

CAPITAL SENIOR LIVING CORP

Form DEF 14A

April 29, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☐

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to §240.14a-12

Capital Senior Living Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

**CAPITAL SENIOR LIVING CORPORATION
14160 DALLAS PARKWAY, SUITE 300
DALLAS, TEXAS 75254**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held June 16, 2010**

To the Stockholders of Capital Senior Living Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the "Annual Meeting") of Capital Senior Living Corporation, a Delaware corporation (the "Company"), will be held at the Company's principal executive offices at 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254 at 10:00 a.m. Central Time, on the 16th day of June, 2010, for the following purposes:

1. To elect three directors of the Company to hold office until the Annual Meeting to be held in 2013 or until their respective successors are duly qualified and elected;
2. To ratify the Audit Committee's appointment of Ernst & Young LLP, independent accountants, as the Company's independent auditors;
3. To approve the Rights Agreement, dated as of February 25, 2010, between the Company and Mellon Investor Services LLC, as Rights Agent; and
4. To transact any and all other business that may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof.

The Board of Directors has fixed the close of business on April 19, 2010, as the record date (the "Record Date") for the determination of stockholders entitled to notice of and to vote at the Annual Meeting or any adjournment(s) or postponement(s) thereof. Only stockholders of record at the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting. The stock transfer books will not be closed. A list of stockholders entitled to vote at the Annual Meeting will be available for examination at the Company's principal executive offices for ten days prior to the Annual Meeting.

Important Notice Regarding Availability of Proxy Materials for the Stockholders Meeting to be held on June 16, 2010: The Proxy Statement and the 2009 Annual Report to Stockholders are also available at www.proxydocs.com/csu.

You are cordially invited to attend the Annual Meeting; however, whether or not you expect to attend the Annual Meeting in person, you are urged to mark, sign, date, and mail the enclosed WHITE proxy card promptly so that your shares of stock may be represented and voted in accordance with your wishes and in order to help establish the presence of a quorum at the Annual Meeting. If you attend the Annual Meeting and wish to vote in person, you may do so even if you have already dated, signed and returned your WHITE proxy card.

Pursuant to recent amendments to the New York Stock Exchange rules, if you hold your shares in street name, beginning this year brokers will not have discretion to vote your shares on the election of directors. Brokers will also not have discretion to vote your shares on the proposal to approve our rights agreement. Accordingly, if your shares are held in street name and you do not submit voting instructions to your broker, your shares will not be counted in determining the outcome of the election of the director nominees or the approval of our rights agreement at the Annual Meeting. We encourage you to provide voting instructions to your broker if you hold your shares in street name so

that your voice is heard in the election of directors and the approval of our rights agreement.

By Order of the Board of Directors

Lawrence A. Cohen
Chief Executive Officer

April 29, 2010
Dallas, Texas

TABLE OF CONTENTS

<u>Principal Stockholders and Stock Ownership of Management</u>	4
<u>Election of Directors (Proposal 1)</u>	7
<u>Board of Directors and Committees</u>	11
<u>Executive Compensation</u>	16
<u>Termination of Employment and Change in Control Arrangements</u>	33
<u>Director Compensation</u>	42
<u>Certain Relationships and Related Person Transactions</u>	45
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	45
<u>Proposal to Ratify Appointment of Independent Auditors (Proposal 2)</u>	46
<u>Fees Paid to Independent Auditors</u>	46
<u>Proposal to Approve the Rights Agreement (Proposal 3)</u>	47
<u>Other Business (Proposal 4)</u>	52
<u>General</u>	52

Table of Contents

**CAPITAL SENIOR LIVING CORPORATION
14160 Dallas Parkway, Suite 300
Dallas, Texas 75254**

**PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS
To Be Held June 16, 2010**

Solicitation and Revocability of Proxies

The accompanying proxy is solicited by the Board of Directors on our behalf to be voted at the annual meeting of our stockholders to be held on June 16, 2010 (the Annual Meeting), at the time and place and for the purposes set forth in the accompanying notice and at any adjournment(s) or postponement(s) thereof. When proxies in the accompanying form are properly executed and received, the shares represented thereby will be voted at the Annual Meeting in accordance with the directions noted thereon, unless the proxy is subsequently revoked.

Any stockholder giving a proxy has the unconditional right to revoke his or her proxy at any time prior to the voting thereof either in person at the Annual Meeting by delivering a duly executed proxy bearing a later date or by giving written notice of revocation to us addressed to David R. Brickman, Vice President, General Counsel and Secretary, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254. However, no such revocation shall be effective unless such notice of revocation has been received by us at or prior to the Annual Meeting.

Our principal executive offices are located at, and our mailing address is, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254.

Our management does not intend to present any business at the Annual Meeting for a vote other than the matters set forth in the accompanying notice and has no knowledge that others will do so. If other matters requiring a vote of our stockholders properly come before the Annual Meeting, then it is the intention of the persons named in the accompanying form of proxy to vote the shares represented by the proxies held by them in accordance with their judgment on such matters.

