A photograph of a building's dome and arched window against a blue sky, with a wooden roof in the foreground. The dome is light-colored with a dark top section. The window is arched and has a white frame. The foreground shows the wooden shingles of a roof.

Welcome to Capital Senior Living

Capital Senior Living Corporation 2002 Summary Annual Report

The right properties

CONTENTS Shareholders' Letter 15 Financial Review 21

at Capital Senior Living...

...we have the right properties for success. Our physical properties—residential communities in locations across the country—set and meet high standards for senior living. Capital Senior Living communities are mentally, physically and emotionally stimulating environments that our residents love to call home. Physical locations, however, aren't the only properties we care about. There are also the corporate attributes that set Capital Senior Living apart as an industry leader, and these properties foster the continuing success of our enterprise. With a strong management team positioning Capital Senior Living to take advantage of favorable industry trends, we believe we have all the right properties in place to prosper in the years ahead.

our atmosphere has

war

mth



We provide seniors with an atmosphere that is sensitive to their needs. The close bond between Capital Senior Living's staff and residents creates a warm environment. And our continuum of care philosophy allows us to maintain our relationship with residents as their needs change.

the

details

matter



ails

Even the smallest details of our communities matter to us, from our elegant common areas to the well-appointed individual living areas of our residents. We employ this same attention to detail as we implement our business plan and evaluate business opportunities.

we have

Stable

foundations



ble

Our properties are high quality—carefully chosen locations, well designed for the senior resident, and purpose-built to last. Our Company has also been carefully built. With a track record that includes 10 consecutive years of successful operation and some of the highest lease-up rates and operating margins in our industry, we have a stable foundation on which to build our future.



home is a

comm



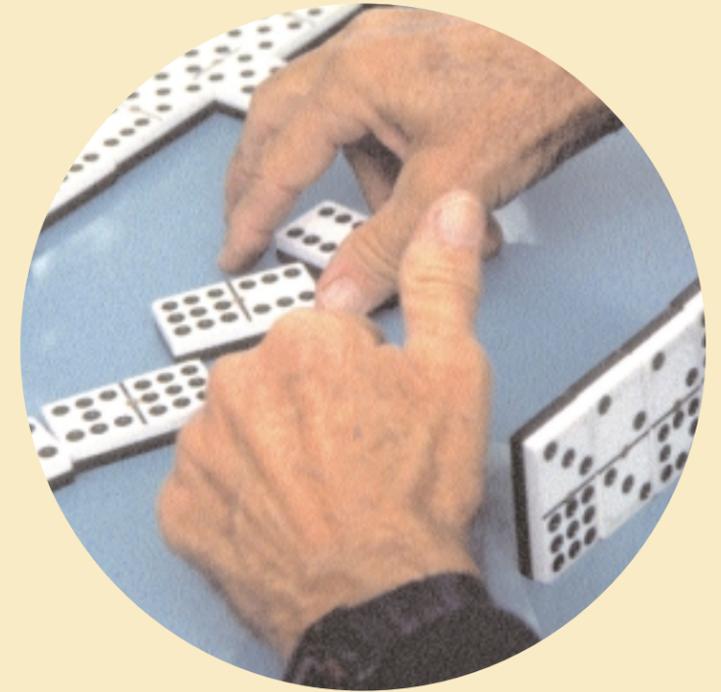
unity

The comfortable surroundings, combined with the services and activities we provide, generate a welcoming atmosphere that supports a sense of community among our residents. Capital Senior Living's national platform is an extended community of 43 residences in 20 states, giving the Company a solid presence in several prime markets.

our plan is

insig

htful



As our residents demonstrate every day, years of experience lead to valuable insights. Our considerable industry experience has helped us develop an insightful business plan that takes advantage of compelling demographic and industry trends. With a proven plan to follow, and with the right corporate properties in place, we believe Capital Senior Living is well-positioned for the future.



LAWRENCE A. COHEN – *Chief Executive Officer (left)* JAMES A. STROUD – *Chairman of the Company (right)*

To our fellow shareholders

The strength of a long-term strategy is measured by the success of the initiatives that support it. Capital Senior Living's 2002 financial and operational results present strong evidence that we have a time-tested business philosophy as well as the ability and agility to execute it in varying industry conditions, including the challenging environment of the past few years.

