ended September 30, 2013, representing an increase of approximately $22.4 million, or 8.5%. This increase in revenue is the result of a $23.8 million increase in resident and healthcare revenue, slightly offset by a decrease in affiliated management services revenue of $0.1 million, and a decrease in community reimbursement revenue of $1.3 million.

The increase in resident and healthcare revenue primarily results from an increase of $29.7 million from the senior living communities acquired by the Company during fiscal 2014 and 2013 and an increase of $1.2 million from the Company s other consolidated same-store communities due to an increase in average occupancies of 1.0%, partially offset by a decrease of $7.1 million due to the Company no longer providing skilled nursing services at two of its senior living communities which are in the process of being repositioned with the facilities being converted to offer assisted living care and services and a decrease in average monthly rental rates of 0.6% at the Company s other consolidated same-store communities.

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Affiliated management service revenue is comprised of management fees earned from unconsolidated joint ventures that the Company operated under management agreements. On June 30, 2014, the Company acquired 100% of the member interests in these joint ventures. For additional information refer to Note 4, Acquisitions , within the notes to unaudited consolidated financial statements.

Community reimbursement revenue is comprised of reimbursable expenses from unconsolidated joint ventures that the Company operated under management agreements. On June 30, 2014, the Company acquired 100% of the member interests in these joint ventures. For additional information refer to Note 4, Acquisitions , within the notes to unaudited consolidated financial statements.

Expenses.

Total expenses were $275.3 million during the first nine months of fiscal 2014 compared to $252.8 million during the first nine months of fiscal 2013, representing an increase of $22.5 million, or 8.9%. This increase is the result of a $17.1 million increase in operating expenses, a $0.1 million increase in general and administrative expenses, a $1.7 million increase in facility lease expense, a $2.5 million increase in stock-based compensation expense, and a $2.4 million increase in depreciation and amortization expense, slightly offset by a decrease in community reimbursement expense of $1.3 million.

The increase in operating expenses primarily results from an increase of $19.3 million from the senior living communities acquired by the Company during fiscal 2014 and 2013 and an increase in general overall operating costs at the Company s other consolidated same-store communities of $5.1 million partially offset by a decrease of $7.3 million due to the Company no longer providing skilled nursing services at two of its senior living communities which are in the process of being repositioned with the facilities being converted to offer assisted living care and services. The increase in operating costs of $5.1 million at the Company s other consolidated same-store communities primarily results from an increase in employee wages and benefits of $2.5 million, an increase in utilities of $0.7 million, an increase in property taxes of $0.4 million, and an increase in general operating expenses of $1.5 million.

The increase in general and administrative expenses primarily results from an increase of $1.1 million in wages and benefits for existing and additional full-time employees hired subsequent to the second quarter of fiscal 2013 and an increase of $0.3 million for due diligence and legal expenses incurred in connection with the Company s acquisitions, partially offset by a decrease of $1.1 million in employee insurance benefits and claims paid, which resulted in lower health insurance costs to the Company, and a decrease of $0.2 million related to a cost segregation tax study completed during the first quarter of fiscal 2013.

The increase in facility lease expense primarily results from contingent annual rental rate escalations for certain existing leases.

The increase in stock-based compensation expense results from the accelerated vesting of certain restricted stock awards associated with the retirement of the Company s Chief Financial Officer during the second quarter of fiscal 2014 and the Company granting additional shares of restricted stock to certain employees, officers, and directors.

The increase in depreciation and amortization expense primarily results from an increase of $14.7 million for senior living communities acquired by the Company during fiscal 2014 and 2013 and an increase of $0.4 million as a result of an increase in depreciable assets at the Company s other consolidated same-store communities, partially offset by a decrease in in-place lease amortization of $12.7 million from the senior living communities acquired by the Company during fiscal 2013 and 2012 which were fully amortized during fiscal 2013 or prior to the third quarter of fiscal 2014.

Community reimbursement expense represents payroll and administrative costs paid by the Company for the benefit of unconsolidated joint ventures that the Company operated under management agreements. On June 30, 2014, the Company acquired 100% of the member interests in these joint ventures. For additional information refer to Note 4, Acquisitions , within the notes to unaudited consolidated financial statements.

Other income and expense.

Interest income generally reflects interest earned on the investment of cash balances and escrowed funds or interest associated with certain income tax refunds or property tax settlements.

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Interest expense increased $5.5 million during the first nine months of fiscal 2014 when compared to the first nine months of fiscal 2013 primarily due to the additional mortgage debt associated with the senior living communities acquired by the Company during fiscal 2014 and 2013.