This proxy statement and accompanying form of proxy are being mailed on or about April 29, 2010. The annual report to our stockholders covering our fiscal year ended December 31, 2009, mailed to our stockholders on or about April 29, 2010, does not form any part of the materials for solicitation of proxies.

In addition to the solicitation of proxies by use of the mail, our officers, directors and employees may solicit the return of proxies, either by mail, telephone, telecopy, or through personal contact. Such officers, directors and employees will not be additionally compensated by us but will be reimbursed for out-of-pocket expenses. We have retained Georgeson Shareholder Communications Inc. to assist in the solicitation of proxies for a fee of \$7,500. This amount includes fees payable to Georgeson, but excludes salaries and expenses of our officers, directors and employees. Brokerage houses and other custodians, nominees, and fiduciaries will, in connection with shares of our common stock registered in their names, be requested to forward solicitation material to the beneficial owners of such shares of our common stock.

The cost of preparing, printing, assembling, and mailing the annual report, the accompanying notice, this proxy statement, and the enclosed form of proxy, as well as the reasonable cost of forwarding solicitation materials to the beneficial owners of shares of our common stock, and other costs of solicitation, are to be exclusively borne by us.

Some banks, brokers and other record holders have begun the practice of householding proxy statements and annual reports. Householding is the term used to describe the practice of delivering a single set of the proxy statement and

annual report to any household at which two or more stockholders share an address. This procedure would reduce the volume of duplicative information and our printing and mailing costs. We will deliver promptly, upon written or oral request, a separate copy of this proxy statement and the annual report to a stockholder at a shared address to which a single copy of the documents was delivered. A stockholder who wishes to receive a separate copy of the proxy statement and annual report, now or in the future, should submit this request to David R. Brickman, Vice President, General Counsel and Secretary, at our principal executive offices, 14160 Dallas Parkway,

Table of Contents

Suite 300, Dallas, Texas 75254 or by calling (972) 770-5600. Beneficial owners sharing an address who receive multiple copies of proxy materials and annual reports and who wish to receive a single copy of such materials in the future will need to contact their broker, bank or other nominee to request that only a single copy of each document be mailed to all stockholders at the shared address in the future.

Date for Receipt of Stockholder Proposals

Stockholder proposals to be included in the proxy statement for the 2011 annual meeting of our stockholders must be received by us at our principal executive offices on or before December 30, 2010 for inclusion in the proxy statement relating to that meeting.

Our Amended and Restated Certificate of Incorporation establishes an advance notice procedure with regard to certain matters, including stockholder proposals and nominations of individuals for election to the Board of Directors to be made at an annual meeting of our stockholders. In general, notice of a stockholder proposal or a director nomination to be brought at an annual meeting of our stockholders must be received by us not less than 60 but not more than 90 days before the date of the meeting and must contain specified information and conform to certain requirements set forth in our Amended and Restated Certificate of Incorporation. The chairman of the meeting may disregard the introduction of any such proposal or nomination if it is not made in compliance with the foregoing procedures or the applicable provisions of our Amended and Restated Certificate of Incorporation.

Quorum and Voting

The record date for the determination of our stockholders entitled to notice of and to vote at the Annual Meeting was the close of business on April 19, 2010. At such time, there were 27,028,259 shares of our common stock issued and outstanding.

Each holder of our common stock is entitled to one vote per share on all matters to be acted upon at the Annual Meeting, and neither our Amended and Restated Certificate of Incorporation nor our Amended and Restated Bylaws allow for cumulative voting rights. The presence, in person or by proxy, of the holders of a majority of the issued and outstanding shares of our common stock entitled to vote at the Annual Meeting is necessary to constitute a quorum to transact business. If a quorum is not present or represented at the Annual Meeting, the stockholders entitled to vote at the Annual Meeting, present in person or by proxy, may adjourn the Annual Meeting, from time to time, without notice or other announcement until a quorum is present or represented. Assuming the presence of a quorum, the affirmative vote of the holders of at least a majority of the outstanding shares of our common stock represented in person or by proxy at the Annual Meeting and entitled to vote is required to (1) approve election of directors, (2) ratify the appointment of the independent auditors, and (3) approve our rights agreement.

If you hold shares in your name, and you sign and return a proxy card without giving specific voting instructions on how to vote, the persons named as proxy holders will vote your proxy in favor of the election of each director nominee named in this proxy statement, in favor of the ratification of the appointment of Ernst & Young LLP as our independent auditors, in favor of the approval of our rights agreement, and as the proxy holders may determine in their discretion with respect to any other matters that properly come before the Annual Meeting. If you are a street name holder and do not submit specific voting instructions to your broker, the organization that holds your shares may generally vote your shares with respect to discretionary items, but not with respect to non-discretionary items. Discretionary items are proposals considered routine under the rules of the New York Stock Exchange (NYSE) on which your broker may vote shares held in street name in the absence of your voting instructions. On non-discretionary items for which you do not submit specific voting instructions to your broker, the shares will be treated as broker non-votes. Broker non-votes will be counted for purposes of determining whether a quorum is present, but will not be considered shares entitled to vote on the proposal and will not be treated as affirmative or

opposing votes. The proposal to ratify the appointment of Ernst & Young LLP, independent accountants, as our independent auditors is considered routine and therefore may be voted upon by your broker if you do not give instructions to your broker. However, pursuant to recent amendments to the NYSE rules, beginning this year brokers will not have discretion to vote your shares on the election of directors. Brokers will also not have discretion to vote your shares on the proposal to approve our rights agreement. Accordingly, if your shares are held in street name and you do not submit voting instructions to your broker, your shares will not be counted in

Table of Contents

determining the outcome of the election of the director nominees or the approval of our rights agreement at the Annual Meeting.