Our 2002 Objectives

We entered 2002 with two principal objectives. The first was to achieve our goal of increasing lease-up at our properties. Since 1999, we have opened 23 communities with a capacity of over 3,200 residents, providing the foundation for our internal growth. Of these, 16 communities have opened since the fourth quarter of 2000. Significantly, our new Waterford and Wellington communities increased their lease-up from 60 to 76 percent during 2002, representing a 27 percent growth in new residents. Our newest development, a Wellington community in Richardson, Texas, was one of our most successful openings ever. In May 2002, it commenced operations with more than 50 percent of the units pre-leased. By the end of 2002, we had achieved a 93

percent leased rate at our stabilized communities – which exceeds the industry averages of approximately 89 percent for independent living and 85 percent for assisted living.

Our second principal objective was to improve the operating performance of our existing portfolio while sustaining the high standards of service and amenities we offer to our residents. One of the major strengths of our company is our management team. This strength extends throughout our national organization into each community and as a result, our fourth quarter 2002 operating margins of 46 percent were among the highest in the industry, and recurring earnings increased 91 percent over 2001.

As we execute our business plan and achieve these positive results, we consider the approval ratings we have received from our residents as one of our biggest successes. For the last two years, our resident satisfaction survey shows a 97 percent approval rating. This high level of satisfaction has resulted in more than one-third of our new leases emanating as referrals from current residents in our communities.

Capital Senior Living has a time-tested operating philosophy

as well as the ability and agility to execute it.

Accomplishing these initiatives contributed significantly to achieving our objective of increasing net income. By the third quarter of 2002, we had surpassed our total year 2001 net income, which was more than double our 2000 net income. The 24 cents per share of net income we earned in 2002 represents a 71 percent increase over 2001.

We have realized these important objectives while also successfully meeting the financial goal of improving our balance sheet by increasing our cash position and reducing our debt. A major part of achieving this was contributing four properties to our joint venture with Blackstone Real Estate Advisors. As a result of this contribution, we retired \$29.2 million of long-term debt, received \$7.3 million in cash and retained a 10 percent interest in the joint venture. Additionally, in 2002, we extended the maturity of a \$20 million note in a separate transaction. The combination of these actions has helped strengthen the financial platform we can use for future growth opportunities.

The Capital Senior Difference

Since our inception, we have remained focused on independent living communities for senior residents.

The independent living segment of the industry shows the highest potential for growth, surpassing both assisted living and skilled nursing. About 86 percent of our residents utilize our independent living facilities.

We believe in a continuum of care philosophy, and therefore provide assistance with daily living activities and home health care for about 14 percent of our residents. This allows our residents to remain in their community while having access to additional services as they age. This continuum of care philosophy also allows residents to join our communities at a younger age and stay with us for a longer period of time compared to facilities that only offer a single level of service.

We understand the needs and desires of our residents. We seek to offer a high-quality residential environment that is physically, mentally and emotionally stimulating. We understand that seniors today value their independence and want well-appointed communities and larger apartment units with amenities like kitchens and walk-in closets. They also appreciate the services we offer, including meals, housekeeping, linen service, transportation and an extensive range of activities. Our average monthly rent of \$2,050 makes our communities affordable to a large portion of the senior population and their families.

With a national platform of 43 communities in 20 states, we have developed Regional Operating Centers that provide oversight of our communities and assistance in operations and marketing. At the community level, our management works closely with the residents' council to tailor the activities, meals and social programs specifically for the residents in that location.

We have been focused on communities with more than 100 units located in strong markets. Our newly built communities range from 120 to 154 units, allowing us to have a professional on-site staff. In assessing locations, we analyze not only the population of people between 75 and 85 years old, but also consider the 45- to 59-year-old population. The presence of this group indicates that adult children are living nearby, which is important to our residents and to the success of the community.

Industry Dynamics

While it is our attention to detail and the genuine response to our residents' needs that make each of our communities successful, it is the industry dynamics that make our long-term strategy so compelling.

The demographic that we serve, people aged 75 years or older, is the fastest growing segment of our nation's population, with the 85+ age group expected to grow nearly 40 percent this decade. We believe that this will drive the demand for senior living communities for many years to come. In fact, the National Investment Center projects that the capital demand for private-pay senior living communities, such as ours, will increase by \$67 billion between 2000 and 2010.