Write-off of deferred loan costs and prepayment premium is attributable to the early repayment of the Company s existing mortgage debt with Freddie Mac during the second quarter of fiscal 2014. The Company recorded a non-cash charge of $0.5 million to remove the remaining unamortized deferred financing assets related to this debt and paid $6.5 million in early repayment fees and costs.

Joint venture equity investment valuation gain is attributable to the Company closing the SHPIII/CSL Transaction during the second quarter of fiscal 2014. The Company acquired 100% of the members equity interests in SHPIII/CSL Miami, SHPIII/CSL Richmond Heights, and SHPIII/CSL Levis Commons and received cash proceeds, including incentive distributions, of approximately $2.5 million which resulted in the Company recording a gain of approximately $1.5 million to reflect the fair value of the equity interests on the acquisition date.

Equity in earnings of unconsolidated joint ventures, net, represents the Company s share of the net earnings on its investments in SHPIII/CSL Miami, SHPIII/CSL Richmond Heights, and SHPIII/CSL Levis Commons. On June 30, 2014, the Company acquired 100% of the member interests in these joint ventures. For additional information refer to Note 4, Acquisitions , within the notes to unaudited consolidated financial statements.

Provision for income taxes.

Provision for income taxes for the first nine months of fiscal 2014 was $0.6 million, or 3.0% of loss before income taxes, compared to provision for income taxes of $5.7 million, or 67.1% of loss before income taxes, for the first nine months of fiscal 2013. The effective tax rates for the first nine months of fiscal 2014 and 2013 differ from the statutory tax rates due to state income taxes, permanent tax differences, and changes in the deferred tax asset valuation allowance. The Company is impacted by the TMT which effectively imposes tax on modified gross revenues for communities within the State of Texas. During the first nine months of fiscal 2014 and first nine months of fiscal 2013 the Company consolidated 36 Texas communities and the TMT 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. As part of the evaluation, management has evaluated taxable income in carryback years, future reversals of taxable temporary differences, feasible tax planning strategies, and future expectations of income. Based upon this evaluation, an adjustment to the deferred tax asset valuation allowance of $7.5 million was recorded during each of the first nine months of fiscal 2014 and 2013 to reduce the Company s net deferred tax assets to the amount that is more likely than not to be realized.

Net loss and comprehensive loss.

As a result of the foregoing factors, the Company reported net loss and comprehensive loss of $(20.2 million) for the nine months ended September 30, 2014, compared to net loss and comprehensive loss of $(14.1 million) for the nine months ended September 30, 2013. The net loss and comprehensive loss of $(20.2 million) reported by the Company for the nine months ended September 30, 2014, resulted in the Company realizing a retained deficit of $(5.4 million) within the Company s Consolidated Balance Sheet. The retained deficit is primarily the accumulated result of the Company recognizing accelerated amortization expense of $36.5 million associated with in-place leases from the

Company s acquisition program which began during fiscal 2010.

Liquidity and Capital Resources

In addition to approximately $27.8 million of unrestricted cash balances on hand as of September 30, 2014, the Company s principal sources of liquidity are expected to be cash flows from operations, supplemental debt financings, additional proceeds from debt refinancings, equity issuances, and/or proceeds from the sale of assets. The Company expects its available cash and cash flows from operations, supplemental debt financings, additional proceeds from debt refinancings, 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, debt refinancings, purchases and sales of assets, 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.

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

	Nine Months Ended September 30,	
	2014	2013
Net cash provided by operating activities	$ 35,085	$ 28,302
Net cash used in investing activities	(156,311)	(63,514)
Net cash provided by financing activities	135,431	35,240
Net increase in cash and cash equivalents	$ 14,205	$ 28

Operating activities.

The net cash provided by operating activities for the first nine months of fiscal 2014 results from net non-cash charges of $49.7 million and net changes in operating assets and liabilities of 5.6 million, partially offset by net loss of $(20.2 million). The net cash provided by operating activities for the first nine months of fiscal 2013 results from net non-cash charges of $43.5 million, partially offset by net loss of $(14.1 million) and net changes in operating assets and liabilities of $(1.1 million).

Investing activities.

The net cash used in investing activities for the first nine months of fiscal 2014 primarily results from capital expenditures of $13.4 million and acquisitions of senior living communities by the Company of $145.6 million, slightly offset by proceeds from the SHPIII/CSL Transaction of $2.5 million. The net cash used in investing activities for the first nine months of fiscal 2013 primarily results from capital expenditures of $9.9 million and acquisitions of senior living communities by the Company of $53.7 million.

Financing activities.