Each proposal is tabulated separately. Pursuant to the NYSE's rules, abstentions are counted in tabulations of votes cast on proposals presented to stockholders, whereas broker non-votes are not counted as voting for purposes of determining whether a proposal has received the necessary number of votes for approval of the proposal. With regard to the election of directors, votes may be cast in favor of or withheld from each nominee and votes that are withheld will be excluded entirely from the vote and will have no effect.

Requests for Written Copies of Annual Report

We will provide, without charge, a copy of our annual report as filed with the Securities and Exchange Commission (the SEC) upon the written request of any registered or beneficial owner of our common stock entitled to vote at the Annual Meeting. Requests should be made by mailing David R. Brickman, Vice President, General Counsel and Secretary, at our principal executive offices, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254 or calling (972) 770-5600. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants, including us.

Forward-Looking Statements

Certain information contained in this proxy statement 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. We caution readers that forward-looking statements, including, without limitation, those relating to our 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 our ability to find suitable acquisition properties at favorable terms, financing, licensing and business conditions, risks of downturn in economic conditions generally, satisfaction of closing conditions such as those pertaining to licensure, the availability of insurance at commercially reasonable rates, and changes in accounting principles and interpretations, among others, and other risks and factors identified from time to time in our reports filed with the SEC.

Table of Contents**PRINCIPAL STOCKHOLDERS AND STOCK OWNERSHIP OF MANAGEMENT**

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of April 12, 2010, by: (i) each person known by us to be the beneficial owner of more than five percent of our common stock; (ii) each of our directors; (iii) our Chief Executive Officer, our Chief Financial Officer and the three most highly compensated executive officers during 2009, or our named executive officers; and (iv) all of our executive officers and directors as a group. Except as otherwise indicated, the address of each person listed below is 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254.

Name of Beneficial Owner	Shares Beneficially Owned(1)(2)	
	Number	Percent of Class
FMR LLC	2,225,739(3)	8.2
Dimensional Fund Advisors LP	2,176,014(4)	8.1
WS Capital, L.L.C.	2,017,000(5)	7.5
T. Rowe Price Associates, Inc.	1,923,800(6)	7.1
Boston Avenue Capital, LLC	1,901,000(7)	7.0
Morgan Stanley	1,481,434(8)	5.5
Harvey Hanerfeld	1,284,373(9)	4.8
Lawrence A. Cohen	709,600(10)	2.6
Keith N. Johannessen	246,940(11)	*
David R. Brickman	95,020(12)	*
Ralph A. Beattie	54,000(13)	*
James A. Moore	47,200(14)	*
Jill M. Krueger	28,000(15)	*
Dr. Victor W. Nee	27,000(16)	*
Craig F. Hartberg	17,167(17)	*
Rob L. Goodpaster	16,100(18)	*
Peter L. Martin	9,550(19)	*
Michael W. Reid	9,000(20)	*
All directors and executive officers as a group (16 persons)	2,620,540(21)	9.5

* Less than one percent.

- (1) Pursuant to SEC rules, a person has beneficial ownership of any securities as to which such person, directly or indirectly, through any contract, arrangement, undertaking, relationship or otherwise has or shares voting power and/or investment power and as to which such person has the right to acquire such voting and/or investment power within 60 days. Percentage of beneficial ownership as to any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person by the sum of the number of shares outstanding as of such date and the number of shares as to which such person has the right to acquire voting and/or investment power within 60 days.
- (2) Except for the percentages of certain parties that are based on presently exercisable options which are indicated in the following footnotes to the table, the percentages indicated are based on 27,028,259 shares of our common

stock issued and outstanding on April 12, 2010. In the case of parties holding presently exercisable options, the percentage ownership is calculated on the assumption that the shares presently held or purchasable within the next 60 days underlying such options are outstanding.

- (3) Represents shares beneficially owned by Fidelity Management & Research Company (Fidelity) together with certain affiliates. According to a Schedule 13G/A, filed February 16, 2010, Fidelity, whose address is 82 Devonshire Street, Boston, Massachusetts 02109, is a wholly-owned subsidiary of FMR LLC and an investment advisor. Fidelity is the beneficial owner of 1,047,600 shares of our common stock as a result of acting as investment advisor to various investment companies. Edward C. Johnson 3rd, Chairman of FMR LLC, and FMR LLC, through its control of Fidelity and the funds, each has sole power to dispose of the 1,047,600 shares of our common stock owned by the funds. Neither FMR LLC, nor Mr. Johnson, has the sole power to vote or direct the voting of the shares of our common stock owned directly by the Fidelity Funds, which power resides with Funds