Supply and demand for senior living facilities is stabilizing. In the five-year period starting in 1997, approximately 245,000 new senior living units were constructed, with construction peaking in 1999. Construction has slowed considerably, with 75 percent fewer new units constructed in 2002 than in 1999. The majority of this new construction was for assisted living facilities, rather than for the independent living communities, which is our focus. Therefore, we believe that the demand for our properties should increase faster than the industry average.

We continue to see consolidation in the industry. Within this consolidation we see significant opportunity to leverage our strengths. With our experienced, successful

Our outlook can be summarized in one word —
promising.

management team, we intend to pursue management contracts for other portfolios. Additionally, our regional and national presence, combined with our financial strength, will permit us to make specific opportunistic acquisitions. There are a large number of senior living facilities that are currently individually or privately owned that would be complementary to our regional structure.

Our Outlook

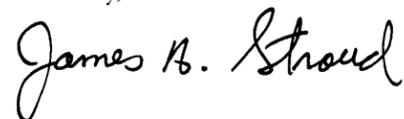
Our outlook can be summarized in one word – promising. We have a successful, profitable long-term strategy that is supported by strong industry dynamics. We have a national platform of 43 properties in 20 states managed and operated by one of the most experienced teams in the industry. We have strengthened our financial standing by improving our balance sheet and enhancing our operating performance in one of the most challenging industry environments in recent history.

In 2003 we will continue the strategies and discipline that have made us successful thus far. We will continue to look for growth opportunities that fit within our objectives – through management contracts or selective

acquisition and development opportunities. Finally, we will continue our financial control, seeking further ways to strengthen our balance sheet and improve our performance.

To our shareholders, our Board of Directors, management team and employees, as well as to our residents and their families, thank you for your continued support.

Sincerely,



James A. Stroud, *Chairman of the Board*

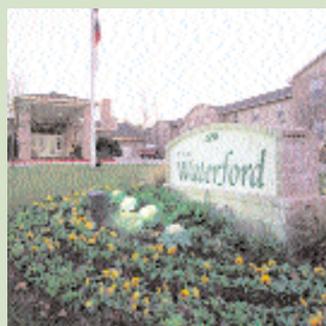
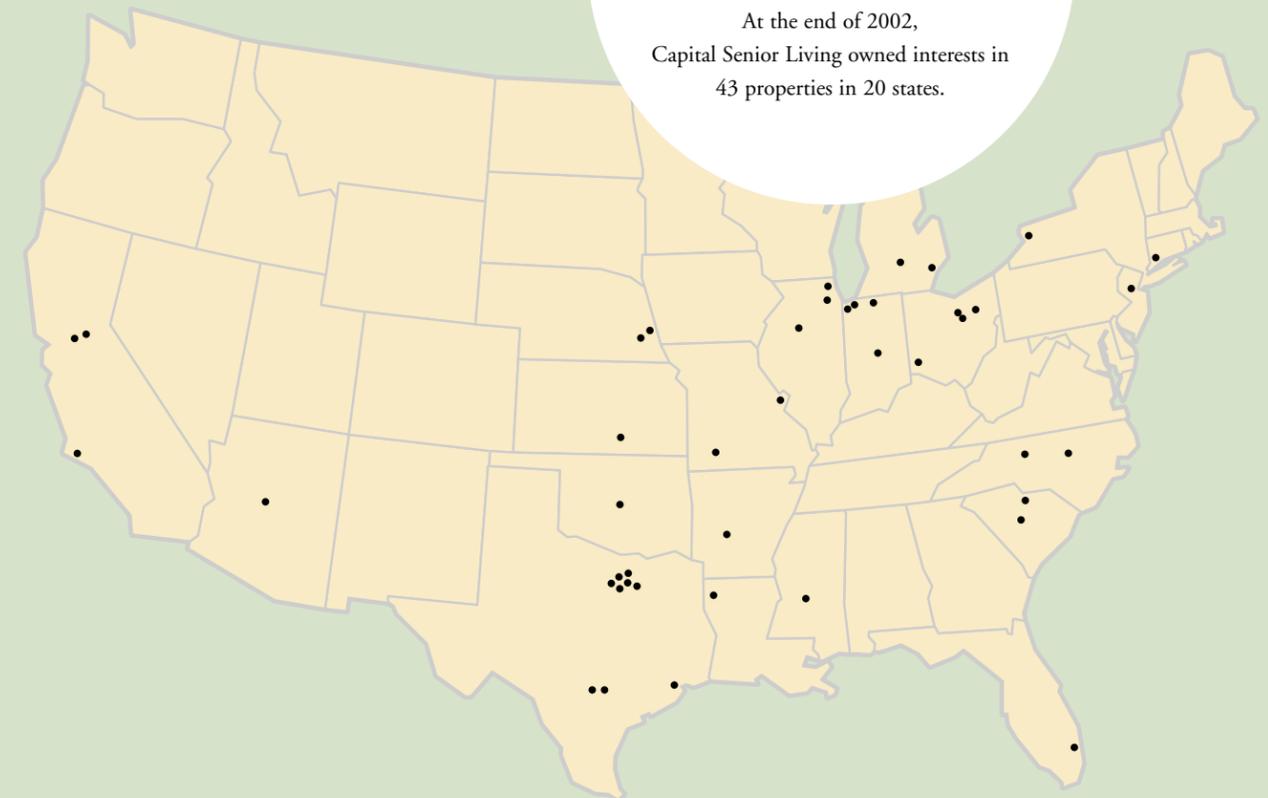