The net cash provided by financing activities for the first nine months of fiscal 2014 primarily results from notes payable proceeds of $267.7 million, of which $156.6 million related to the Freddie Mac Refinance and $111.1 million related to the acquisition of senior living communities by the Company and insurance premium financing and $0.2 million resulted from proceeds from the issuance of common stock, partially offset by repayments of notes payable of $128.6 million, payments on capital lease and financing obligations of $0.6 million, and deferred financing charges paid of $3.1 million. The net cash provided by financing activities for the first nine months of fiscal 2013 primarily results from notes payable proceeds of $56.9 million, of which $39.1 million related to the acquisition of senior living communities by the Company and $5.4 million was from insurance premium financing with the remaining $12.4 million related to the Company replacing an interim variable interest rate loan for the acquisition of a senior living community with long-term fixed interest rate financing from Fannie Mae, and $2.8 million resulted from proceeds from the issuance of common stock, partially offset by repayments of notes payable of $20.5 million, payments on capital lease and financing obligations of $0.6 million, excess tax benefits from the issuance of common stock of $1.5 million, additions to restricted cash of $1.2 million, and deferred financing charges paid of $0.7 million.

Debt transactions.

On August 27, 2014, in conjunction with the Plymouth Transaction, the Company obtained $10.4 million of mortgage debt from Fannie Mae. The new mortgage loan has a 10-year term with a 4.70% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.1 million in deferred financing costs related to this loan, which is being amortized over 10 years.

On August 4, 2014, in conjunction with the Roanoke Transaction, the Company obtained $12.9 million of mortgage debt from Fannie Mae. The new mortgage loan has a 10-year term with a 4.59% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.1 million in deferred financing costs related to this loan, which is being amortized over 10 years.

On August 4, 2014, in conjunction with the Oshkosh Transaction, the Company obtained $13.2 million of mortgage debt from Fannie Mae. The new mortgage loan has a 10-year term with a 4.59% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.1 million in deferred financing costs related to this loan, which is being amortized over 10 years.

On June 30, 2014, in conjunction with the SHPIII/CSL Transaction, the Company obtained $16.4 million of mortgage debt from Fannie Mae for the acquisition of SHPIII/CSL Miami. The new mortgage loan has a 10-year term with a fixed interest rate of 4.30% and the principal amortized over a 30-year term. The Company also obtained $23.7 million of mortgage debt from Fannie Mae for the acquisition of SHPIII/CSL Richmond Heights. The new mortgage loan has a 10-year term with a fixed interest rate of 4.48% and the

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principal amortized over a 30-year term. The Company obtained interim, interest only, financing of $21.6 million from Wells Fargo for the acquisition of SHPIII/CSL Levis Commons with a variable interest rate of LIBOR plus 2.75% and a 24-month term. The Company incurred approximately $0.5 million in deferred financing costs related to these loans, which are being amortized over the respective loan terms.

On June 27, 2014, the Company refinanced mortgage loans totaling approximately $111.9 million from Freddie Mac associated with 15 of its senior living communities. The Company obtained approximately $135.5 million of mortgage debt for 12 of the senior living communities from Fannie Mae. These new mortgage loans have 10-year terms with fixed interest rates of 4.24% and the principal amortized over 30-years. The Company obtained interim, interest only, financing of $9.3 million from Berkadia for two of the senior living communities with a variable interest rate of LIBOR plus 4.50% and a 12-month term. The Company also obtained interim, interest only, financing of $11.8 million from Berkadia for one of the senior living communities with a variable interest rate of LIBOR plus 4.50% and a 24-month term. The Company incurred approximately $1.7 million in deferred financing costs related to these loans, which are being amortized over the respective loan terms. As a result of the refinance, the Company received approximately $36.5 million in cash proceeds. As a result of the early repayment of the existing mortgage debt, the Company accelerated the amortization of approximately $0.5 million in unamortized deferred loan costs and incurred a prepayment premium of approximately $6.5 million.

On May 31, 2014, the Company renewed certain insurance policies and entered into a finance agreement totaling approximately $1.7 million. The finance agreement has a fixed interest rate of 1.92% with principal being repaid over a 9-month term.

On March 26, 2014, in conjunction with the Aspen Grove Transaction, the Company obtained approximately $11.0 million of mortgage debt from Fannie Mae. The new mortgage loan has a 12-year term with a 5.43% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.2 million in deferred financing costs related to this loan, which is being amortized over 12 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 September 30, 2014 and December 31, 2013.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company s primary market risk is exposure to changes in interest rates on debt and lease instruments. As of September 30, 2014, the Company had $624.9 million in outstanding debt comprised of various fixed and variable interest rate debt instruments of $559.7 million and $65.2 million, respectively. In addition, as of September 30, 2014, the Company had $507.6 million in future lease obligations with contingent rent increases on certain leases based on changes in the consumer price index or certain operational performance measures.