Table of Contents

Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the Funds Board of Trustees. Members of Mr. Johnson's family are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders' voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed to form a controlling group with respect to FMR LLC. Pyramis Global Advisors Trust Company (PGATC), 900 Salem Street, Smithfield, Rhode Island, 02917, an indirect wholly-owned subsidiary of FMR LLC and a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, is the beneficial owner of 1,001,739 shares of our common stock as a result of its serving as investment manager of institutional accounts owning such shares. Mr. Johnson and FMR LLC, through its control of PGATC, each has sole dispositive power over 1,001,739 shares and sole power to vote or to direct the voting of 965,059 shares owned by the institutional accounts managed by PGATC. FIL Limited (FIL), Pembroke Hall, 42 Crow Lane, Hamilton, Bermuda, is the beneficial owner of 176,400 shares of our common stock. Partnerships controlled predominantly by members of the family of Mr. Johnson and FIL or trusts for their benefit, own shares of FIL voting stock with the right to cast approximately 47% of the total votes which may be cast by all holders of FIL voting stock.

- (4) According to a Schedule 13G/A, filed February 8, 2010, the address for Dimensional Fund Advisors LP (Dimensional) is Palisades West, Building One, 6300 Bee Caves Road, Austin, Texas 78746. Dimensional, an investment advisor, furnishes investment advice to four investment companies and serves as investment manager to certain other commingled group trusts and separate accounts (such investment companies, trusts and accounts, collectively, the Dimensional Funds). In certain cases, subsidiaries of Dimensional may act as an adviser or sub-adviser to certain Dimensional Funds. In its role as investment advisor, sub-adviser and/or manager, neither Dimensional or its subsidiaries possess investment and/or voting power over the shares of our common stock, which are owned by such the Dimensional Funds.
- (5) Represents shares beneficially owned by WS Capital, L.L.C. (WS Capital) and certain of its affiliates. According to Schedule 13D/A, filed February 16, 2010, the address for each of WS Capital, WS Capital Management, L.P. (WSC Management), Reid S. Walker and G. Stacy Smith is 300 Crescent Court, Suite 1111, Dallas, Texas 75201. Walker Smith Capital, L.P. (WSC), Walker Smith Capital (Q.P.), L.P. (WSCQP), Walker Smith International Fund, Ltd. (WS International), HHMI Investments, L.P. (HHMI) and GT Global Hedge, L.P. (GT Global) and collectively with WSC, WSCQP, WS International and HHMI, the WS Funds) own 2,017,000 shares of our common stock. WSC Management is the general partner of WSC and WSCQP, the agent and attorney-in-fact for WS International and the investment manager for HHMI and GT Global. WS Capital is the general partner of WSC Management. Messrs. Walker and Smith are members of WS Capital. As a result, WSC Management, WS Capital and Messrs. Walker and Smith possess shared power to vote and direct the disposition of the shares of our common stock held by the WS Funds.
- (6) Represents shares beneficially owned by T. Rowe Price Associates, Inc. (Price Associates) and certain of its affiliates. According to a Schedule 13G/A, filed February 12, 2010, the address of each of Price Associates and T. Rowe Price Small-Cap Value Fund, Inc. (Price Small-Cap), is 100 E. Pratt Street, Baltimore, Maryland 21202. Price Associates beneficially owns 1,923,800 shares of our common stock and has the sole voting power with respect to 109,500 shares and the sole dispositive power with respect to all 1,923,800 shares. Price Small-Cap beneficially owns 1,810,000 shares of our common stock and has the sole voting power with respect to all 1,810,000 shares and the sole dispositive power with respect to none of these shares.
- (7) Represents shares beneficially owned by Boston Avenue Capital, LLC, an Oklahoma limited liability company (Boston Avenue), and certain of its affiliates. According to Schedule 13D/A, filed December 13, 2007, as

amended, the address of Stephen J. Heyman and James F. Alderson is 15 E. 5th Street, 32nd Floor, Tulsa, Oklahoma 7410, and the address of Boston Avenue and Yorktown Avenue Capital, LLC, an Oklahoma limited liability company, is 15 East 5th Street, Suite 2660, Tulsa, Oklahoma 74103. Boston Avenue Capital, LLC directly owns 1,448,000 shares over which it has sole voting and dispositive power and Yorktown Avenue Capital, LLC directly owns 453,000 shares over which is has sole voting and dispositive power. Messrs. Heyman and Alderson as managers of the Capital Senior Living Corporation investment of Boston and Yorktown, may also be deemed to beneficially own the 1,901,000 shares of Common Stock.