Lawrence A. Cohen, *Chief Executive Officer*

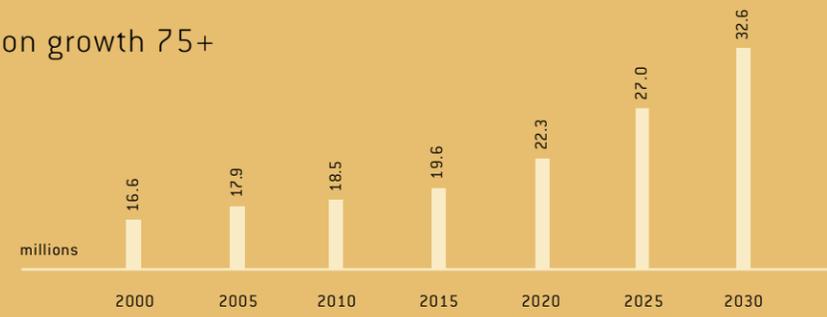


Geographical Locations

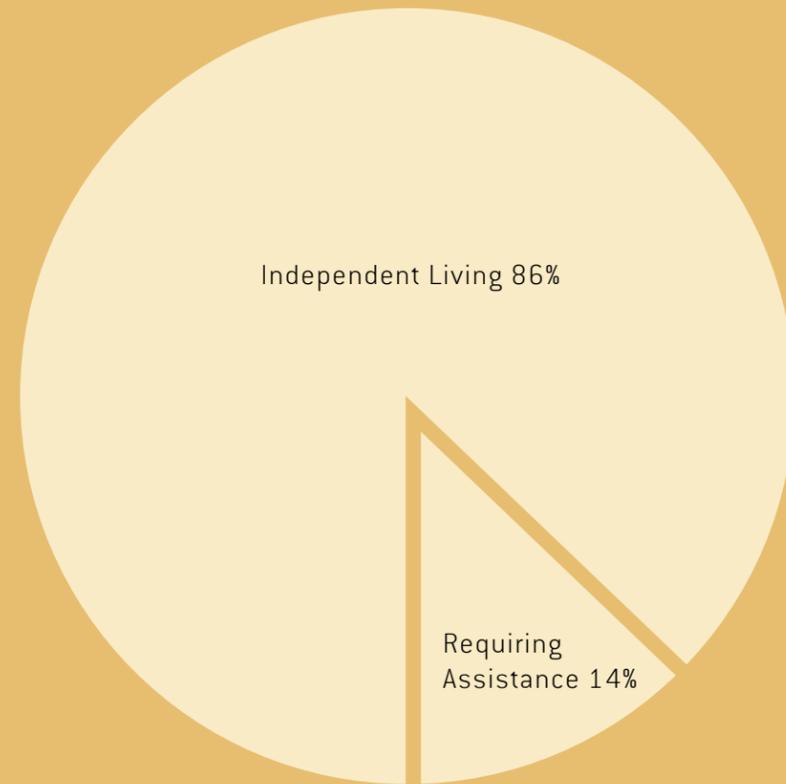
At the end of 2002,
Capital Senior Living owned interests in
43 properties in 20 states.