Changes in interest rates would affect the fair market values of the Company s fixed interest rate debt instruments, but would not have an impact on the Company s earnings or cash flows. Fluctuations in interest rates on the Company s variable rate debt instruments, which are tied to LIBOR, would affect the Company s earnings and cash flows but would not affect the fair market values of the variable rate debt. Each percentage point increase in interest rates would impact the Company s annual interest expense by approximately $0.7 million based on the Company s outstanding variable rate debt as of September 30, 2014. Increases in the consumer price index could have an effect on future facility lease expense if the leased community exceeds the contingent rent escalation thresholds set forth in each of the Company s lease agreements.

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Item 4. CONTROLS AND PROCEDURES.

Effectiveness of Controls and Procedures

The Company s management, with the participation of the Company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), has evaluated the effectiveness of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. The Company s disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. The Company s disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to the Company s management, including the CEO and CFO as appropriate, to allow timely decisions regarding required disclosure.

Based upon the controls evaluation, the Company s CEO and CFO have concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures are effective.

There have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company s fiscal quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. 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.

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 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, weaken our financial results and/or decrease our financial strength, and may cause our stock price to decline. There have been no material changes in our risk factors from those disclosed in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013.

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Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(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 purchase any shares of its common stock pursuant to the Company s share repurchase program (as described below) during the nine month period ended September 30, 2014. The information set forth in the table below reflects shares purchased by the Company pursuant to this repurchase program prior to the nine month period ended September 30, 2014.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
Total at June 30, 2014	349,800	$ 2.67	349,800	$ 9,065,571
July 1 July 31, 2014				
August 1 August 31, 2014				
September 1 September 30, 2014				
Total at September 30, 2014	349,800	$ 2.67	349,800	$ 9,065,571

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.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 5. OTHER INFORMATION.

Not applicable.

Item 6. EXHIBITS.

The exhibits to this Form 10-Q are listed on the Exhibit Index page hereof, which is incorporated by reference in this Item 6.

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SIGNATURE

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

Capital Senior Living Corporation

(Registrant)

By: /s/ Carey P. Hendrickson
Carey P. Hendrickson
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)
Date: November 6, 2014

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INDEX TO EXHIBITS

The following documents are filed as a part of this report. Those exhibits previously filed and incorporated herein by reference are identified below. Exhibits not required for this report have been omitted.

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant. (Incorporated by reference to exhibit 3.1 to the Registration Statement No. 333-33379 on Form S-1/A filed by the Company with the Securities and Exchange Commission on September 8, 1997.)
3.1.1	Amendment to Amended and Restated Certificate of Incorporation of the Registrant. (Incorporated by reference to exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999, filed by the Company with the Securities and Exchange Commission.)
3.2	Second Amended and Restated Bylaws of the Registrant. (Incorporated by reference to exhibit 3.1 to the Company s Current Report filed by the Company with the Securities and Exchange Commission on March 8, 2013.)
4.1	Rights Agreement, dated as of February 25, 2010, between Capital Senior Living Corporation and Mellon Investor Services, LLC, including all exhibits thereto. (Incorporated by reference to exhibit 4.1 to the Company s Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on February 26, 2010.)
4.1.1	First Amendment to Rights Agreement, dated as of March 5, 2013, between Capital Senior Living Corporation and Computershare Shareowner Services LLC, formerly known as Mellon Investor Services, LLC. (Incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on March 8, 2013.)
4.2	Form of Certificate of Designation of Series A Junior Participating Preferred Stock, $0.01 par value per share. (Incorporated by reference to exhibit 4.2 to the Company s Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on February 26, 2010.)
4.3	Form of Right Certificate. (Included as Exhibit B to the Rights Agreement, which is Exhibit 4.1 hereto as amended pursuant to the First Amendment to Rights Agreement, which is Exhibit 4.1.1 hereto and incorporated by reference.)
4.4	Form of Summary of Rights. (Included as Annex A to the First Amendment to Rights Agreement, which is Exhibit 4.1.1 hereto and incorporated by reference.)
4.5	2007 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation. (Incorporated by reference to exhibit 4.6 to the Company s Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on May 31, 2007.)
4.6	First Amendment to 2007 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation. (Incorporated by reference to exhibit 4.7 to the Company s Current Report on

	Form 8-K filed by the Company with the Securities and Exchange Commission on May 31, 2007.)
31.1*	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)
32.1*	Certification of Lawrence A. Cohen pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Carey P. Hendrickson pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.