Table of Contents

- (8) According to a Schedule 13G, filed February 12, 2010, the address of Morgan Stanley is 1585 Broadway, New York, NY 10036. Morgan Stanley beneficially owns 1,481,434 shares of our common stock and has the sole voting power with respect to 1,079,229 shares and sole dispositive power with respect to all 1,481,434 shares.
- (9) According to a Schedule 13D/A, filed February 16, 2010, the address for Mr. Hanerfeld is 3 Bethesda Metro Center, Suite 810, Bethesda, MD 20814. Mr. Hanerfeld and Roger Feldman are the sole owners and managing members of West Creek Capital, LLC (West Creek). Each of West Creek, Mr. Feldman and Mr. Hanerfeld either individually and/or collectively is deemed to be the beneficial owner of shares held by (i) WC Select LP (Select), (ii) West Creek Partners Fund LP (Partners Fund), (iii) Mr. Feldman, (iv) Mr. Hanerfeld and (vi) certain private accounts (the Accounts) with respect to which West Creek is an investment advisor pursuant to investment advisory agreements. West Creek, as the investment adviser to Select, Partners Fund, and the Accounts, and Mr. Feldman and Mr. Hanerfeld as sole owners and managing members of West Creek, may be deemed to have the shared power to direct the voting and disposition of a total of 1,225,373 total shares of our common stock held by Select, Partners Fund and the Accounts. Mr. Feldman has the sole power to vote or direct the voting of and to dispose and to direct the disposition of 28,000 shares of our common stock beneficially owned by him as an individual. Mr. Hanerfeld has the sole power to vote or direct the voting of and to dispose and to direct the disposition of 50,000 shares of our common stock beneficially owned by him as an individual and the 9,000 shares of restricted stock issued to Mr. Hanerfeld pursuant to our 2007 Omnibus Stock and Incentive Plan, 3000 of such shares which have vested.
- (10) Consists of 456,275 shares held by Mr. Cohen directly, 65,325 unvested shares of restricted stock, and 188,000 shares that Mr. Cohen may acquire upon the exercise of options immediately or within 60 days after April 12, 2010.
- (11) Consists of 65,075 shares held by Mr. Johannessen directly, 65,325 unvested shares of restricted stock and 116,540 shares that Mr. Johannessen may acquire upon the exercise of options immediately or within 60 days after April 12, 2010.
- (12) Consists of 14,825 shares held by M. Brickman directly, 15,075 unvested shares of restricted stock and 65,120 shares that Mr. Brickman may acquire upon the exercise of options immediately or within 60 days after April 12, 2010.
- (13) Consists of 28,875 shares held by Mr. Beattie directly and 25,125 unvested shares of restricted stock.
- (14) Consists of 17,467 shares held directly by Mr. Moore, 6,333 unvested shares of restricted stock, and 23,400 shares that Mr. Moore may acquire upon the exercise of options immediately or within 60 days after April 12, 2010.
- (15) Consists of 12,667 shares held directly by Ms. Krueger, 6,333 unvested shares of restricted stock and 9,000 shares that Ms. Krueger may acquire upon the exercise of options immediately or within 60 days after April 12, 2010.
- (16) Consists of 12,667 shares held directly by Dr. Nee, 6,333 unvested shares of restricted stock, 7,000 shares that Dr. Nee may acquire upon the exercise of options immediately or within 60 days of April 12, 2010 and 1,000 shares held by Dr. Nee s spouse.
- (17) Consists of 7,834 shares held by Mr. Hartberg directly, 6,333 unvested shares of restricted stock and 3,000 shares that Mr. Hartberg may acquire upon the exercise of options immediately or within 60 days after

April 12, 2010.

- (18) Consists of 4,950 shares held directly by Mr. Goodpaster, 6,030 unvested shares of restricted stock, and 5,120 shares that Mr. Goodpaster may acquire upon the exercise of options immediately or within 60 days after April 12, 2010.
- (19) Consists of 550 shares of common stock owned by the Peter L. Martin IRA, 3,000 shares held by Mr. Martin directly and 6,000 shares of unvested restricted stock.
- (20) Consists of 9,000 unvested shares of restricted stock.
- (21) Includes 248,337 unvested shares of restricted stock and 444,240 shares that such executive officers and/or directors, collectively, may acquire upon the exercise of options immediately or within 60 days after April 12, 2010.

Table of Contents**ELECTION OF DIRECTORS**

(PROPOSAL 1)

Nominees and Continuing Directors

Unless otherwise directed in the enclosed proxy, it is the intention of the persons named in such proxy to vote the shares represented by such proxy for the election of each of the following named nominees as a member of the Board of Directors, each to hold office until the annual meeting of our stockholders to be held in 2013 and until his successor is duly qualified and elected or until his earlier resignation or removal. Mr. Moore is presently a member of the Board of Directors, but Messrs. Brooks and Malone are not presently members of the Board of Directors.

Name	Age	Position(s)	Director s Term Expires
Nominees:			
James A. Moore	75	Director	2013
Philip A. Brooks	51	Director	2013
Ronald A. Malone	55	Director	2013
Continuing Directors:			
Lawrence A. Cohen	56	Vice Chairman of the Board and Chief Executive Officer	2011
Craig F. Hartberg	73	Director	2011
Peter L. Martin	41	Director	2011
Keith N. Johannessen	53	President and Chief Operating Officer and Director	2012
Jill M. Krueger	51	Director	2012
Michael W. Reid	56	Director	2012

The following is a brief biography of each nominee and each current director, including each director whose term will continue after the Annual Meeting.