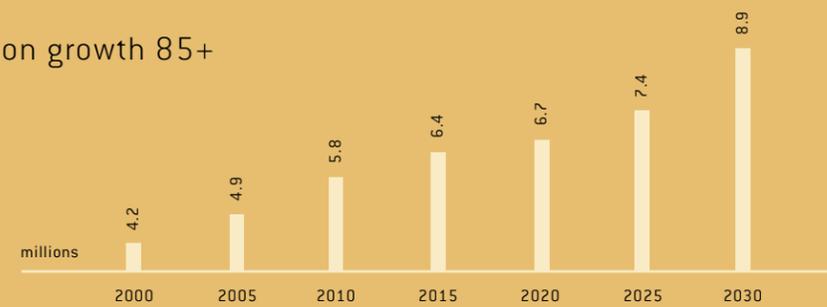
Elderly population growth 75+



Resident mix



Elderly population growth 85+



financial review

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Shareholders
Capital Senior Living Corporation

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheets of Capital Senior Living Corporation at December 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002 (not presented separately herein) and in our report dated February 14, 2003, except for Note 3, as to which the date is March 25, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

Ernst + Young LLP

Dallas, Texas
February 14, 2003
except for Note 3 (not contained herein), as to which the date is
March 25, 2003

Consolidated Balance Sheets

Capital Senior Living Corporation	December 31,	
In thousands	2002	2001
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 11,768	\$ 9,975
Restricted cash	4,490	2,100
Accounts receivable, net	1,461	1,438
Accounts receivable from affiliates	218	–
Investment in limited partnership	–	5,774
Federal and state income taxes receivable	1,171	1,145
Deferred taxes	399	2,770
Prepaid expenses and other	1,164	1,218
Total current assets	20,671	24,420
Property and equipment, net	153,544	196,821
Deferred taxes	7,106	7,540
Due from affiliates	513	366
Notes receivable from affiliates	86,470	65,092
Investments in limited partnerships	1,238	1,827
Assets held for sale	4,131	4,924
Other assets, net	4,578	7,092
Total assets	\$ 278,251	\$ 308,082
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 2,322	\$ 2,814
Accrued expenses	4,638	3,589
Current portion of notes payable	9,715	25,594
Customer deposits	1,023	1,144
Total current liabilities	17,698	33,141
Deferred income	7	507
Deferred income from affiliates	1,194	1,750
Notes payable, net of current portion	140,385	156,755
Minority interest in consolidated partnership	686	2,385
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 – 19,737 and 19,717		
in 2002 and 2001, respectively	197	197
Additional paid-in capital	91,990	91,935
Retained earnings	26,094	21,412
Total shareholders' equity	118,281	113,544
Total liabilities and shareholders' equity	\$ 278,251	\$ 308,082

Consolidated Statements of Income

Capital Senior Living Corporation	Year Ended December 31,		
In thousands, except per share data	2002	2001	2000
Revenues:			
Resident and health care revenue	\$ 57,574	\$ 62,807	\$ 49,185
Rental and lease income	37	3,619	4,603
Unaffiliated management services revenue	1,069	1,971	2,271
Affiliated management services revenue	2,062	1,743	1,040
Unaffiliated development fees	–	–	563
Affiliated development fees	740	403	1,992
Total revenues	61,482	70,543	59,654
Expenses:			
Operating expenses	32,851	37,214	29,530
General and administrative expenses	11,557	12,002	11,116
Provision for bad debts	267	967	4,318
Depreciation and amortization	5,846	7,088	5,186
Total expenses	50,521	57,271	50,150
Income from operations	10,961	13,272	9,504
Other income (expense):			
Interest income	5,968	5,914	5,981
Interest expense	(10,749)	(14,888)	(11,980)
Equity in the gains (losses) of affiliates	69	(451)	–
Gain (loss) on sale of properties	1,876	2,550	(350)
Income before income taxes, minority interest in consolidated partnership and extraordinary charge	8,125	6,397	3,155
Provision for income taxes	(3,015)	(1,871)	(763)
Income before minority interest in consolidated partnership and extraordinary charge	5,110	4,526	2,392
Minority interest in consolidated partnership	(428)	(1,617)	(1,153)
Income before extraordinary charge	4,682	2,909	1,239
Extraordinary charge, net of minority interest and income tax benefit of \$187 and \$94, respectively	–	(153)	–
Net income	\$ 4,682	\$ 2,756	\$ 1,239
Per share data:			
Basic earnings per share:			
Income before extraordinary charge	\$ 0.24	\$ 0.15	\$ 0.06
Extraordinary charge	\$ –	\$ (0.01)	\$ –
Net income	\$ 0.24	\$ 0.14	\$ 0.06
Diluted earnings per share:			
Income before extraordinary charge	\$ 0.24	\$ 0.15	\$ 0.06
Extraordinary charge	\$ –	\$ (0.01)	\$ –
Net income	\$ 0.24	\$ 0.14	\$ 0.06
Weighted average shares outstanding – basic	19,726	19,717	19,717
Weighted average shares outstanding – diluted	19,917	19,734	19,724