Nominees for Election for Three-Year Terms Expiring at the 2013 Annual Meeting:

James A. Moore has been a director since October 1997. Mr. Moore is also a member of the board of Atlantic Shores Senior Living Community, a non-profit organization that owns a CCRC located in Virginia Beach, Virginia and a member of the board of Patmos Senior Living, a non-profit organization that oversees the boards of Kirby Pines and The Farms at Bailey Station, two CCRC communities in Memphis, Tennessee. Mr. Moore is President of Moore Diversified Services, Inc., a senior living consulting firm engaged in market feasibility studies, investment advisory services, and marketing and strategic consulting in the senior living industry. Mr. Moore has over 40 years of industry experience and has conducted over 1,800 senior living consulting engagements in approximately 600 markets, in 49 states and six countries. Mr. Moore has authored numerous senior living and health care industry technical papers and trade journal articles, as well as the books *Assisting Living Pure & Simple Development and Operating Strategies* and *Assisted Living 2000, Assisted Living Strategies for Changing Markets*, which was released in May 2001, and *Independent Living and CCRCs*, which was released in September 2009. Mr. Moore holds a Bachelor of Science degree in Industrial Technology from Northeastern University in Boston and an MBA in Marketing and Finance from

Texas Christian University in Fort Worth, Texas.

Philip A. Brooks serves as Senior Vice President – Seniors Housing and Healthcare Finance Group for Berkadia Commercial Mortgage, LLC (Berkadia). In December 2009, Berkadia acquired the loan origination and servicing businesses of Capmark Finance Inc., businesses that had been established by GMAC Commercial Mortgage in 1994. From 1996 until December 2009, Mr. Brooks held a similar position at Capmark Finance, Inc. Prior to joining Capmark Finance, Inc., Mr. Brooks was a director of Fannie Mae from 1992 to 1996 and was responsible for Fannie Mae's multifamily finance product development, including improving existing loan products and creating new loan products, and he implemented its seniors housing product line. Prior to Fannie Mae, Mr. Brooks was a mortgage banker with B.F. Saul Company, a large Mid-Atlantic investment firm, from 1988-1992. From 1983-1988, Mr. Brooks was an associate director for the Mortgage Bankers Association of America. Mr. Brooks has over 20 years experience in the real estate finance industry. He is a member of the Executive Committee and charter member of the American Seniors Housing Association, the Board of Directors of the

Table of Contents

National Investment Center for Seniors Housing and Long-Term Care Industries, and is on the President's Council for the Assisted Living Federation of America. On October 25, 2009, Capmark Financial Group Inc. and certain of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code.

Ronald A. Malone has served as the Chairman of the Board of Directors of Gentiva Health Services, Inc., a provider of comprehensive home health services (Gentiva Health), since June 2002 and as a member of the Clinical Quality Committee of the board of Gentiva Health since May 2009. He has previously served in various executive officer positions with Gentiva Health, including as its Chief Executive Officer from June 2002 to December 2008, its Executive Vice President from March 2000 to June 2002 and as President of its Home Health Services division from January 2001 to June 2002. Prior to joining Gentiva Health, Mr. Malone served in various positions with Olsten Corporation, including Executive Vice President of Olsten Corporation and President, Olsten Staffing Services, United States and Canada, from 1999 to March 2000. Mr. Malone is a director of the National Association for Home Care & Hospice and a director and president of the Alliance for Home Health Quality and Innovation. Mr. Malone is also director and chairman of the compensation and management development committee of Hill-Rom Holdings, Inc. and was a director of Hillenbrand Industries, Inc. from 2007 to 2008.

Directors Continuing in Office Until the 2011 Annual Meeting:

Lawrence A. Cohen has served as one of our directors and as Vice Chairman of the Board since November 1996. He has served as our Chief Executive Officer since May 1999 and was our Chief Financial Officer from November 1996 to May 1999. From 1991 to 1996, Mr. Cohen served as President and Chief Executive Officer of Paine Webber Properties Incorporated, which controlled a real estate portfolio having a cost basis of approximately \$3.0 billion, including senior living facilities of approximately \$110.0 million. Mr. Cohen was a founding member and is on the executive committee of the Board of Directors of the American Seniors Housing Association and serves on the Operator Advisory Board of the National Investment Center for the Seniors Housing & Care Industry. Mr. Cohen also serves on the boards of various charitable organizations. Mr. Cohen is a licensed attorney and is also a Certified Public Accountant. He received an LLM in Taxation from New York University School of Law, a JD from St. John's University School of Law and a BBA in Accounting from The George Washington University. Mr. Cohen has had positions with businesses involved in senior living for 25 years.

Craig F. Hartberg has been a director since February 2001. Mr. Hartberg also served as a Small Business Advisor for the Louisiana Department of Development until his resignation effective February 1, 2010. Mr. Hartberg retired from the commercial banking industry in May 2000, having served in several capacities during his 28-year career. At the time of his retirement, Mr. Hartberg served as First Vice President, Senior Housing Finance for Bank One, Texas, N.A. Mr. Hartberg graduated from the Southwestern Graduate School of Banking at Southern Methodist University. He earned his Masters of Business Administration at the University of Wyoming, following his Honorable Discharge from twelve years active duty in the United States Air Force. Mr. Hartberg served as a member of the Board of Directors of the National Association of Senior Living Industry Executives and as a member of the Assisted Living Federation of America.

Peter L. Martin was elected to the board on March 25, 2008 to fill a vacancy created by an increase in the size of the board from seven to nine directors. Mr. Martin currently serves as a Managing Director and Senior Analyst, Healthcare Facilities at JMP Securities in San Francisco, California. He joined the firm in December 2008. From January 2006 to November 2008, Mr. Martin was a Portfolio Manager at Matthes Capital Management in San Francisco. From June 2003 to December 2005, Mr. Martin was a Portfolio Manager at Presidio Management. Prior to his investment management experience, Mr. Martin was a Managing Director in the equity research department of the investment bank Jefferies & Company, Inc. from February 1997 to June 2003. He provided in-depth coverage of the Assisted Living industry. From 1995 to 1996, Mr. Martin was an associate in the research department at Montgomery Securities in the Real Estate and Consumer Services groups. From 1990 to 1995, he was an analyst

with Franklin/Templeton Group of Funds. Mr. Martin received a Masters of Business Administration from the University of San Francisco and a Bachelor of Arts in business economics from the University of California at Santa Barbara. He has been a Chartered Financial Analyst since 1995.

Table of Contents

Directors Continuing in Office Until the 2012 Annual Meeting:

Keith N. Johannessen has been a director since 1999. Mr. Johannessen has served as our President since 1994 and our Chief Operating Officer since 1999. He previously served as our Executive Vice President from May 1993 to February 1994. Mr. Johannessen has more than 30 years of operational experience in seniors housing. He began his senior housing career in 1978 with Life Care Services Corporation and then joined Oxford Retirement Services, Inc. as Executive Vice President. Mr. Johannessen later served as Senior Manager in the health care practice of Ernst & Young LLP prior to joining the Company in 1993. He has served on the State of the Industry and Model Assisted Living Regulations Committees of the American Seniors Housing Association. Mr. Johannessen holds a BA degree.

Jill M. Krueger has been a director since February 2004. Ms. Krueger has served as President and Chief Executive of Health Resources Alliance, Inc., a company specializing in providing rehabilitative and wellness services, institutional pharmacy services and products and programs designed to promote independence, health and wellness for elderly persons. Ms. Krueger also manages Senior Care Network, a St. Louis based alliance, and Alliance Continuing Care Network, a New York based alliance, both of which create and implement innovative programs and services either to enhance quality of life for seniors through wellness and prevention or create cost efficiencies. Ms. Krueger was a partner at KPMG LLP responsible for overseeing the firm's national Long-term Care and Retirement Housing Practice. Ms. Krueger served as a public commissioner for the Continuing Care Accreditation Commission and as a member of its financial advisory board from 1987 to 2001. Ms. Krueger serves on the Board of Directors for a non-profit organization known as Wisconsin Illinois Senior Housing. Ms. Krueger also serves on the Board of Directors and the Finance/Audit Committee for The Children Place, an organization dedicated to assisting children that are HIV or drug affected. Ms. Krueger has served on the Board of Directors and is the Chairperson for the Audit Committee for Franciscan Sisters Communities of Chicago since 2003. She is also on the Fifth Third Bank Illinois Affiliate Board of Directors and serves as the Chairperson for the Coalition in Leadership Aging Services Advisory Group.

Michael W. Reid has been a director since October 2009. Mr. Reid has nearly 30 years of investment banking and real estate experience, including heading Lehman Brothers REIT equity practice for nine years as Managing Director in the Global Real Estate Department. In that capacity, he was responsible for developing and implementing the business strategy for a successful REIT equity underwriting business. Mr. Reid also served as Chief Operating Officer at SL Green Realty Corp. from 2001-2004, where some of his responsibilities included strategic planning, finance and reporting, capital markets, operations and budgeting for a \$4 billion publicly traded REIT. From 2004-2006, he served as President of Ophir Energy Corp., a company that invested in oil and gas production in Oklahoma. From 2006-2008, he served as Chief Operating Officer of Twining Properties, a real estate company specializing in high rise development in Cambridge, Massachusetts. Mr. Reid is currently a partner at Herald Square Properties, a real estate investment and management company focused on opportunities in the midtown Manhattan office market. Mr. Reid holds a Bachelor of Arts and Master of Divinity, both from Yale University.

When considering whether directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of the Company's business and structure, the Board of Directors and the Nominating Committee of the Board of Directors focused primarily on the information discussed in each of the Directors' individual biographies set forth above. In particular, with regard to Messrs. Cohen, Johannessen and Moore, the Board of Directors considered their strong background in the senior living industry—over 24 years in the case of Mr. Cohen, over 30 years in the case of Mr. Johannessen, and over 40 years in the case of Mr. Moore—in addition to the many years of experience with the Company represented by Messrs. Cohen and Johannessen, our Chief Executive Officer and Chief Operating Officer, respectively, and Mr. Moore, a director of our Company for over 10 years. The Board of Directors also considered the broad perspective brought by Mr. Moore's significant experience in consulting in the senior living industry. With respect to Ms. Krueger, the Board of Directors considered her significant experience, expertise and background with regard to accounting matters, which includes specialization in health care, and rehabilitative and wellness services for elderly

persons. With regard to Mr. Hartberg, the Board of Directors considered his strong background in commercial banking as well as his strong organizational and management skills, since the Company's ability to finance its communities and realize the benefit from such financings are important factors in the success of the Company. With regard to Mr. Reid, the Board of Directors considered his nearly 30 years of experience in