Consolidated Statements of Cash Flows

Capital Senior Living Corporation	Year Ended December 31,		
In thousands	2002	2001	2000
Operating Activities			
Net income	\$ 4,682	\$ 2,756	\$ 1,239
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	5,846	6,890	5,094
Amortization	–	198	92
Amortization of deferred financing charges	867	891	495
Minority interest in consolidated partnership	428	1,617	1,153
Deferred income from affiliates	(556)	(491)	456
Deferred income	(500)	507	–
Deferred income taxes (benefit)	2,805	(230)	346
Equity in the (gains) losses of affiliates	(69)	451	–
(Gain) loss on sale of properties	(1,876)	(2,550)	350
Writedown of assets held for sale	863	–	–
Provision for bad debts	267	967	4,318
Extraordinary charge, net of minority interest and income tax benefit of \$187 and 94, respectively	–	153	–
Non cash compensation	14	–	–
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(290)	816	(955)
Accounts receivable from affiliates	(218)	–	–
Notes receivable	–	570	(570)
Prepaid expenses and other	54	717	(1,427)
Other assets	896	(633)	191
Accounts payable	(492)	(867)	1,395
Accrued expenses	1,332	363	1,067
Federal and state income taxes receivable/payable	(20)	2,677	2,307
Customer deposits	(121)	132	101
Net cash provided by operating activities	13,912	14,934	15,652
Investing Activities			
Capital expenditures	(2,199)	(2,138)	(3,121)
Cash paid for acquisitions, net of cash acquired of \$2,060 in 2000	–	–	(102,014)
Proceeds from sale of assets	5,187	4,787	4,504
Proceeds from sale of assets to BRE/CSL	7,287	–	–
Advances to affiliates	(22,441)	(17,700)	(14,158)
Proceeds from (investments in) limited partnerships	7,335	(1,251)	2,597
Net cash used in investing activities	(4,831)	(16,302)	(112,192)

Consolidated Statements of Cash Flows (continued)

Capital Senior Living Corporation	Year Ended December 31,		
In thousands	2002	2001	2000
Financing Activities			
Proceeds from notes payable	4,823	3,207	125,248
Repayments of notes payable	(6,823)	(6,119)	(30,033)
Restricted cash	(2,390)	(1,000)	(1,100)
Cash proceeds from the exercise of stock options	35	-	-
Distributions to minority partners	(2,127)	(7,617)	(3,958)
Deferred financing charges paid	(806)	(3)	(3,730)
Net cash (used in) provided by financing activities	(7,288)	(11,532)	86,427
Increase (decrease) in cash and cash equivalents	1,793	(12,900)	(10,113)
Cash and cash equivalents at beginning of year	9,975	22,875	32,988
Cash and cash equivalents at end of year	\$ 11,768	\$ 9,975	\$ 22,875
Supplemental Disclosures			
Cash paid during the year for:			
Interest	\$ 9,308	\$ 13,931	\$ 10,609
Income taxes	\$ 2,374	\$ 744	\$ 619

Consolidated Statements of Shareholders' Equity

Capital Senior Living Corporation In thousands	Common Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount			
Balance at January 1, 2000	19,717	\$ 197	\$ 91,935	\$ 17,417	\$ 109,549
Net income	-	-	-	1,239	1,239
Balance at December 31, 2000	19,717	197	91,935	18,656	110,788
Net income	-	-	-	2,756	2,756
Balance at December 31, 2001	19,717	197	91,935	21,412	113,544
Exercise of stock options	20	-	41	-	41
Non cash compensation	-	-	14	-	14
Net income	-	-	-	4,682	4,682
Balance at December 31, 2002	19,737	\$ 197	\$ 91,990	\$ 26,094	\$ 118,281

Company Management

LAWRENCE A. COHEN

Chief Executive Officer

JAMES A. STROUD

Chairman of the Company

KEITH N. JOHANNESSEN

President and Chief Operating Officer

RALPH A. BEATTIE

Executive Vice President and Chief Financial Officer

ROB L. GOODPASTER

Vice President, National Marketing

DAVID W. BEATHARD

Vice President, Operations

GLEN H. CAMPBELL

Vice President, Development

DAVID R. BRICKMAN

Vice President and General Counsel

PAUL T. LEE

Vice President, Finance

JERRY D. LEE

Corporate Controller

ROBERT F. HOLLISTER

Property Controller

Board of Directors

JAMES A. STROUD¹

*Chairman of the Board, Capital Senior Living Corporation
Dallas, Texas*

LAWRENCE A. COHEN¹

*Vice Chairman of the Board, Capital Senior Living Corporation
New York, New York*

KEITH N. JOHANNESSEN

*Capital Senior Living Corporation
Dallas, Texas*

GORDON I. GOLDSTEIN, M.D.^{2,3}

*Former Chairman, Dallas Anesthesiology Associates
Dallas, Texas*

CRAIG F. HARTBERG³

*Retired First Vice President, Bank One, Texas, N.A.
Dallas, Texas*

JAMES A. MOORE^{1,2,3}

*President, Moore Diversified Services, Inc.
Fort Worth, Texas*

VICTOR W. NEE, PH.D.²

*Professor Emeritus, Department of Aerospace and Mechanical
Engineering, University of Notre Dame
South Bend, Indiana*

¹ Member of the Board's Executive Committee

² Member of the Board's Compensation Committee

³ Member of the Board's Audit Committee

Corporate Information

CORPORATE HEADQUARTERS

14160 Dallas Parkway, Suite 300
Dallas, Texas 75254
(972) 770-5600
(972) 770-5666 fax
main@capitalsenior.com

NEW YORK OFFICE

300 Park Avenue, Suite 1700
New York, New York 10022
(212) 551-1770
(212) 551-1774 fax

CORPORATE WEB SITE

www.capitalsenior.com

Shareholder Information

STOCK EXCHANGE LISTING

Capital Senior Living Corporation Common Stock is listed on the New York Stock Exchange and trades under the symbol CSU.

TRANSFER AGENT AND REGISTRAR

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, New Jersey 07660
(800) 635-9270
www.melloninvestor.com

AUDITORS

Ernst & Young LLP
2121 San Jacinto, Suite 1500
Dallas, Texas 75201
(214) 969-8000

Regional Information

EASTERN REGIONAL OFFICE

186 Old Stagecoach Road
Ridgefield, Connecticut 06877
(203) 894-9406
(203) 894-9407 fax

SOUTHEASTERN REGIONAL OFFICE

6061 Palmetto Circle North
Boca Raton, Florida 33433
(561) 417-8579
(561) 417-8376 fax

MIDWESTERN REGIONAL OFFICE

2820 South 80th
Omaha, Nebraska 68124
(402) 926-2884
(402) 926-2891 fax

WESTERN REGIONAL OFFICE

5757 Cypress Avenue
Carmichael, California 95608
(916) 480-0634
(916) 486-4375 fax

SOUTHWESTERN REGIONAL OFFICE

14160 Dallas Parkway, Suite 300
Dallas, Texas 75254
(972) 770-5600
(972) 770-5666 fax
main@capitalsenior.com

Form 10-K

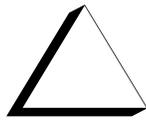
A copy of Capital Senior Living Corporation's 2002 annual report to the SEC on Form 10-K is available without charge upon written request to the Investor Relations Department at corporate headquarters. It can also be found on the Company's web site, www.capitalsenior.com.

Annual Shareholders Meeting

May 22, 2003 at 10 a.m. Central Time
AmeriSuites Hotel
5229 Spring Valley Road
Dallas, Texas 75254
(972) 716-2001

Profile

Capital Senior Living Corporation is committed to providing quality housing and services based on the highest standards of excellence in the industry. Our goal is to enrich the daily lives of our senior residents by providing an environment that stimulates them physically, mentally, and emotionally. Therefore, each community offers a relaxed atmosphere of warmth and caring that promotes companionship among residents and staff. Each community's employees are personally committed to serving residents and treating them with dignity and respect.



Capital Senior Living Corporation

14160 Dallas Parkway, Suite 300

Dallas, Texas 75254

(972) 770-5600 fax (972) 770-5666

www.capitalsenior.com