Table of Contents

investment banking and real estate, including heading Lehman Brothers REIT equity practice for nine years as Managing Director in the Global Real Estate Department, and his senior level public company experiences, which experiences will help the Company identify and capitalize on opportunities to build its business as well as bring fresh insights that will benefit both the Board of Directors and the Company. With regard to Mr. Martin, the Board of Directors considered his investment management and financial analysis skills. With regard to Dr. Nee, the Board of Directors considered his board experiences in international and research matters. With regard to Mr. Hanerfeld, the Board of Directors considered his experiences in real estate and investment management. With respect to Mr. Malone, the Board of Directors considered his executive level and board experience with public companies and his extensive senior level operational experiences, particularly in health care and wellness services. With respect to Mr. Brooks, the Board of Directors considered his extensive experience in the senior living industry and strong background in senior housing financing.

The Board of Directors does not anticipate that any of the aforementioned nominees for director will refuse or be unable to accept election as a director, or be unable to serve as a director. Should any of them become unavailable for nomination or election or refuse to be nominated or to accept election as a director, then the persons named in the enclosed form of proxy intend to vote the shares represented in such proxy for the election of such other person or persons as may be nominated or designated by the Board of Directors.

There are no family relationships among any of our directors, director nominees or executive officers.

On March 19, 2008, we entered into a Settlement Agreement with West Creek Capital, LLC, Harvey Hanerfeld, and Roger Feldman and a Settlement Agreement with Boston Avenue Capital, LLC, Yorktown Avenue Capital, LLC, Stephen J. Heyman, and James F. Adelson whereby our board was increased from seven to nine directors. Pursuant to the terms of these Settlement Agreements and to fill the vacancies created by the increase, our board elected Harvey I. Hanerfeld to serve as a director for a term expiring at the Annual Meeting and Peter L. Martin to serve as director for a term expiring at our 2008 annual meeting of stockholders. Mr. Hanerfeld has not been nominated for re-election as director of the Company at the Annual Meeting and Mr. Martin was re-elected as a director of the Company for a term expiring in 2011 at our 2008 annual meeting of stockholders.

The Board of Directors unanimously recommends a vote FOR the election of each of the individuals nominated for election as a director.

Table of Contents

BOARD OF DIRECTORS AND COMMITTEES

General

Our Board of Directors currently consists of nine directors. The Board of Directors has determined that Harvey I. Hanerfeld, Craig F. Hartberg, Peter L. Martin, James A. Moore, Dr. Victor W. Nee, Jill M. Krueger, and Michael W. Reid, each an existing director, and Ronald A. Malone and Philip A. Brooks, nominees for director at the Annual Meeting, are each independent within the meaning of the corporate governance rules of the NYSE and no such individual has any relationship with us, except as a director and stockholder or as a nominee for director, as applicable. In addition, we have adopted a Director Independence Policy, as described in greater detail below under the heading Director Independence Policy, which establishes guidelines for the Board of Directors to follow in making the determination as to which of our directors is independent. Our Director Independence Policy is available on our website at <http://www.capitalsenior.com> in the Investor Relations section and is available in print to any stockholder who requests it. The Board of Directors has determined that Messrs. Hanerfeld, Hartberg, Martin, Moore, Dr. Nee, Ms. Krueger and Mr. Reid, each an existing director, and Mr. Malone and Mr. Brooks, nominees for director at the Annual Meeting, are each independent in accordance with our Director Independence Policy.

During 2009, the Board of Directors met 7 times, including regularly scheduled and special meetings, and did not act by unanimous written consent during 2009. During 2009, no director attended fewer than 75% of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings held by all committees of the Board of Directors on which such director served. Under our Corporate Governance Guidelines, each of our directors is expected to attend all meetings of the Board of Directors, the annual stockholders meeting and meetings of the committees of the Board of Directors on which they serve. All directors then serving on the Board of Directors attended our 2009 annual meeting of stockholders. At the start of each regularly scheduled executive session of the non-management directors, a presiding director is selected by a majority vote of the non-management directors.

Director Independence Policy

The Board of Directors undertakes an annual review of the independence of all non-management directors. In advance of the meeting at which this review occurs, each non-management director is asked to provide the Board of Directors with full information regarding the director's business and other relationships with us to enable the Board of Directors to evaluate the director's independence. Directors have an affirmative obligation to inform the Board of Directors of any material changes in their circumstances or relationships that may impact their designation by the Board of Directors as independent. This obligation includes all business relationships between, on the one hand, directors or members of their immediate family, and, on the other hand, us, whether or not such business relationships are described above.

No director qualifies as independent unless the Board of Directors affirmatively determines that the director has no material relationship with us. The following guidelines are considered in making this determination: