

Edgar Filing: CAPITAL SENIOR LIVING CORP - Form 8-K/A

CAPITAL SENIOR LIVING CORP  
Form 8-K/A  
December 05, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A  
(Amendment No. 2)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 29, 2003

Capital Senior Living Corporation

-----  
(Exact name of registrant as specified in its charter)

Delaware

1-13445

75-2678809

-----  
(State or other jurisdiction of  
incorporation or organization)

(Commission File Number)

(IRS Employer  
Identification No.)

14160 Dallas Parkway  
Suite 300  
Dallas Texas

75254

-----  
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (972) 770-5600

-----  
(Former name or former address, if changed since last report)

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This amendment (the "Amendment") to the Current Report on Form 8-K, dated July 28, 2003, and filed on July 29, 2003 and amended by Amendment No. 1 to Form 8-K filed on October 10, 2003 ("Amendment No. 1"), by Capital Senior Living Corporation (the "Company") is submitted to amend the Pro Form Financial Information in Item 7 of Amendment No. 1.

### ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements of the Businesses Acquired. The following audited financial statements of the Triad Entities are hereby included as part of this report:

(i) Financial Statements of Triad Senior Living II, LP

Balance Sheets as of June 30, 2003 and December 31, 2002  
Unaudited Statements of Operations for three and six months  
ended June 30, 2003  
Unaudited Statements of Partners' Deficit and Comprehensive Loss for the  
six months ended June 30, 2003  
Unaudited Statements of Cash Flows for the six months ended  
June 30, 2003 and 2002  
Notes to Unaudited Financial Statements for the six months ended  
June 30, 2003  
Report of Independent Certified Public Accountants  
Balance Sheets as of December 31, 2002 and 2001  
Statements of Operations for the years ended December 31, 2002  
and 2001  
Statements of Partners' Deficit and Comprehensive Loss for the years  
ended December 31, 2002 and 2001  
Statements of Cash Flows for the years ended  
December 31, 2002 and 2001  
Notes to Financial Statements

(ii) Financial Statements of Triad Senior Living III, LP

Balance Sheets as of June 30, 2003 and December 31, 2002  
Unaudited Statements of Operations for three and six months  
ended June 30, 2003 and 2002  
Unaudited Statements of Partners' Deficit for the six months  
ended June 30, 2003  
Unaudited Statements of Cash Flows for the six months ended  
June 30, 2003 and 2002  
Notes to Unaudited Financial Statements for the six months ended  
June 30, 2003  
Report of Independent Certified Public Accountants  
Balance Sheets as of December 31, 2002 and 2001  
Statements of Operations for the years ended December 31, 2002 and 2001  
Statements of Partners' Deficit for the years  
ended December 31, 2002 and 2001  
Statements of Cash Flows for the years ended  
December 31, 2002 and 2001  
Notes to Financial Statements

(iii) Financial Statements of Triad Senior Living IV, LP

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Balance Sheets as of June 30, 2003 and December 31, 2002  
Unaudited Statements of Operations for the three and six months  
ended June 30, 2003 and 2002  
Unaudited Statements of Partners' Deficit for the six months  
ended June 30, 2003

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Unaudited Statements of Cash Flows for the six months ended  
June 30, 2003 and 2002  
Notes to Unaudited Financial Statement for the six months ended  
June 30, 2003  
Report of Independent Certified Public Accountants  
Balance Sheets as of December 31, 2002 and 2001  
Statements of Operations for the years ended December 31, 2002 and 2001  
Statements of Partners' Deficit for the years  
ended December 31, 2002 and 2001  
Statements of Cash Flows for the years ended  
December 31, 2002 and 2001  
Notes to Financial Statements

(iv) Financial Statements of Triad Senior Living V, LP

Balance Sheets as of June 30, 2003 and December 31, 2002  
Unaudited Statements of Operations for three and six months  
ended June 30, 2003 and 2002  
Unaudited Statements of Partners' Deficit for the six months  
ended June 30, 2003  
Unaudited Statements of Cash Flows for the six months ended  
June 30, 2003 and 2002  
Notes to Unaudited Financial Statement for the six months ended  
June 30, 2003  
Report of Independent Certified Public Accountants  
Balance Sheets as of December 31, 2002 and 2001  
Statements of Operations for the years ended December 31, 2002 and 2001  
Statements of Partners' Deficit for the years  
ended December 31, 2002 and 2001  
Statements of Cash Flows for the years ended  
December 31, 2002 and 2001  
Notes to Financial Statements

(b) Pro Forma Financial Information. The pro forma financial statements of the Company are hereby included as part of this report:

Introduction to Pro Forma Consolidated Financial Statements  
Unaudited Pro Forma Consolidated Balance Sheets as of June 30, 2003  
Unaudited Pro Forma Statements of Income for six months  
ended June 30, 2003  
Unaudited Pro Forma Statements of Income for year ended December 31, 2002  
Notes to Unaudited Pro Forma Combined Financial Statements

(c) Exhibits.

10.1 Form of Partnership Interest Purchase Agreements, dated as of March 25, 2003, between Capital Senior Living Properties, Inc. and the Triad Entities, regarding the exercise of the

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registrant's options to purchase the partnership interests in the Triad Entities owned by non-registrant parties (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed by the registrant with the Securities and Exchange Commission on July 29, 2003)

The following exhibit to this Current Report on Form 8-K is not being filed but is being furnished pursuant to Item 9 and Item 12 below:

99.1 Press Release dated July 29, 2003 (incorporated by reference to Exhibit 99.1 to the registrant's Current Report on Form 8-K, filed by the registrant with the Securities and Exchange Commission on July 29, 2003)

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(a) Financial Statements of the Businesses Acquired (i) Financial Statements of Triad Senior Living II, LP

### TRIAD SENIOR LIVING II, LP BALANCE SHEETS

|  | June 30,<br>2003     | December 31,<br>2002 |
|--|----------------------|----------------------|
|  | -----<br>(Unaudited) | -----<br>(Audited)   |
| <b>ASSETS</b>  |                      |                      |
| <b>PROPERTY HELD FOR INVESTMENT - AT COST</b>  |                      |                      |
| Land   | \$ 2,591,286         | \$ 2,591,286         |
| Buildings and improvements   | 32,147,546           | 32,144,700           |
| Furniture and fixtures   | 1,202,370            | 1,199,200            |
| Vehicles   | 25,385               | 25,385               |
|  | -----                | -----                |
|  | 35,966,587           | 35,960,700           |
| Accumulated depreciation   | (2,418,068)          | (1,952,000)          |
|  | -----                | -----                |
| Net property held for investment   | 33,548,519           | 34,008,600           |
|  | -----                | -----                |
| <b>OTHER ASSETS</b>  |                      |                      |
| Cash   | 278,276              | 396,600              |
| Accounts receivable - insurance  | -                    | 19,800               |
| Accounts receivable - other  | 13,010               | 26,800               |
| Interest receivable  | 1,131                | 4,500                |
| Inventories  | 17,409               | 25,800               |
| Prepaid expenses   | -                    | 157,600              |
| Investment in available-for-sale securities  | 1,302,728            | 400,700              |
| Investment in held-to-maturity securities  | 2,612,000            | 3,487,000            |
| Deposits   | 3,386                | 3,300                |
| Debt issue costs - net of accumulated amortization<br>of \$338,480 and \$316,253 at June 30, 2003 and<br>December 31, 2002, respectively | 127,621              | 123,600              |

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|                    |               |             |
|--------------------|---------------|-------------|
| Total other assets | 4,355,561     | 4,646,2     |
|                    | \$ 37,904,080 | \$ 38,654,8 |

LIABILITIES AND PARTNERS' DEFICIT

LIABILITIES

|                                    |            |          |
|------------------------------------|------------|----------|
| Accounts payable - related party   | \$ 10,673  | \$ 20,1  |
| Accounts payable                   | 130,640    | 280,8    |
| Accrued interest - related party   | 4,244,528  | 3,371,0  |
| Accrued interest                   | 83,966     | 36,3     |
| Accrued interest - swap agreements | 7,484,727  | 7,484,7  |
| Accrued property taxes             | 241,264    | 127,9    |
| Accrued expenses - related party   | 21,549     | 20,1     |
| Accrued expenses                   | 87,727     | 86,5     |
| Security deposits                  | 197,749    | 202,9    |
| Deferred income                    | -          | 5,7      |
| Notes payable - related party      | 21,977,727 | 21,018,2 |
| Notes payable                      | 26,002,485 | 26,322,6 |
| Total liabilities                  | 60,483,035 | 58,977,5 |

PARTNERS' DEFICIT

|                                      |               |             |
|--------------------------------------|---------------|-------------|
| Partners' deficit                    | (15,094,228)  | (12,837,9   |
| Accumulated other comprehensive loss | (7,484,727)   | (7,484,7    |
|                                      | (22,578,955)  | (20,322,6   |
|                                      | \$ 37,904,080 | \$ 38,654,8 |

The accompanying notes are an integral part of these financial statements.

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TRIAD SENIOR LIVING II, LP  
STATEMENTS OF OPERATIONS

|                                | Three Months Ended |                  |    |
|--------------------------------|--------------------|------------------|----|
|                                | June 30,<br>2003   | June 30,<br>2002 |    |
|                                | (Unaudited)        | (Unaudited)      | (U |
| REVENUES                       |                    |                  |    |
| Rental income                  | \$ 1,255,508       | \$ 792,281       | \$ |
| Resident and healthcare income | 15,156             | 12,802           |    |

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|                                  |              |                |    |
|----------------------------------|--------------|----------------|----|
| Total revenues                   | 1,270,664    | 805,083        |    |
| COSTS AND EXPENSES               | 1,565,049    | 1,299,808      |    |
| OPERATING LOSS                   | (294,385)    | (494,725)      |    |
| OTHER INCOME AND (EXPENSE)       |              |                |    |
| Interest and other income        | 251,460      | 22,259         |    |
| Interest expense                 | (938,039)    | (883,631)      |    |
| Total other income and (expense) | (686,579)    | (861,372)      |    |
| NET LOSS                         | \$ (980,964) | \$ (1,356,097) | \$ |

The accompanying notes are an integral part of these financial statements.

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TRIAD SENIOR LIVING II, LP  
 STATEMENTS OF PARTNERS' DEFICIT AND COMPREHENSIVE LOSS  
 Year Ended December 31, 2002 and Six Months Ended June 30, 2003  
 (Unaudited)

| General Partner | Limited Partners | Total | Accu<br>O<br>Compr<br>L |
|-----------------|------------------|-------|-------------------------|
| -----           | -----            | ----- | -----                   |

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|  |                 |      |                 |                |
|--|-----------------|------|-----------------|----------------|
| Partners' deficit at January 1, 2002             | \$ (7,236,441)  | \$ - | \$ (7,236,441)  |                |
| Net loss   | \$ (5,601,491)  | -    | \$ (5,601,491)  |                |
| -----  |                 |      |                 |                |
| Other comprehensive loss:                        |                 |      |                 |                |
| Fair market value adjustments on swap agreements | -               | -    | -               | (7,236,441)    |
| Total comprehensive loss                         |                 |      |                 |                |
| Partners' deficit at December 31, 2002           | (12,837,932)    | -    | (12,837,932)    | (7,236,441)    |
| Net loss   | (2,256,296)     | -    | (2,256,296)     |                |
| -----  |                 |      |                 |                |
| Total comprehensive loss                         |                 |      |                 |                |
| Partners' deficit at June 30, 2003               | \$ (15,094,228) | \$ - | \$ (15,094,228) | \$ (7,236,441) |
| =====  |                 |      |                 |                |

The accompanying notes are an integral part of these financial statements.

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TRIAD SENIOR LIVING II, LP  
STATEMENTS OF CASH FLOWS

Six Months Ended  
June 30,  
2003  
-----

|  |                |
|--|----------------|
| (Unaudited) (Unaudited)  |                |
| Operating activities   |                |
| Net loss   | \$ (2,256,296) |
| Adjustment to reconcile net loss to net cash provided by operating activities: |                |
| Amortization   | 22,227         |
| Depreciation   | 465,973        |
| Net change in operating assets and liabilities                                 |                |

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|   |              |
|---|--------------|
| Accounts receivable - related party                 | -            |
| Accounts receivable - insurance                     | 19,860       |
| Accounts receivable - other                         | 13,804       |
| Interest receivable                                 | 3,465        |
| Inventories   | 8,405        |
| Prepaid expenses                                    | 157,671      |
| Accounts payable - related party                    | (9,462)      |
| Accounts payable                                    | (150,231)    |
| Accrued interest - related party                    | 873,452      |
| Accrued interest                                    | 47,605       |
| Accrued property taxes                              | 113,278      |
| Accrued expenses - related party                    | 1,369        |
| Accrued expenses                                    | 1,153        |
| Security deposits                                   | (5,195)      |
| Deferred income                                     | (5,764)      |
|   | -----        |
| Net cash used in operating activities               | (698,686)    |
|   | -----        |
| Investing activities                                |              |
| Purchases of available-for-sale securities          | (901,945)    |
| Proceeds from sale of available-for-sale securities | -            |
| Purchases of held-to-maturity securities            | -            |
| Proceeds from sale of held-to-maturity securities   | 875,000      |
| Purchases of property held for investment           | (5,841)      |
|   | -----        |
| Net cash used in investing activities               | (32,786)     |
|   | -----        |
| Financing activities                                |              |
| Proceeds from notes payable - related party         | 1,323,718    |
| Payments on notes payable - related party           | (364,231)    |
| Notes repayment                                     | (320,213)    |
| Debt issue costs                                    | (26,218)     |
|   | -----        |
| Net cash provided by financing activities           | 613,056      |
|   | -----        |
| (Decrease) increase in cash and cash equivalents    | (118,416)    |
| Cash and cash equivalents at beginning of period    | 396,692      |
|   | -----        |
| Cash and cash equivalents at end of period          | \$ 278,276   |
|   | =====        |
| Supplemental disclosures:                           |              |
| Cash paid during the year for:                      |              |
| Interest  | \$ 1,037,587 |
|   | =====        |
| Income taxes  | \$ -         |
|   | =====        |

The accompanying notes are an integral part of these financial statements.



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Triad Senior Living II, L.P.  
(A Texas Limited Partnership)  
NOTES TO FINANCIAL STATEMENTS

### BUSINESS ACTIVITY

Triad Senior Living II, L.P., (the "Partnership") is a limited partnership organized under the laws of the State of Texas on September 24, 1998. The Partnership was formed to acquire, develop, own and operate residential rental properties for retirement age occupants. The Partnership will continue until December 31, 2050, unless terminated earlier under certain provisions of the partnership agreement.

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

##### Basis of Accounting

The accompanying financial statements of the Partnership have been prepared on the accrual basis of accounting.

##### Allocation of Profits and Losses

Profits and losses have been allocated as provided in the Partnership agreement.

Any adjusted net income realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order of priority:

- (i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then
- (ii) Adjusted net income shall be allocated to the General and Limited Partners in the same proportion that cumulative adjusted net loss has been allocated to the General and Limited Partners for the current year and prior years until each General and Limited Partner has been allocated cumulative adjusted net income for the current and prior years equal to the cumulative adjusted net loss allocated to the General and Limited Partners for the current and prior years; and then
- (iii) All remaining adjusted net income shall be allocated among the General and Limited Partners in proportion to their respective percentage interests.

Any adjusted net loss realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order or priority:

- (i) Adjusted net loss shall be allocated to the General and Limited Partners in proportion to their respective percentage interests until each General and Limited

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Partner's positive capital account balance is reduced to zero.

- (ii) All remaining adjusted net loss shall be allocated to the General Partner.

Notwithstanding any other provision of the Partnership agreement, from the date that construction commences with respect to a Property (the "Subject Property") to the date 18 months following the date that the Partnership receives a Certificate of Occupancy for the Subject Property, all adjusted net loss from the Subject Property shall be allocated to Triad Partners II, Inc. The provisions shall be applied to each Property of the Partnership on a property by property basis.

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Triad Senior Living II, L.P.  
(A Texas Limited Partnership)  
NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Partner Liability

A Limited Partner is not personally liable or bound for the expenses, liabilities, or obligations of the Partnership beyond the amount of such Partner's capital contributions as defined in the Partnership agreement.

No Limited Partner shall be obligated to provide additional capital contributions outside the "original capital contributions" made upon admission to the Partnership or to make a loan to the Partnership.

#### Investment in Debt and Marketable Equity Securities

The Partnership has investments in debt and marketable equity securities. Management determines the appropriate classification of the securities at the time they are acquired and evaluates the appropriateness of such classification at each balance sheet date.

The classification of these securities and the related accounting policies are as follows:

Held-to-maturity securities consist solely of debt securities which the Partnership has the positive intent and ability to hold to maturity and are stated at amortized cost which approximates fair value. There were no unrecognized holding gains or losses as of June 30, 2003 and 2002.

Available-for-sale securities consist of marketable equity securities and debt securities not classified as held-to-maturity. Available-for-sale securities are stated at fair value, and unrealized holding gains or losses, if any, are reported as a separate component of partners' equity. There were no unrealized holding gains or losses as of June 30, 2003 and 2002.

Interest on debt securities is recognized in income as earned, and dividends on marketable equity securities are recognized in income when

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declared. Realized gains and losses are included in operations. Realized gains and losses are determined on the basis of specific identification of the securities sold. The marketable debt securities all mature within one year.

### 2. TRANSACTIONS WITH AFFILIATED PARTIES

On September 24, 1998, the Partnership and a subsidiary of Capital Senior Living Corporation ("CSLC"), entered into a Development and Turnkey Services Agreement in connection with the development and management of the planned new Waterford Communities where the Partnership would own and finance the construction of the new communities. A subsidiary of CSLC will have an option to purchase the partnership interest of Triad II for an amount equal to the amount Triad II paid for its interest, plus non-compounded interest of 12% per annum. The property management agreements also provide CSLC's subsidiary with an option to purchase the communities developed by the Partnership upon their completion for an amount equal to the fair market value (based on a third-party appraisal but not less than hard and soft costs and lease-up costs).

CSLC has loaned the Partnership \$21,977,727 and \$21,018,240 as of June 30, 2003 and December 31, 2002, respectively.

Asset management fees of \$18,000, payable to affiliates were incurred and expensed as of the first six months ended June 30, 2003 and 2002. Accounts payable to affiliates at June 30, 2003 and December 31, 2002 totaled \$10,673 and \$20,135, respectively. For the first six months ended June 30, 2003 and 2002, related party interest incurred was \$873,452 and \$722,790, respectively. Accrued interest payable to a related party was \$4,244,528 and \$3,371,076 at June 30, 2003 and December 31, 2002, respectively.

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### 3. COMMITMENTS AND CONTINGENCIES

#### Litigation

The Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Partnership's financial position.

### 4. CSLC PURCHASE OF PARTNERSHIP INTEREST

A subsidiary of CSLC (the "purchaser"), (see note 2) has recently made the election to exercise its option to purchase the partnership interests of Triad Partners II, Inc. (Triad II). Triad II and the purchaser entered into a Partnership Interest Purchase Agreement ("Purchase Agreement") on March 25, 2003 whereby Triad II will sell its general and limited partnership interests for an aggregate of approximately \$567,000. On July 29, 2003, CSLC purchased the remaining general and limited partnership interests of the Partnership and wholly owns the Partnership.

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Report of Independent Certified Public Accountants

The Partners  
Triad Senior Living II, L.P.

We have audited the accompanying balance sheets of Triad Senior Living II, L.P. (A Texas Limited Partnership) as of December 31, 2002 and 2001, and the related statements of operations, partners' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Triad Senior Living II, L.P. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Lane Gorman Trubitt, L.L.P.

-----  
Lane Gorman Trubitt, L.L.P.

Dallas, Texas  
February 14, 2003

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Triad Senior Living II, L.P.  
(A Texas Limited Partnership)  
BALANCE SHEETS  
December 31,

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|   | 2002        |
|---|-------------|
|   | -----       |
| ASSETS  |             |
| PROPERTY HELD FOR INVESTMENT - AT COST  |             |
| Land  | \$ 2,591,2  |
| Buildings and improvements  | 32,144,7    |
| Furniture and fixtures  | 1,199,2     |
| Vehicles  | 25,3        |
|   | -----       |
|   | 35,960,7    |
| Accumulated depreciation  | (1,952,0    |
|   | -----       |
| Net property held for investment  | 34,008,6    |
|   | -----       |
| OTHER ASSETS  |             |
| Cash  | 396,6       |
| Accounts receivable - related party   |             |
| Accounts receivable - insurance   | 19,8        |
| Accounts receivable - other   | 26,8        |
| Interest receivable   | 4,5         |
| Inventories   | 25,8        |
| Prepaid expenses  | 157,6       |
| Investment in available-for-sale securities   | 400,7       |
| Investment in held-to-maturity securities   | 3,487,0     |
| Deposits  | 3,3         |
| Debt issue costs - net accumulated amortization of \$316,253 and \$301,134<br>at December 31, 2002 and 2001, respectively | 123,6       |
|   | -----       |
| Total other assets  | 4,646,2     |
|   | -----       |
|   | \$ 38,654,8 |
|   | =====       |
| LIABILITIES AND PARTNERS' DEFICIT   |             |
| LIABILITIES   |             |
| Accounts payable - related party  | \$ 20,1     |
| Accounts payable  | 280,8       |
| Accrued interest - related party  | 3,371,0     |
| Accrued interest  | 36,3        |
| Accrued interest - swap agreements  | 7,484,7     |
| Accrued property taxes  | 127,9       |
| Accrued expenses - related party  | 20,1        |
| Accrued expenses  | 86,5        |
| Security deposits   | 202,9       |
| Deferred income   | 5,7         |
| Notes payable - related party   | 21,018,2    |
| Notes payable   | 26,322,6    |
|   | -----       |
| Total liabilities   | 58,977,5    |
|   | -----       |

The accompanying notes are an integral part of these financial statements.

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PARTNERS' DEFICIT

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|                                      |             |
|--------------------------------------|-------------|
| Partners' deficit                    | (12,837,9   |
| Accumulated other comprehensive loss | (7,484,7    |
|                                      | -----       |
|                                      | (20,322,6   |
|                                      | -----       |
|                                      | \$ 38,654,8 |
|                                      | =====       |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living II, L.P.  
(A Texas Limited Partnership)  
STATEMENTS OF OPERATIONS  
Years Ended December 31,

|                                  | 2002         | 2001         |
|----------------------------------|--------------|--------------|
|                                  | -----        | ----         |
| REVENUES                         |              |              |
| Rental income                    | \$ 3,540,817 | \$ 1,880,548 |
| Resident and healthcare income   | 43,773       | 17,442       |
|                                  | -----        | -----        |
| Total revenues                   | 3,584,590    | 1,897,990    |
| COST AND EXPENSES                | 5,779,642    | 5,155,072    |
|                                  | -----        | -----        |
| OPERATING LOSS                   | (2,195,052)  | (3,257,082)  |
| OTHER INCOME AND (EXPENSE)       |              |              |
| Interest and other income        | 89,649       | 189,564      |
| Interest expense                 | (3,496,088)  | (3,313,413)  |
|                                  | -----        | -----        |
| Total other income and (expense) | (3,406,439)  | (3,123,849)  |

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|          |                                  |                                  |
|----------|----------------------------------|----------------------------------|
| NET LOSS | -----<br>\$ (5,601,491)<br>===== | -----<br>\$ (6,380,931)<br>===== |
|----------|----------------------------------|----------------------------------|

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living II, L.P.  
(A Texas Limited Partnership)  
STATEMENTS OF PARTNERS' DEFICIT AND COMPREHENSIVE LOSS  
Years Ended December 31, 2002 and 2001

|  | General<br>Partner<br>----- | Limited<br>Partners<br>----- | Total<br>-----           | Accu<br>O<br>Compr<br>L<br>--- |
|--|-----------------------------|------------------------------|--------------------------|--------------------------------|
| Partners' deficit at January 1,<br>2001  | \$ (855,510)                | \$ -                         | \$ (855,510)             | \$                             |
| Net loss   | (6,380,931)<br>-----        | -<br>-----                   | (6,380,931)<br>-----     | ---                            |
| Partners' deficit at December 31,<br>2001  | (7,236,441)                 | -                            | (7,236,441)              |                                |
| Net loss   | (5,601,491)                 | -                            | (5,601,491)              |                                |
| Other comprehensive loss:<br>Fair market value adjustments on<br>swap agreements | -<br>-----                  | -<br>-----                   | -<br>-----               | (7)<br>---                     |
| Total comprehensive loss   |                             |                              |                          |                                |
| Partners' deficit at December 31,<br>2002  | \$ (12,837,932)<br>=====    | \$ -<br>=====                | \$ (12,837,932)<br>===== | \$ (7)<br>=====                |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living II, L.P.  
(A Texas Limited Partnership)  
STATEMENTS OF CASH FLOWS

For the Year  
2002  
-----

|  |            |
|--|------------|
| Cash flows from operating activities                                       |            |
| Net loss   | \$ (5,601, |
| Adjustments to reconcile net loss to net cash used in operating activities |            |
| Amortization   | 39,        |
| Depreciation   | 926,       |
| Net change in operating assets and liabilities                             |            |
| Accounts receivable - related party  | 16,        |
| Accounts receivable - insurance  | 190,       |
| Accounts receivable - other  | (3,        |
| Interest receivable  | (3,        |
| Inventories  | (9,        |
| Prepaid expenses   | (113,      |
| Accounts payable - related party   | (71,       |
| Accounts payable   | (18,       |
| Accrued interest - related party   | 1,534,     |
| Accrued interest   | (63,       |
| Accrued property taxes   | (200,      |
| Accrued expenses - related party   | 4,         |
| Accrued expenses   | 76,        |
| Security deposits  | 28,        |
| Deferred income  | (3,        |
|  | -----      |
| Net cash used in operating activities                                      | (3,272,    |
|  | -----      |
| Cash flows from investing activities                                       |            |
| Purchases of property held for investment                                  | (186,      |
| Purchases of available-for-sale securities                                 | (386,      |
| Proceeds from sale of available-for-sale securities                        | 183,       |
| Purchases of held-to-maturity securities                                   | (2,280,    |
| Proceeds from sale of held-to-maturity securities                          | 2,411,     |
| Deposits   |            |
|  | -----      |
| Net cash used in investing activities                                      | (258,      |
|  | -----      |
| Cash flows from financing activities                                       |            |
| Proceeds from notes payable - related party                                | 4,291,     |
| Payments on notes payable - related party                                  | (146,      |
| Proceeds from note payable   |            |
| Payments on notes payable  | (551,      |
| Debt issue costs   |            |
|  | -----      |
| Net cash provided by financing activities                                  | 3,594,     |
|  | -----      |



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The accompanying notes are an integral part of these financial statements.

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|  |           |
|--|-----------|
| Net increase (decrease) in cash and cash equivalents | 63,       |
| Cash at beginning of year                            | 332,      |
|  | -----     |
| Cash at end of year                                  | \$ 396,   |
|  | =====     |
| Supplemental disclosure of cash flow information     |           |
| Cash paid during the year for:                       |           |
| Income taxes   | \$        |
| Interest   | \$ 2,024, |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living II, L.P.  
(A Texas Limited Partnership)  
NOTES TO FINANCIAL STATEMENTS

BUSINESS ACTIVITY

Triad Senior Living II, L.P., (the "Partnership") is a limited partnership organized under the laws of the State of Texas on September 24, 1998. The Partnership was formed to acquire, develop, own and operate residential rental properties for retirement age occupants. The Partnership will continue until December 31, 2050, unless terminated earlier under certain provisions of the partnership agreement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Basis of Accounting

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The accompanying financial statements of the Partnership have been prepared on the accrual basis of accounting.

### Allocation of Profits and Losses

Profits and losses have been allocated as provided in the Partnership agreement.

Any adjusted net income realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order of priority:

- (i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then
- (ii) Adjusted net income shall be allocated to the General and Limited Partners in the same proportion that cumulative adjusted net loss has been allocated to the General and Limited Partners for the current year and prior years until each General and Limited Partner has been allocated cumulative adjusted net income for the current and prior years equal to the cumulative adjusted net loss allocated to the General and Limited Partners for the current and prior years; and then
- (iii) All remaining adjusted net income shall be allocated among the General and Limited Partners in proportion to their respective percentage interests.

Any adjusted net loss realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order or priority:

- (i) Adjusted net loss shall be allocated to the General and Limited Partners in proportion to their respective percentage interests until each General and Limited Partner's positive capital account balance is reduced to zero.
- (ii) All remaining adjusted net loss shall be allocated to the General Partner.

Notwithstanding any other provision of the Partnership agreement, from the date that construction commences with respect to a Property (the "Subject Property") to the date 18 months following the date that the Partnership receives a Certificate of Occupancy for the Subject Property, all adjusted net loss from the Subject Property shall be allocated to Triad Partners II, Inc. The provisions shall be applied to each Property of the Partnership on a property by property basis.

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### Partner Liability

A Limited Partner is not personally liable or bound for the expenses, liabilities, or obligations of the Partnership beyond the amount of such Partner's capital contributions as defined in the Partnership agreement.

No Limited Partner shall be obligated to provide additional capital contributions outside the "original capital contributions" made upon admission to the Partnership or to make a loan to the Partnership.

### Cash and Cash Equivalents

The Partnership considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

The Partnership maintains its cash balances in financial institutions located in Oklahoma City, Oklahoma; Dallas, Texas; and Cleveland and Fairfield, Ohio, which at times may exceed insured limits. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

### Inventories

Inventories of food are used in operations and are stated at the lower of cost or market, with cost determined on a first-in, first-out (FIFO) basis.

### Property Held For Investment

Property held for investment is stated at cost. Major renewals and improvements are capitalized, while costs of replacements, maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense as incurred.

|                            |             |
|----------------------------|-------------|
| Buildings and improvements | 20-40 years |
| Furniture and fixtures     | 5-10 years  |
| Vehicles                   | 5 years     |

Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The straight-line method of depreciation is followed for substantially all assets for financial reporting purposes, but accelerated methods are used for tax purposes.

During project development, the costs of materials, services and payroll-related expenditures, including capitalized interest were capitalized. Capitalized costs of the projects are depreciated over their estimated service lives. Depreciation expense charged to operations was \$926,527 and \$908,131 for the years ended December 31, 2002 and 2001, respectively. When management determines a project will not result in probable future economic benefits, the related capitalized development costs are removed from the accounts and a loss is recognized. Interest is capitalized in connection with the construction of its projects. The capitalized interest is recorded as part of the project and is amortized over the project's estimated life.

The development of senior living communities typically involves a substantial commitment of capital over a 12-month construction period during which time no revenues are generated, following by a 12-month lease-up period. The Partnership anticipates that newly opened or expanded communities will operate at a loss during a substantial portion of the lease-up period.

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At each balance sheet date, management reviews the carrying value of property held for investment to determine if facts and circumstances suggest that they may be impaired or that the amortization or depreciation period may need to be changed. Management does not believe there are any indicators that would require an adjustment to the carrying value of the property held for investment or the remaining useful lives as of December 31, 2002 and 2001.

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue Recognition

Revenue is reported at the estimated net realizable amount from residents and third-party payors when services are provided.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Any differences between estimated and actual reimbursements are included in operations in the year of settlement.

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

#### Investment in Debt and Marketable Equity Securities

The Partnership has investments in debt and marketable equity securities. Management determines the appropriate classification of the securities at the time they are acquired and evaluates the appropriateness of such classification at each balance sheet date.

The classification of these securities and the related accounting policies are as follows:

Held-to-maturity securities consist solely of debt securities which the Partnership has the positive intent and ability to hold to maturity and are stated at amortized cost which approximates fair value. There were no unrecognized holding gains or losses as of December 31, 2002 and 2001.

Available-for-sale securities consist of marketable equity securities and debt securities not classified as held-to-maturity. Available-for-sale securities are stated at fair value, and unrealized holding gains or losses, if any, are reported as a separate component of partners' equity. There were no unrealized holding gains or losses as of December 31, 2002 and 2001.

Interest on debt securities is recognized in income as earned, and

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dividends on marketable equity securities are recognized in income when declared. Realized gains and losses are included in operations. Realized gains and losses are determined on the basis of specific identification of the securities sold. The marketable debt securities all mature within one year.

### Amortization

Debt issue costs are amortized over the term of the note payable on a straight-line basis.

### Advertising Costs

Advertising costs, included in costs and expenses, are charged to operations as incurred and were \$32,271 and \$93,274 for the years ended December 31, 2002 and 2001, respectively.

### Use of Estimates

In preparing the Partnership's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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## 2. TRANSACTIONS WITH AFFILIATED PARTIES

On September 24, 1998, the Partnership and a subsidiary of Capital Senior Living Corporation ("CSLC"), entered into a Development and Turnkey Services Agreement in connection with the development and management of the planned new Waterford Communities where the Partnership would own and finance the construction of the new communities. A subsidiary of CSLC will have an option to purchase the partnership interest of Triad II for an amount equal to the amount Triad II paid for its interest, plus non-compounded interest of 12% per annum. The property management agreements also provide CSLC's subsidiary with an option to purchase the communities developed by the Partnership upon their completion for an amount equal to the fair market value (based on a third-party appraisal but not less than hard and soft costs and lease-up costs).

During 1998, a related party agreed to loan the Partnership up to \$7,000,000 and the loan amount was later amended to \$15,000,000. See Footnote 4.

Asset management fees of \$36,000, payable to affiliates were incurred and expensed for each of the years ended December 31, 2002 and 2001. Accounts payable to affiliates at December 31, 2002 and 2001 totaled \$20,135 and \$91,620, respectively. For 2002 and 2001, related party interest incurred was \$1,534,986 and \$1,169,672, respectively. Accrued interest payable to a related party was \$3,371,076 and \$1,836,090 at December 31, 2002 and 2001, respectively.

## 3. INVESTMENT IN SECURITIES

The following is a summary of the Partnership's investments:

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|                                    | Held-to-Maturity   |                                 |              |
|------------------------------------|--------------------|---------------------------------|--------------|
|                                    | Amortized Cost     | Gross Unrealized Gains (Losses) | Fair Value   |
| December 31, 2002<br>Taxable bonds | \$ 3,487,000       | \$ -                            | \$ 3,487,000 |
| December 31, 2001<br>Taxable bonds | \$ 3,618,000       | \$ -                            | \$ 3,618,000 |
|                                    | Available-For-Sale |                                 |              |
|                                    | Amortized Cost     | Gross Unrealized Gains (Losses) | Fair Value   |
| December 31, 2002<br>Mutual funds  | \$ 400,784         | \$ -                            | \$ 400,784   |
| December 31, 2001<br>Mutual funds  | \$ 197,913         | \$ -                            | \$ 197,913   |

4. NOTES PAYABLE

Under the terms of a subordinated promissory note with a related party, as amended January 1, 2001, the Partnership may borrow up to \$15,000,000 at 8.00% for project construction and additional borrowings, at the same rate, to fund operating deficits. These loans may be prepaid without penalty. Interest is payable quarterly after the first borrowing.

Borrowings at December 31, were as follows:

| Project Location  | Maturity           | Outstanding Balance |               |
|-------------------|--------------------|---------------------|---------------|
|                   |                    | 2002                | 2001          |
| Fairfield, OH     | September 24, 2008 | \$ 6,897,581        | \$ 5,589,581  |
| Oklahoma City, OK | September 24, 2008 | 6,744,551           | 5,451,552     |
| Plano, TX         | September 24, 2008 | 6,776,278           | 5,485,277     |
| Corporate         | September 24, 2008 | 599,830             | 346,330       |
|                   |                    | \$ 21,018,240       | \$ 16,872,740 |

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4. NOTES PAYABLE (CONTINUED)

Under the terms of a construction loan facility including a mini-perm feature, with a financial institution, dated December 30, 1998, the Partnership may borrow up to \$26,000,000 to fund the costs of construction of senior living facilities. On June 30, 1999, the loan amount was amended up to \$26,873,996. Each of the three non-revolving project loans may not exceed \$10,000,000 and are limited to the lesser of (1) 85% of construction budget or (2) 75% of stabilized appraised value of that project. Amounts borrowed and repaid may not be reborrowed. The line of credit expires six months from the date of closing. No loans will be made after that date, but loans that have closed prior to that date will continue to be funded on the financial institution's base rate. The facility has commitment, construction monitoring, and exit fee requirements. The Partnership has the option to enter into an interest rate swap or interest rate cap agreement, with the lender. The construction period for each loan ends on the earlier of (1) 15 months from the date of closing of such loan or (2) issuance of a certificate of occupancy for the project. The mini-perm period is a period of 36 months from the end of the construction period. Interest is payable monthly during the construction period and months 1 through 12 of the mini-perm period. During months 13 through 36, each loan is payable in monthly installments of principal and interest in amounts necessary to amortize the loan over a term of twenty years. There is a 1% prepayment penalty for prepayment prior to 30 months after the beginning of the mini-perm period. An equity reserve, equal to 10% of the approved construction budget, is required to be deposited into a restricted cash account. The first 50% of each equity reserve will be released upon the maintenance of greater than a 1.35x proforma debt service coverage ratio (DSCR) for the applicable project for a three month period. The remaining 50% of each equity reserve will be released upon the maintenance of greater than a 1.35x DSCR for the applicable project for a six month period. As security for the debt, the financial institution has (1) first lien deeds of trust on the properties, fixtures and personal property and (2) assignment of leases, rents and licenses. The facility contains various provisions and restrictive covenants.

Borrowings at December 31, were as follows:

| Project Location  | Maturity          | Outstanding Balance |               |
|-------------------|-------------------|---------------------|---------------|
|                   |                   | 2002                | 2001          |
| Fairfield, OH     | December 31, 2005 | \$ 8,346,199        | \$ 8,521,000  |
| Oklahoma City, OK | December 31, 2005 | 8,289,387           | 8,463,000     |
| Plano, TX         | December 31, 2005 | 9,687,112           | 9,889,996     |
|                   |                   | \$ 26,322,698       | \$ 26,873,996 |

Maturities of notes payable are as follows for the years ending December 31:

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|            | Affiliate     | Other         | Total         |
|------------|---------------|---------------|---------------|
|            | -----         | -----         | -----         |
| 2003       | \$ -          | \$ 644,327    | \$ 644,327    |
| 2004       | -             | 694,483       | 694,483       |
| 2005       | -             | 24,983,888    | 24,983,888    |
| 2006       | -             | -             | -             |
| 2007       | -             | -             | -             |
| Thereafter | 21,018,240    | -             | 21,018,240    |
|            | -----         | -----         | -----         |
|            | \$ 21,018,240 | \$ 26,322,698 | \$ 47,340,938 |
|            | =====         | =====         | =====         |

Interest Rate Swap Agreements

The Partnership uses interest rate and treasury lock swap agreements for purposes other than trading. Interest rate swap agreements are used by the Partnership to modify variable rate obligations to fixed rate obligations, thereby reducing the exposure to market rate fluctuations. The interest rate swap agreements are designated as hedges, and effectiveness is determined by matching the principal balance and terms with that specific obligation. Such an agreement involves the exchange of amounts based on fixed interest rates for amounts based on variable interest rates over the life of the agreement without an exchange of the notional amount upon which payments are made. Accordingly, the interest rate swap contracts are reflected at fair value in the balance sheet and the related gains or losses on these agreements are deferred in partners' deficit (as a component of comprehensive income). These deferred gains and losses are then amortized as an adjustment to interest expense over the same period in which the related interest payments being hedged are recognized in income.

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4. NOTES PAYABLE (CONTINUED)

Interest Rate Swap Agreements (Continued)

The net effect of this accounting on operating results is that interest expense on the portion of variable-rate debt being hedged is generally recorded based on fixed interest rates. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the termination date, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract. Interest rate swaps contracts are entered into with a major financial institution in order to minimize counterparty credit risk. The differential to be paid or received as interest rates change is accounted for on the accrual method of accounting. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest. This arrangement had the effect of increasing the interest rate from 6.875% to 7.39%. The Partnership had interest rate swap contracts on \$26,322,698 and \$26,873,996 notional amounts of indebtedness at December 31, 2002 and 2001, respectively. The outstanding contracts will mature December 31, 2005.

Treasury Lock Swap Agreements



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During 1998 the Partnership acquired and developed real estate using proceeds from the line of credit, which proceeds are expected to be refinanced on or about December 31, 2005 (See note 4). In connection with such acquisition, development and anticipated refinancing, the Partnership entered into Treasury Lock Swap Agreements on August 9, 2002, in the notional amount of \$25,875,576. The treasury lock swap agreements are used to hedge the risk that the cost of future issuances of debt may be adversely affected by changes in interest rates. Under the treasury lock swap agreements, the Partnership agrees to pay or receive an amount equal to the difference between the net present value of the cash flows for a notional principal amount of indebtedness based on the locked rate at the date when the agreement was established and the yield of a United States Government 10-Year Treasury Note on the settlement date of January 3, 2006. The notional amounts of the agreements are not exchanged. Treasury lock swap agreements are entered into with a major financial institution in order to minimize counterparty credit risk. The locked rates range from 7.46% to 9.07%. Treasury lock swap agreements are reflected at fair value in the Partnership's balance sheet and the related gains or losses on these agreements are deferred in partners' deficit (as a component of comprehensive income). These deferred gains and losses are then amortized as an adjustment to interest expense over the same period in which the related interest expense over the same period in which the related interest costs on the new debt issuances are recognized in income.

### 5. INCOME TAXES

No provision has been made in the financial statements for Federal income taxes because, under current law, no Federal income taxes are paid directly by the Partnership. The partners are responsible for their respective shares of the Partnership's items of income, deductions, losses and credits.

### 8. COMMITMENTS AND CONTINGENCIES

#### Litigation

The Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Partnership's financial position.

### 9. SUBSEQUENT EVENT (UNAUDITED)

A subsidiary of CSLC (the "purchaser"), (see note 2) has recently made the election to exercise its option to purchase the partnership interests of Triad Partners II, Inc. (Triad II). Triad II and the purchaser entered into a Partnership Interest Purchase Agreement ("Purchase Agreement") on March 25, 2003 whereby Triad II will sell its general and limited partnership interests for an aggregate of approximately \$567,000. Upon completion of this transaction, which the Partnership expects to take place by the end of the Partnership's second fiscal quarter of 2003, the purchaser will wholly own the Partnership. The purchase agreement is subject to customary terms and conditions.

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(ii) Financial Statements of Triad Senior Living III, LP

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TRIAD SENIOR LIVING III, LP  
BALANCE SHEETS

|  | Ju    |
|--|-------|
|  | (U    |
| <br>   |       |
| ASSETS   |       |
| <br>   |       |
| PROPERTY HELD FOR INVESTMENT - AT COST   |       |
| Land   | \$    |
| Buildings and improvements   | 5     |
| Furniture and fixtures   |       |
|  | ---   |
|  | 6     |
| Accumulated depreciation   | (     |
|  | ---   |
| Net property held for investment   | 5     |
|  | ---   |
| <br>   |       |
| OTHER ASSETS   |       |
| Cash   |       |
| Accounts receivable - insurance  |       |
| Accounts receivable - other  |       |
| Interest receivable  |       |
| Inventories  |       |
| Prepaid expenses   |       |
| Investment in held-to-maturity securities  |       |
| Deposits   |       |
| Debt issue costs - net of accumulated amortization of<br>\$416,236 and \$409,202 at June 30, 2003 and<br>December 31, 2002, respectively |       |
|  | ---   |
| Total other assets   | ---   |
|  | \$6   |
|  | ===== |
| <br>   |       |
| LIABILITIES AND PARTNERS' DEFICIT  |       |
| <br>   |       |
| LIABILITIES  |       |
| Accounts payable - related party   | \$    |
| Accounts payable   |       |
| Accrued interest - related party   |       |
| Accrued interest   |       |
| Accrued property taxes The   |       |
| Accrued expenses - related party   |       |
| Accrued expenses   |       |
| Security deposits  |       |
| Deferred income  |       |
| Notes payable - related party  | 2     |
| Notes payable  | 5     |
|  | ---   |
| Total liabilities  | 8     |
|  | ---   |

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PARTNERS' DEFICIT

(2)  
-----  
\$6  
=====

The accompanying notes are an integral part of these financial statements.

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TRIAD SENIOR LIVING III, LP  
STATEMENTS OF OPERATIONS

|                                  | Three Months Ended |                  |
|----------------------------------|--------------------|------------------|
|                                  | June 30,<br>2003   | June 30,<br>2002 |
|                                  | (Unaudited)        | (Unaudited)      |
| REVENUES                         |                    |                  |
| Rental income                    | \$ 2,277,102       | \$ 1,534,892     |
| Resident and healthcare income   | 48,138             | 42,058           |
| Total revenues                   | 2,325,240          | 1,576,950        |
| COSTS AND EXPENSES               | 2,809,869          | 2,548,466        |
| OPERATING LOSS                   | (484,629)          | (971,516)        |
| OTHER INCOME AND (EXPENSE)       |                    |                  |
| Interest and other income        | 21,419             | 12,728           |
| Interest expense                 | (1,016,134)        | (1,036,725)      |
| Total other income and (expense) | (994,715)          | (1,023,997)      |
| NET LOSS                         | \$ (1,479,344)     | \$ (1,995,513)   |
|                                  | =====              | =====            |

The accompanying notes are an integral part of these financial statements.

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TRIAD SENIOR LIVING III, LP  
 STATEMENTS OF PARTNERS' DEFICIT  
 Year Ended December 31, 2002 and Six Months Ended June 30, 2003  
 (Unaudited)

|  | General<br>Partner<br>----- | Limited<br>Partners<br>----- |                 |
|--|-----------------------------|------------------------------|-----------------|
| Partners' deficit at January 1, 2002   | \$ (12,769,658)             | \$ -                         | \$ (12,769,658) |
| Net loss                               | (8,130,775)                 | -                            | (8,130,775)     |
|  | -----                       | -----                        | -----           |
| Partners' deficit at December 31, 2002 | (20,900,433)                | -                            | (20,900,433)    |
| Net loss                               | (2,994,744)                 | -                            | (2,994,744)     |
|  | -----                       | -----                        | -----           |
| Partners' deficit at June 30, 2003     | \$ (23,895,177)             | \$ -                         | \$ (23,895,177) |
|  | =====                       | =====                        | =====           |

The accompanying notes are an integral part of these financial statements.

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TRIAD SENIOR LIVING III, LP  
STATEMENTS OF CASH FLOWS

Six Months Ended  
June 30,  
2003

|  |                |
|--|----------------|
| (Unaudited) (Unaudited)  |                |
| Operating activities   |                |
| Net loss   | \$ (2,994,744) |
| Adjustment to reconcile net loss to net cash provided by operating activities: |                |
| Amortization   | 7,034          |
| Depreciation   | 840,915        |
| Net change in operating assets and liabilities                                 |                |
| Accounts receivable - insurance  | 8,910          |
| Accounts receivable - other  | 117,185        |
| Interest receivable  | (22,254)       |
| Inventories  | (8,051)        |
| Prepaid expense  | 307,041        |
| Accounts payable - related party   | (21,437)       |
| Accounts payable   | (112,232)      |
| Accrued interest - related party   | 1,009,831      |
| Accrued interest   | (26,829)       |
| Accrued property taxes   | (331,546)      |
| Accrued expenses - related party   | 3,932          |
| Accrued expenses   | 21,981         |
| Security deposits  | 28,004         |
| Deferred income  | (40,075)       |
| Net cash used in operating activities  | (1,212,335)    |
| Investing activities   |                |
| Purchases of held--to-maturity securities                                      | -              |
| Property held for investment   | (37,046)       |
| Deposits   | 43,529         |
| Net cash provided by (used in) investing activities                            | 6,483          |
| Financing activities   |                |
| Proceeds from notes payable - related party                                    | 1,126,200      |
| Proceeds from notes payable  | -              |
| Net cash provided by financing activities                                      | 1,126,200      |
| Decrease in cash and cash equivalents  | (79,652)       |
| Cash and cash equivalents at beginning of period                               | 544,158        |
| Cash and cash equivalents at end of period                                     | 464,506        |

Supplemental disclosures:  
Cash paid during the year for:

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|              |            |
|--------------|------------|
| Interest     | \$ 893,077 |
|              | =====      |
| Income taxes | \$ -       |
|              | =====      |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living III, L.P.  
(A Texas Limited Partnership)  
NOTES TO FINANCIAL STATEMENTS

BUSINESS ACTIVITY

Triad Senior Living III, L.P., (the "Partnership") is a limited partnership organized under the laws of the State of Texas on November 10, 1998. The Partnership was formed to acquire, develop, own and operate residential rental properties for retirement age occupants. The Partnership will continue until December 31, 2050, unless terminated earlier under certain provisions of the partnership agreement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently used in the preparation of the accompanying financial statements are as follows:

Basis of Accounting

The accompanying financial statements of the Partnership have been prepared on the accrual basis of accounting.

Allocation of Profits and Losses

Profits and losses have been allocated as provided in the Partnership agreement.

Any adjusted net income realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order of priority:

- (i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then
- (ii) Adjusted net income shall be allocated to the General and Limited Partners in the same proportion that cumulative adjusted net loss has been allocated to the General and Limited Partners for the current year and

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prior years until each General and Limited Partner has been allocated cumulative adjusted net income for the current and prior years equal to the cumulative adjusted net loss allocated to the General and Limited Partners for the current and prior years; and then

- (iii) All remaining adjusted net income shall be allocated among the General and Limited Partners in proportion to their respective percentage interests.

Any adjusted net loss realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order or priority:

- (i) Adjusted net loss shall be allocated to the General and Limited Partners in proportion to their respective percentage interests until each General and Limited Partner's positive capital account balance is reduced to zero.
- (ii) All remaining adjusted net loss shall be allocated to the General Partner.

Notwithstanding any other provision of the Partnership agreement, from the date that construction commences with respect to a Property (the "Subject Property") to the date 18 months following the date that the Partnership receives a Certificate of Occupancy for the Subject Property, all adjusted net loss from the Subject Property shall be allocated to Triad Partners III, Inc. The provisions shall be applied to each Property of the Partnership on a property by property basis.

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Partner Liability

A limited Partner is not personally liable or bound for the expenses, liabilities or obligations of the Partnership beyond the amount of such Partner's capital contributions as defined in the Partnership agreement.

No Limited Partner shall be obligated to provide additional capital contributions outside the "original capital contributions" made upon admission to the Partnership or to make a loan to the Partnership.

#### Investment in Debt Securities

The Partnership has investments in debt securities. Management determines the appropriate classification of securities at the time they are acquired and evaluates the appropriateness of such classification at each balance sheet date.

Held-to-maturity securities consist solely of certificate of deposits which the Company has the positive intent and ability to hold to maturity, and are stated at amortized cost which approximates fair value. There were no unrecognized holding gains or losses as of June 30, 2003 and 2002. Interest on debt securities is recognized in income as earned. Realized gains and losses are included in operations. Realized gains and losses are determined

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on the basis of specific identification of the securities sold.

### 2. TRANSACTIONS WITH AFFILIATED PARTIES

On November 1, 1998, the Partnership and a subsidiary of Capital Senior Living Corporation ("CSLC"), entered into a Development and Turnkey Services Agreement in connection with the development and management of the planned new Waterford Communities where the Partnership would own and finance the construction of the new communities. A subsidiary of CSLC will have an option to purchase the partnership interest of Triad III for an amount equal to the amount Triad III paid for its interest, plus non-compounded interest of 12% per annum. The property management agreements also provide CSLC's subsidiary with an option to purchase the communities developed by the Partnership upon their completion for an amount equal to the fair market value (based on a third-party appraisal but not less than hard and soft costs and lease-up costs).

CSLC has loaned the Partnership \$25,513,566 and \$24,387,366 as of June 30, 2003 and December 31, 2002, respectively.

Asset management fees of \$25,998, payable to affiliates, were incurred and expensed for the six months ended June 30, 2003 and 2002, respectively. Accounts payable to affiliates at June 30, 2003 and December 31, 2002 totaled \$35,956 and \$57,393, respectively. For the first six months ended June 30, 2003 and 2002, related party interest incurred was \$1,009,831 and \$821,862, respectively. Accrued interest payable to a related party was \$4,559,011 and \$3,549,180 at June 30, 2003 and December 31, 2002, respectively.

### 3. COMMITMENTS AND CONTINGENCIES

#### Litigation

The Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Partnership's financial position.

### 4. CSLC PURCHASE OF PARTNERSHIP INTEREST

A subsidiary of CSLC (the "purchaser"), (see note 2) has recently made the election to exercise its option to purchase the partnership interests of Triad Partners III, Inc. (Triad III). Triad III and the purchaser entered into a Partnership Interest Purchase Agreement ("Purchase Agreement") on March 25, 2003 whereby Triad III will sell its general and limited partnership interests for an aggregate of approximately \$932,000. On July 29, 2003, CSLC purchased the remaining general and limited partnership interests of the Partnership and wholly owns the Partnership.

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Report of Independent Certified Public Accountants

The Partners  
Triad Senior Living III, L.P.



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We have audited the accompanying balance sheets of Triad Senior Living III, L.P. (A Texas Limited Partnership) as of December 31, 2002 and 2001, and the related statements of operations, partners' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Triad Senior Living III, L.P. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Lane Gorman Trubitt, L.L.P.

-----  
Lane Gorman Trubitt, L.L.P.

Dallas, Texas  
February 14, 2003

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Triad Senior Living III, L.P.  
(A Texas Limited Partnership)  
BALANCE SHEETS  
December 31,

|  | 2002         |
|--|--------------|
|  | -----        |
| ASSETS                                 |              |
| PROPERTY HELD FOR INVESTMENT - AT COST |              |
| Land                                   | \$ 3,963,138 |
| Buildings and improvements             | 57,322,457   |
| Furniture and fixtures                 | 2,427,576    |
|  | -----        |
|  | 63,713,171   |
| Accumulated depreciation               | (3,592,443)  |
|  | -----        |
| Net property held for investment       | 60,120,728   |

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|   |               |
|---|---------------|
| OTHER ASSETS  |               |
| Cash  | 544,158       |
| Accounts receivable - insurance   | 11,740        |
| Accounts receivable - other   | 117,185       |
| Interest receivable   | 75,747        |
| Inventories   | 42,534        |
| Prepaid expenses  | 307,041       |
| Investment in held-to-maturity securities   | 3,000,000     |
| Escrow deposits   | 949,169       |
| Debt issue costs - net of accumulated amortization<br>of \$409,202 and \$744,238 at December 31, 2002<br>and 2001, respectively | 11,650        |
| Total other assets  | 5,059,224     |
|   | \$ 65,179,952 |

LIABILITIES AND PARTNERS' DEFICIT

|                                  |            |
|----------------------------------|------------|
| LIABILITIES                      |            |
| Accounts payable - related party | \$ 57,393  |
| Accounts payable                 | 232,068    |
| Accrued interest - related party | 3,549,180  |
| Accrued interest                 | 190,585    |
| Accrued property taxes           | 904,272    |
| Accrued expenses - related party | 35,684     |
| Accrued expenses                 | 166,009    |
| Security deposits                | 247,508    |
| Deferred income                  | 40,075     |
| Notes payable - related party    | 24,387,366 |
| Notes payable                    | 56,270,245 |
| Total liabilities                | 86,080,385 |

The accompanying notes are an integral part of these financial statements.

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|                   |               |
|-------------------|---------------|
| PARTNERS' DEFICIT | (20,900,433)  |
|                   | \$ 65,179,952 |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living III, L.P.  
 (A Texas Limited Partnership)  
 STATEMENTS OF OPERATIONS  
 Years Ended December 31,

|                                  | 2002           | 2001            |
|----------------------------------|----------------|-----------------|
| REVENUES                         |                |                 |
| Rental income                    | \$ 6,674,986   | \$ 3,335,131    |
| Resident and healthcare income   | 139,319        | 100,476         |
| Total revenues                   | 6,814,305      | 3,435,607       |
| COST AND EXPENSES                | 10,685,442     | 9,642,742       |
| OPERATING LOSS                   | (3,871,137)    | (6,207,135)     |
| OTHER INCOME AND (EXPENSE)       |                |                 |
| Interest and other income        | 100,952        | 49,572          |
| Interest expense                 | (4,360,590)    | (4,726,098)     |
| Total other income and (expense) | (4,259,638)    | (4,676,526)     |
| NET LOSS                         | \$ (8,130,775) | \$ (10,883,661) |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living III, L.P.  
 (A Texas Limited Partnership)

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STATEMENTS OF PARTNERS' DEFICIT  
 Years Ended December 31, 2002 and 2001

|  | General<br>Partner | Limited<br>Partners | T          |
|--|--------------------|---------------------|------------|
| Partners' deficit at January 1, 2001   | \$ (1,885,997)     | \$ -                | \$ (1,885, |
| Net loss                               | (10,883,661)       | -                   | (10,883,   |
| Partners' deficit at December 31, 2001 | (12,769,658)       | -                   | (12,769,   |
| Net loss                               | (8,130,775)        | -                   | (8,130,    |
| Partners' deficit at December 31, 2002 | \$ (20,900,433)    | -                   | (20,900,   |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living III, L.P.  
 (A Texas Limited Partnership)  
 STATEMENTS OF CASH FLOWS  
 Years Ended December 31,

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|  |        |
|--|--------|
| Cash flows from operating activities                                       |        |
| Net loss   | \$ (8, |
| Adjustments to reconcile net loss to net cash used in operating activities |        |
| Amortization   |        |
| Depreciation   | 1,     |
| Net change in operating assets and liabilities                             |        |
| Accounts receivable - related party  |        |
| Accounts receivable - insurance  |        |
| Accounts receivable - other  | (      |
| Interest receivable  |        |
| Inventories  |        |
| Prepaid expenses   | (      |
| Accounts payable - related party   | (      |
| Accounts payable   | (      |
| Accrued interest - related party   | 1,     |
| Accrued interest   |        |
| Accrued property taxes   |        |
| Accrued expenses - related party   |        |
| Accrued expenses   |        |
| Security deposits  |        |
| Deferred income  |        |
|  | -----  |
| Net cash used in operating activities                                      | (5,    |
|  | -----  |
| Cash flows from investing activities                                       |        |
| Property held for investment   | (      |
| Purchases of held-to-maturity securities                                   | (1,    |
| Escrow deposits  |        |
|  | -----  |
| Net cash used in investing activities                                      | (1,    |
|  | -----  |
| Cash flows from financing activities                                       |        |
| Proceeds from notes payable - related party                                | 6,     |
| Proceeds from notes payable  |        |
| Debt issue costs   |        |
|  | -----  |
| Net cash provided by financing activities                                  | 6,     |
|  | -----  |
| Net increase (decrease) in cash  | (      |
| Cash at beginning of year  |        |
|  | -----  |
| Cash at end of year  | \$     |
|  | =====  |
| Supplemental disclosures of cash flow information                          |        |
| Cash paid during the period for:   |        |
| Income taxes   | \$     |
| Interest   | \$ 2,  |

The accompanying notes are an integral part of these financial statements.

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(A Texas Limited Partnership)  
NOTES TO FINANCIAL STATEMENTS

## BUSINESS ACTIVITY

Triad Senior Living III, L.P., (the "Partnership") is a limited partnership organized under the laws of the State of Texas on November 10, 1998. The Partnership was formed to acquire, develop, own and operate residential rental properties for retirement age occupants. The Partnership will continue until December 31, 2050, unless terminated earlier under certain provisions of the partnership agreement.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently used in the preparation of the accompanying financial statements are as follows:

#### Basis of Accounting

The accompanying financial statements of the Partnership have been prepared on the accrual basis of accounting.

#### Allocation of Profits and Losses

Profits and losses have been allocated as provided in the Partnership agreement.

Any adjusted net income realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order of priority:

- (i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then
- (ii) Adjusted net income shall be allocated to the General and Limited Partners in the same proportion that cumulative adjusted net loss has been allocated to the General and Limited Partners for the current year and prior years until each General and Limited Partner has been allocated cumulative adjusted net income for the current and prior years equal to the cumulative adjusted net loss allocated to the General and Limited Partners for the current and prior years; and then
- (iii) All remaining adjusted net income shall be allocated among the General and Limited Partners in proportion to their respective percentage interests.

Any adjusted net loss realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order or priority:

- (i) Adjusted net loss shall be allocated to the General and Limited Partners in proportion to their respective percentage interests until each General and Limited Partner's positive capital account balance is reduced to zero.

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- (ii) All remaining adjusted net loss shall be allocated to the General Partner.

Notwithstanding any other provision of the Partnership agreement, from the date that construction commences with respect to a Property (the "Subject Property") to the date 18 months following the date that the Partnership receives a Certificate of Occupancy for the Subject Property, all adjusted net loss from the Subject Property shall be allocated to Triad Partners III, Inc. The provisions shall be applied to each Property of the Partnership on a property by property basis.

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Partner Liability

A limited Partner is not personally liable or bound for the expenses, liabilities or obligations of the Partnership beyond the amount of such Partner's capital contributions as defined in the Partnership agreement.

No Limited Partner shall be obligated to provide additional capital contributions outside the "original capital contributions" made upon admission to the Partnership or to make a loan to the Partnership.

#### Cash and Cash Equivalents

The Partnership considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

The Partnership maintains its cash balances in financial institutions located in South Bend, Indiana; Columbia, South Carolina; Ridgeland, Mississippi; Mansfield, Ohio; and Pantego and Deer Park, Texas, which at times may exceed insured limits. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### Inventories

Inventories of food are used in operations and are stated at the lower of cost or market, with cost determined on a first-in, first-out (FIFO) basis.

#### Property Held for Investment

Property held for investment is stated at cost. Major renewals and improvements are capitalized, while costs of replacements, maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense as incurred.

|                            |               |
|----------------------------|---------------|
| Buildings and improvements | 20 - 40 years |
| Furniture and fixtures     | 5 - 10 years  |

Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The straight-line method of depreciation is followed for substantially all assets for financial reporting purposes, but accelerated methods are used for tax purposes.

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During project development, the costs of materials, services and payroll-related expenditures, including capitalized interest were capitalized. Capitalized costs of the projects are depreciated over their estimated service lives. Depreciation expense charged to operations was \$1,675,158 and \$1,671,141 for the years ended December 31, 2002 and 2001, respectively. When management determines a project will not result in probable future economic benefits, the related capitalized development costs are removed from the accounts and a loss is recognized. Interest is capitalized in connection with the construction of its projects. The capitalized interest is recorded as part of the project and is amortized over the project's estimated life.

The development of senior living communities typically involves a substantial commitment of capital over a 12-month construction period during which time no revenues are generated, followed by a 12-month lease-up period. The Partnership anticipates that newly opened or expanded communities will operate at a loss during a substantial portion of the lease-up period.

At each balance sheet date, management reviews the carrying value of property held for investment to determine if facts and circumstances suggest that they may be impaired or that the amortization or depreciation period may need to be changed. Management does not believe there are any indicators that would require an adjustment to the carrying value of the property held for investment or the remaining useful lives as of December 31, 2002 and 2001.

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue Recognition

Revenue is reported at the estimated net realizable amount from residents and third-party payors when services are provided.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Any differences between estimated and actual reimbursements are included in operations in the year of settlement.

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

#### Investment in Debt Securities

The Partnership has investments in debt securities. Management determines the appropriate classification of securities at the time they are acquired and evaluates the appropriateness of such classification at each balance sheet date.



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Held-to-maturity securities consist solely of certificate of deposits, maturing at various dates between June 2003 and February 2004, which the Company has the positive intent and ability to hold to maturity, and are stated at amortized cost which approximates fair value. There were no unrecognized holding gains or losses as of December 31, 2002 and 2001. Interest on debt securities is recognized in income as earned. Realized gains and losses are included in operations. Realized gains and losses are determined on the basis of specific identification of the securities sold.

### Amortization

Debt issue costs are amortized over the term of the note payable on a straight-line basis.

### Advertising Costs

Advertising costs, included in costs and expenses are charged to operations as incurred and were \$90,499 and \$113,580 for the years ended December 31, 2002 and 2001, respectively.

### Use of Estimates

In preparing the Partnership's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 2. TRANSACTIONS WITH AFFILIATED PARTIES

On November 1, 1998, the Partnership and a subsidiary of Capital Senior Living Corporation ("CSLC"), entered into a Development and Turnkey Services Agreement in connection with the development and management of the planned new Waterford Communities where the Partnership would own and finance the construction of the new communities. A subsidiary of CSLC will have an option to purchase the partnership interest of Triad III for an amount equal to the amount Triad III paid for its interest, plus non-compounded interest of 12% per annum. The property management agreements also provide CSLC's subsidiary with an option to purchase the communities developed by the Partnership upon their completion for an amount equal to the fair market value (based on a third-party appraisal but not less than hard and soft costs and lease-up costs).

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## 2. TRANSACTIONS WITH AFFILIATED PARTIES (Continued)

During 1998, a related party agreed to loan the Partnership up to \$10,000,000 and the loan amount was later amended to \$26,000,000. See Footnote 3.

Asset management fees of \$51,996 and \$42,000, payable to affiliates, were incurred and expensed for the years ended December 31, 2002 and 2001, respectively. Accounts payable to affiliates at December 31, 2002 and 2001 totaled \$57,393 and \$164,074, respectively. For 2002 and 2001, related party interest incurred was \$1,932,591 and \$1,201,103, respectively.

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Accrued interest payable to a related party was \$3,549,180 and \$1,616,589 at December 31, 2002 and 2001, respectively.

3. NOTES PAYABLE

Under the terms of a subordinated promissory note with a related party, as amended August 1, 2001, the Partnership may borrow up to \$26,000,000 at 8.00% for project construction and additional borrowings, at the same rate, to fund operating deficits. This loan may be prepaid without penalty. Interest is payable quarterly after the first borrowing.

Borrowings at December 31, were as follows:

| Project Location | Maturity         |    | 0<br>2002 |
|------------------|------------------|----|-----------|
| -----            | -----            |    | -----     |
| Columbia, SC     | November 1, 2008 | \$ | 3,        |
| Deer Park, TX    | November 1, 2008 |    | 3,        |
| Jackson, MS      | November 1, 2008 |    | 3,        |
| Mansfield, OH    | November 1, 2008 |    | 3,        |
| Edison Lake, IN  | November 1, 2008 |    | 3,        |
| Pantego, TX      | November 1, 2008 |    | 3,        |
| Corporate        | November 1, 2008 |    | 3,        |
|                  |                  |    | -----     |
|                  |                  | \$ | 24,       |
|                  |                  |    | =====     |

Under the terms of a construction loan facility with a financial institution, as amended August 7, 2001, the Partnership may borrow up to \$56,270,246 to fund the costs of construction of senior living facilities. Project loans may not exceed the lesser of (1) 80% of the appraised value of the project or (2) 85% of the project costs. Amounts borrowed and repaid may not be reborrowed. The original commitment period is twelve months from the closing of the first project loan, but the loan closing date can be no later than January 30, 1999. The commitment period may be extended for twelve months. Project loans have an original term of thirty-six months, but can be extended subject to the terms of the agreement. The facility has commitment, application, reaffirmation, and extension fee requirements. Interest applicable to the borrowings is based on the LIBOR rate, plus 2.25, or at the Partnership's option, the financial institution's base rate, and is payable monthly. As security for the debt, the financial institution has (1) first lien deeds of trust on the properties (2) assignment of leases, rents and licenses and (3) all equipment and furnishings. As of December 31, 2002 and 2001, investment securities of \$3,000,000 and \$1,500,000, respectively, were restricted as to use in accordance with the terms of the construction loan facility. The facility contains various provisions and restrictive covenants.

Borrowings at December 31, were as follows:

| Project Location | Maturity |  | 0<br>2002 |
|------------------|----------|--|-----------|
|------------------|----------|--|-----------|

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|                 |                 |        |
|-----------------|-----------------|--------|
| -----           | -----           | -----  |
| Columbia, SC    | January 1, 2004 | \$ 9,  |
| Deer Park, TX   | January 1, 2004 | 9,     |
| Jackson, MS     | January 1, 2004 | 9,     |
| Mansfield, OH   | January 1, 2004 | 9,     |
| Edison Lake, IN | January 1, 2004 | 9,     |
| Pantego, TX     | January 1, 2004 | 9,     |
|                 |                 | -----  |
|                 |                 | \$ 56, |
|                 |                 | =====  |

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3. NOTES PAYABLE (CONTINUED)

Maturities of notes payable are as follows for the years ending December 31:

|            | Affiliate    | Other        | Total        |
|------------|--------------|--------------|--------------|
|            | -----        | -----        | -----        |
| 2003       | \$ -         | \$ -         | \$ -         |
| 2004       | -            | 56,270,245   | 56,270,245   |
| Thereafter | 24,387,366   | -            | 24,387,366   |
|            | -----        | -----        | -----        |
|            | \$24,387,366 | \$56,270,245 | \$80,657,611 |
|            | =====        | =====        | =====        |

4. INCOME TAXES

No provision has been made in the financial statements for Federal income taxes because, under current law, no Federal income taxes are paid directly by the Partnership. The partners are responsible for their respective shares of the Partnership's items of income, deductions, losses and credits.

5. COMMITMENTS AND CONTINGENCIES

Litigation

The Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Partnership's financial position.

6. SUBSEQUENT EVENT (UNAUDITED)

A subsidiary of CSLC (the "purchaser"), (see note 2) has recently made the election to exercise its option to purchase the partnership interests of

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Triad Partners III, Inc. (Triad III). Triad III and the purchaser entered into a Partnership Interest Purchase Agreement ("Purchase Agreement") on March 25, 2003 whereby Triad III will sell its general and limited partnership interests for an aggregate of approximately \$932,000. Upon completion of this transaction, which the Partnership expects to take place by the end of the Partnership's second fiscal quarter of 2003, the purchaser will wholly own the Partnership. The purchase agreement is subject to customary terms and conditions.

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(iii) Financial Statements of Triad Senior Living IV, LP

### TRIAD SENIOR LIVING IV, LP BALANCE SHEETS

|  | June 30,<br>2003 |
|--|------------------|
|  | (Unaudited)      |
| <b>ASSETS</b>  |                  |
| <b>PROPERTY HELD FOR INVESTMENT - AT COST</b>  |                  |
| Land   | \$ 1,323,000     |
| Buildings and improvements   | 23,126,958       |
| Furniture and fixtures   | 851,853          |
|  | 25,301,811       |
| Accumulated depreciation   | (879,633)        |
| Net property held for investment   | 24,422,178       |
| <b>OTHER ASSETS</b>  |                  |
| Cash   | 804,483          |
| Accounts receivable - related party  | 549,000          |
| Accounts receivable  | -                |
| Inventories  | 16,281           |
| Prepaid expenses   | -                |
| Deposits   | 183,939          |
| Debt issue costs - net of accumulated amortization of \$132,818<br>and \$97,415 at June 30, 2003 and December 31, 2002, respectively | 132,593          |
| Total other assets   | 1,686,296        |

\$26,108,474  
=====

LIABILITIES AND PARTNERS' DEFICIT

LIABILITIES

|                                  |            |
|----------------------------------|------------|
| Accounts payable - related party | \$ 25,113  |
| Accounts payable                 | 176,439    |
| Accrued interest - related party | 1,954,490  |
| Accrued interest                 | -          |
| Accrued property taxes           | 286,772    |
| Accrued expenses - related party | 16,308     |
| Accrued expenses                 | 65,521     |
| Security deposits                | 103,001    |
| Deferred income                  | -          |
| Notes payable - related party    | 9,799,317  |
| Notes payable                    | 18,627,307 |
|                                  | -----      |
| Total liabilities                | 31,054,268 |
|                                  | -----      |

PARTNERS' DEFICIT

(4,945,794)  
-----  
\$26,108,474  
=====

The accompanying notes are an integral part of these financial statements.

E-1

TRIAD SENIOR LIVING IV, LP  
STATEMENTS OF OPERATIONS

|                                | Three Months Ended |                  |          |
|--------------------------------|--------------------|------------------|----------|
|                                | June 30,<br>2003   | June 30,<br>2002 | Jun<br>2 |
|                                | (Unaudited)        | (Unaudited)      | (Unau    |
| REVENUES                       |                    |                  |          |
| Rental income                  | \$ 955,928         | \$ 148,071       | \$ 1,8   |
| Resident and healthcare income | 6,078              | 471              |          |
|                                | -----              | -----            | -----    |
| Total revenues                 | 962,006            | 148,542          | 1,8      |
|                                |                    |                  |          |
| COSTS AND EXPENSES             | 1,210,561          | 800,037          | 2,3      |

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|                                  |              |              |         |
|----------------------------------|--------------|--------------|---------|
| OPERATING LOSS                   | (248,555)    | (651,495)    | (5      |
| OTHER INCOME AND (EXPENSE)       |              |              |         |
| Interest and other income        | 4,664        | 3,502        |         |
| Interest expense                 | (367,225)    | (320,721)    | (7      |
| Total other income and (expense) | (362,561)    | (317,219)    | (7      |
| NET LOSS                         | \$ (611,116) | \$ (968,714) | \$ (1,2 |

The accompanying notes are an integral part of these financial statements.

E-2

TRIAD SENIOR LIVING IV, LP  
 STATEMENTS OF PARTNERS' DEFICIT  
 Year Ended December 31, 2002 and Six Months Ended June 30, 2002  
 (Unaudited)

|                                      | General Partner | Limited Partners |      |
|--------------------------------------|-----------------|------------------|------|
| Partners' deficit at January 1, 2002 | \$ (215,384)    | \$ -             | \$ ( |
| Net loss                             | (3,486,763)     | -                | (3,  |

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|  |                |       |        |
|--|----------------|-------|--------|
| Partners' deficit at December 31, 2002 | (3,702,147)    | -     | (3,    |
| Net loss                               | (1,243,647)    | -     | (1,    |
|  | -----          | ----- | -----  |
| Partners' deficit at June 30, 2003     | \$ (4,945,794) | \$ -  | \$ (4, |
|  | =====          | ===== | =====  |

The accompanying notes are an integral part of these financial statements.

E-3

TRIAD SENIOR LIVING IV, LP  
STATEMENTS OF CASH FLOWS

|   | Six Months Ended<br>June 30,<br>2003 | Six Months<br>June 30,<br>2002 |
|---|--------------------------------------|--------------------------------|
|   | -----<br>(Unaudited)                 | -----<br>(Unaudi               |
| Operating activities  |                                      |                                |
| Net loss  | \$ (1,243,647)                       | \$ (1,551                      |
| Adjustment to reconcile net loss to net<br>cash provided by operating activities: |                                      |                                |
| Amortization  | 35,402                               | 58                             |
| Depreciation  | 332,781                              | 210                            |
| Net change in operating assets and liabilities                                    |                                      |                                |
| Accounts receivable - related party   | -                                    | (39                            |

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|   |            |          |
|---|------------|----------|
| Accounts receivable                                 | 6,389      | 11       |
| Inventories   | (557)      | (11)     |
| Prepaid expenses                                    | 140,275    |          |
| Accounts payable - related party                    | 8,060      | (7)      |
| Accounts payable                                    | (162,728)  | (3,459)  |
| Accrued interest - related party                    | 396,816    | 383      |
| Accrued interest                                    | (67,940)   |          |
| Accrued property taxes                              | 26,985     | 88       |
| Accrued expenses - related party                    | 4,722      | 10       |
| Accrued expenses                                    | 2,523      | 44       |
| Security deposits                                   | 20,500     | 28       |
| Deferred income                                     | (13,045)   |          |
|   | -----      | -----    |
| Net cash provided by/(used in) operating activities | (513,464)  | (4,233)  |
|   | -----      | -----    |
| Increase activities                                 |            |          |
| Construction in process                             | -          | 22,195   |
| Property held for investment                        | (28,199)   | (24,402) |
| Deposits  | 551,494    | (631)    |
|   | -----      | -----    |
| Net cash provided by/(used in) investing activities | 523,295    | (2,837)  |
|   | -----      | -----    |
| Financing activities                                |            |          |
| Proceeds from notes payable - related party         | 470,452    | 1,661    |
| Payments on notes payable - related party           | (107,290)  |          |
| Proceeds from notes payable                         | 160,845    | 5,500    |
|   | -----      | -----    |
| Net cash provided by financing activities           | 524,007    | 7,162    |
|   | -----      | -----    |
| Increase in cash and cash equivalents               | 533,838    | 91       |
| Cash and cash equivalents at beginning of period    | 270,645    | 417      |
|   | -----      | -----    |
| Cash and cash equivalents at end of period          | \$ 804,483 | \$ 509   |
|   | -----      | -----    |
| Supplemental disclosures:                           |            |          |
| Cash paid during the year for:                      |            |          |
| Interest  | \$ -       | \$       |
|   | =====      | =====    |
| Income taxes  | \$ -       | \$       |
|   | =====      | =====    |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living IV, L.P.  
(A Texas Limited Partnership)  
NOTES TO FINANCIAL STATEMENTS

BUSINESS ACTIVITY



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Triad Senior Living IV, L.P., (the "Partnership") is a limited partnership organized under the laws of the State of Texas on December 22, 1998. The Partnership was formed to acquire, develop, own and operate residential rental properties for retirement age occupants. The Partnership will continue until December 31, 2050, unless terminated earlier under certain provisions of the partnership agreement.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

#### Basis of Accounting

The accompanying financial statements of the Partnership have been prepared on the accrual basis of accounting.

#### Allocation of Profits and Losses

Profits and losses have been allocated as provided in the Partnership agreement.

Any adjusted net income realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order of priority:

- (i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then
- (ii) Adjusted net income shall be allocated to the General and Limited Partners in the same proportion that cumulative adjusted net loss has been allocated to the General and Limited Partners for the current year and prior years until each General and Limited Partner has been allocated cumulative adjusted net income for the current and prior years equal to the cumulative adjusted net loss allocated to the General and Limited Partners for the current and prior years; and then
- (iii) All remaining adjusted net income shall be allocated among the General and Limited Partners in proportion to their respective percentage interests.

Any adjusted net loss realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order or priority:

- (i) Adjusted net loss shall be allocated to the General and Limited Partners in proportion to their respective percentage interests until each General and Limited Partner's positive capital account balance is reduced to zero.
- (ii) All remaining adjusted net loss shall be allocated to the General Partner.

Notwithstanding any other provision of the Partnership agreement, from the date that construction commences with respect to a Property (the "Subject Property") to the date 18 months following the date that the Partnership

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receives a Certificate of Occupancy for the Subject Property, all adjusted net loss from the Subject Property shall be allocated to Triad Partners IV, Inc. The provisions shall be applied to each Property of the Partnership on a property by property basis

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Partner Liability

A Limited Partner is not personally liable or bound for the expenses, liabilities, or obligations of the Partnership beyond the amount of such Partner's capital contributions as defined in the Partnership agreement.

No Limited Partner shall be obligated to provide additional capital contributions outside the "original capital contributions" made upon admission to the Partnership or to make a loan to the Partnership.

### 2. TRANSACTIONS WITH AFFILIATED PARTIES

On December 22, 1998, the Partnership and a subsidiary of Capital Senior Living Corporation ("CSLC"), entered into a Development and Turnkey Services Agreement in connection with the development and management of the planned new Waterford Communities where the Partnership would own and finance the construction of the new communities. A subsidiary of CSLC will have an option to purchase the partnership interest of Triad IV for an amount equal to the amount Triad IV paid for its interest, plus non-compounded interest of 12% per annum. The property management agreements also provide CSLC's subsidiary with an option to purchase the communities developed by the Partnership upon their completion for an amount equal to the fair market value (based on a third-party appraisal but not less than hard and soft costs and lease-up costs).

CSLC has loaned the Partnership \$9,799,317 and \$9,436,155 as of June 30, 2003 and December 31, 2002, respectively.

Asset management fees of \$12,000, payable to affiliates, were incurred and expensed in each of the six months ended June 30, 2003 and 2002. Accounts payable to affiliates at June 30, 2003 and December 31, 2002 totaled \$25,113 and \$17,053, respectively. For the six months ended June 30, 2003 and 2002, related party interest incurred was \$396,816 and \$383,185, respectively. Accrued interest payable to a related party was \$1,954,490 and \$1,557,674, at June 30, 2003 and December 31, 2002, respectively.

### 3. COMMITMENTS AND CONTINGENCIES

#### Litigation

The Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Partnership's financial position.

### 4. CSLC PURCHASE OF PARTNERSHIP INTEREST

A subsidiary of CSLC (the "purchaser"), (see note 2) has recently made the election to exercise its option to purchase the partnership interests of Triad Partners IV, Inc. (Triad IV). Triad IV and the purchaser entered into

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a Partnership Interest Purchase Agreement ("Purchase Agreement") on March 25, 2003 whereby Triad IV will sell its general and limited partnership interests for an aggregate of approximately \$108,000. On July, 29, 2003, CSLC purchased the remaining general and limited partnership interests of the Partnership and wholly owns the Partnership.

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Report of Independent Certified Public Accountants

The Partners  
Triad Senior Living IV, L.P.

We have audited the accompanying balance sheets of Triad Senior Living IV, L.P. (A Texas Limited Partnership) as of December 31, 2002 and 2001, and the related statements of operations, partners' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Triad Senior Living IV, L.P. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepting in the United States of America.

/s/ Lane Gorman Trubitt, L.L.P.

-----  
Lane Gorman Trubitt, L.L.P.

Dallas, Texas  
February 14, 2003

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Triad Senior Living IV, L.P.  
(A Texas Limited Partnership)  
BALANCE SHEETS

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December 31,

|   |          |
|---|----------|
|   | 200      |
|   | -----    |
| ASSETS  |          |
| PROPERTY HELD FOR INVESTMENT - AT COST  |          |
| Land  | \$ 1,32  |
| Buildings and improvements  | 23,10    |
| Furniture and fixtures  | 85       |
| Construction in process   |          |
|   | -----    |
|   | 25,27    |
| Accumulated depreciation  | (54      |
|   | -----    |
| Net property held for investment  | 24,72    |
|   | -----    |
| OTHER ASSETS  |          |
| Cash  | 27       |
| Accounts receivable - related party   | 54       |
| Accounts receivable   |          |
| Inventories   | 1        |
| Prepaid expenses  | 14       |
| Deposits  | 73       |
| Debt issue costs - net of accumulated amortization of \$97,415<br>and \$195,685 at December 31, 2002 and 2001, respectively | 16       |
|   | -----    |
| Total other assets  | 1,88     |
|   | -----    |
|   | \$ 26,61 |
|   | =====    |
| LIABILITIES AND PARTNERS' DEFICIT   |          |
| LIABILITIES   |          |
| Accounts payable - related party  | 1        |
| Accounts payable  | 33       |
| Accrued interest - related party  | 1,55     |
| Accrued interest  | 6        |
| Accrued property taxes  | 25       |
| Accrued expenses - related party  | 1        |
| Accrued expenses  | 6        |
| Security deposits   | 8        |
| Deferred income   | 1        |
| Notes payable - related party   | 9,43     |
| Notes payable   | 18,46    |
|   | -----    |
| Total liabilities   | 30,31    |
|   | -----    |

The accompanying notes are an integral part of these financial statements.

PARTNERS' DEFICIT

(3,70  
-----  
\$ 26,61  
=====

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living IV, L.P.  
(A Texas Limited Partnership)  
STATEMENTS OF OPERATIONS  
Years Ended December 31,

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|                                  | 2002        | 2001      |
|----------------------------------|-------------|-----------|
| REVENUES                         |             |           |
| Rental income                    | 1,365,041   | -         |
| Resident and health care income  | 22,160      | -         |
| Other income                     | -           | 999       |
| Total revenues                   | 1,387,201   | 999       |
| COSTS AND EXPENSES               | 3,608,410   | 194,908   |
| OPERATING LOSS                   | (2,221,209) | (193,909) |
| OTHER INCOME AND (EXPENSE)       |             |           |
| Gain (loss) on sale of property  | (25,726)    | 58,856    |
| Interest and other income        | 13,466      | -         |
| Interest expense                 | (1,253,294) | (66,711)  |
| Total other income and (expense) | (1,265,554) | (7,855)   |
| NET LOSS                         | (3,486,763) | (201,764) |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living IV, L.P.  
(A Texas Limited Partnership)  
STATEMENTS OF PARTNERS' DEFICIT  
Years Ended December 31, 2002 and 2001

| General<br>Partner | Limited<br>Partners | Total |
|--------------------|---------------------|-------|
|                    |                     |       |

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|  |                |      |                |
|--|----------------|------|----------------|
| Partners' deficit at January 1, 2001   | \$ (13,620)    | \$ - | \$ (13,620)    |
| Net loss                               | (201,764)      | -    | (201,764)      |
| Partners' deficit at December 31, 2001 | (215,384)      | -    | (215,384)      |
| Net loss                               | (3,486,763)    | -    | (3,486,763)    |
| Partners' deficit at December 31, 2002 | \$ (3,702,147) | \$ - | \$ (3,702,147) |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living IV, L.P.  
(A Texas Limited Partnership)  
STATEMENTS OF CASH FLOWS  
Years Ended December 31,

|   |    |             |
|---|----|-------------|
|   |    | 2002        |
|   |    | -----       |
| Cash flows from operating activities  |    |             |
| Net loss  | \$ | (3,486,763) |
| Adjustments to reconcile net loss to net cash provided by<br>(used in) operating activities |    |             |
| Amortization  |    | 1,000       |
| Depreciation  |    | 5,000       |
| (Gain) loss on sale of property   |    | (1,000)     |
| Net change in operating assets and liabilities  |    |             |
| Accounts receivable - related party   |    | (1,000)     |
| Accounts receivable   |    | (1,000)     |
| Inventories   |    | (1,000)     |
| Prepaid expenses  |    | (1,000)     |
| Accounts payable - related party  |    | (1,000)     |
| Accounts payable  |    | (3,600)     |
| Accrued interest - related party  |    | 7,000       |
| Accrued interest  |    | 1,000       |
| Accrued property taxes  |    | 1,000       |

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|   |       |
|---|-------|
| Accrued expenses - related party                    |       |
| Accrued expenses                                    |       |
| Security deposits                                   |       |
| Deferred income                                     |       |
| Net cash provided by (used in) operating activities | (5,4) |
| Cash flows from investing activities                |       |
| Property held for investment                        | (2,6) |
| Deposits  | (3)   |
| Net cash used in investing activities               | (3,0) |
| Cash flows from financing activities                |       |
| Proceeds from notes payable - related party         | 2,3   |
| Payments on notes payable - related party           | (4)   |
| Proceeds from notes payable                         | 6,5   |
| Debt issue costs                                    | (1)   |
| Net cash provided by financing activities           | 8,3   |
| Net increase (decrease) in cash                     | (1)   |
| Cash at beginning of year                           | 4     |
| Cash at end of year                                 | 2     |
| Supplemental disclosures of cash flow information   |       |
| Cash paid during the year for:                      |       |
| Income taxes  | \$    |

The accompanying notes are an integral part of these financial statements.

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|   |        |
|---|--------|
| Interest (net of amount capitalized)  | 7      |
| Supplemental schedule of noncash investing and financing activities:                  |        |
| Sale of property held for investment via reduction in a related party note payable    | \$ 1,3 |
| Purchase of property held for investment via increase in a related party note payable | \$     |



The accompanying notes are an integral part of these financial statements.

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Triad Senior Living IV, L.P.  
(A Texas Limited Partnership)  
NOTES TO FINANCIAL STATEMENTS

BUSINESS ACTIVITY

Triad Senior Living IV, L.P., (the "Partnership") is a limited partnership organized under the laws of the State of Texas on December 22, 1998. The Partnership was formed to acquire, develop, own and operate residential rental properties for retirement age occupants. The Partnership will continue until December 31, 2050, unless terminated earlier under certain provisions of the partnership agreement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Basis of Accounting

The accompanying financial statements of the Partnership have been prepared on the accrual basis of accounting.

Allocation of Profits and Losses

Profits and losses have been allocated as provided in the Partnership

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agreement.

Any adjusted net income realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order of priority:

- (i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then
- (ii) Adjusted net income shall be allocated to the General and Limited Partners in the same proportion that cumulative adjusted net loss has been allocated to the General and Limited Partners for the current year and prior years until each General and Limited Partner has been allocated cumulative adjusted net income for the current and prior years equal to the cumulative adjusted net loss allocated to the General and Limited Partners for the current and prior years; and then
- (iii) All remaining adjusted net income shall be allocated among the General and Limited Partners in proportion to their respective percentage interests.

Any adjusted net loss realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order or priority:

- (i) Adjusted net loss shall be allocated to the General and Limited Partners in proportion to their respective percentage interests until each General and Limited Partner's positive capital account balance is reduced to zero.
- (ii) All remaining adjusted net loss shall be allocated to the General Partner.

Notwithstanding any other provision of the Partnership agreement, from the date that construction commences with respect to a Property (the "Subject Property") to the date 18 months following the date that the Partnership receives a Certificate of Occupancy for the Subject Property, all adjusted net loss from the Subject Property shall be allocated to Triad Partners IV, Inc. The provisions shall be applied to each Property of the Partnership on a property by property basis.

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Partner Liability

A Limited Partner is not personally liable or bound for the expenses, liabilities, or obligations of the Partnership beyond the amount of such Partner's capital contributions as defined in the Partnership agreement.

No Limited Partner shall be obligated to provide additional capital contributions outside the "original capital contributions" made upon

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admission to the Partnership or to make a loan to the Partnership.

### Cash and Cash Equivalents

The Partnership considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

The Partnership maintains its cash balances in several financial institutions located in Texas, which at times may exceed insured limits. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

### Inventories

Inventories of food are used in operations and are stated at the lower of cost or market, with cost determined on a first-in, first-out (FIFO) basis.

### Property Held for Investment

Property held for investment is stated at cost. Major renewals and improvements are capitalized, while costs of replacements, maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense as incurred.

|                            |               |
|----------------------------|---------------|
| Buildings and improvements | 20 - 40 years |
| Furniture and fixtures     | 5 - 10 years  |

Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The straight-line method of depreciation is followed for substantially all assets for financial reporting purposes, but accelerated methods are used for tax purposes.

During project development, the costs of materials, services and payroll-related expenditures, including interest were capitalized. Capitalized costs of the projects are depreciated over their estimated service lives when the projects are placed in service. As of May 31, 2002, all property was in service and carried at cost less accumulated depreciation. Depreciation expense charged to operations was \$546,852 and \$-0- for the years ended December 31, 2002 and 2001, respectively. When management determines a project will not result in probable future economic benefits, the related capitalized development costs are removed from the accounts and a loss is recognized.

Interest is capitalized in connection with the construction of its projects. The capitalized interest is recorded as part of the project and will be amortized over the project's estimated life. For the years ended December 31, 2002 and 2001, total interest incurred was \$1,350,225 and \$657,255, of which \$96,931 and \$657,255 was capitalized, respectively.

The development of senior living communities typically involves a substantial commitment of capital over a 12-month construction period during which time no revenues are generated, following by a 12-month lease-up period. The Partnership anticipates that newly opened or expanded communities will operate at a loss during a substantial portion of the lease-up period.

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property Held for Investment (Continued)

At each balance sheet date, management reviews the carrying value of property held for investment to determine if facts and circumstances suggest that they may be impaired or that the amortization or depreciation period may need to be changed. Management does not believe there are any indicators that would require an adjustment to the carrying value of the property held for investment or the remaining useful lives as of December 31, 2002 and 2001.

#### Revenue Recognition

Revenue is reported at the estimated net realizable amount from residents and third-party payors when services are provided.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Any differences between estimated and actual reimbursements are included in operations in the year of settlement.

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

#### Amortization

Debt issue costs are amortized over the term of the note payable on a straight-line basis.

#### Advertising Costs

Advertising costs, included in costs and expenses, are charged to operations as incurred and was \$5,273 and \$-0- for the years ended December 31, 2002 and 2001, respectively.

#### Use of Estimates

In preparing the Partnership's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 2. TRANSACTIONS WITH AFFILIATED PARTIES

On December 22, 1998, the Partnership and a subsidiary of Capital Senior Living Corporation ("CSLC"), entered into a Development and Turnkey Services Agreement in connection with the development and management of the planned new Waterford Communities where the Partnership would own and finance the construction of the new communities. A subsidiary of CSLC will have an option to purchase the partnership interest of Triad IV for an amount equal to the amount Triad IV paid for its interest, plus non-compounded interest of 12% per annum. The property management

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agreements also provide CSLC's subsidiary with an option to purchase the communities developed by the Partnership upon their completion for an amount equal to the fair market value (based on a third-party appraisal but not less than hard and soft costs and lease-up costs).

During 1998, a related party agreed to loan the Partnership up to \$10,000,000. See Footnote 3.

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During 2002, undeveloped land was transferred to CSLC and the proceeds of \$1,382,402 were offset against the note payable to CSLC. The transaction generated a loss on sale of \$25,726.

### 2. TRANSACTIONS WITH AFFILIATED PARTIES (CONTINUED)

During 2001, two properties and the associated notes payable were transferred from an affiliated entity, Triad Senior Living V, L.P. at cost of \$2,632,818. These properties were then sold to CSLC and the proceeds of \$2,691,674 were used to pay down the note payable to CSLC. These transactions generated a gain on sale of \$58,856.

Development fees of \$-0- and \$56,664, payable to affiliates were incurred and capitalized for the years ended December 31, 2002 and 2001, respectively. Asset management fees of \$24,000, payable to affiliates were incurred and expensed in each of the years ended December 31, 2002 and 2001. Accounts payable to affiliates at December 31, 2002 and 2001 totaled \$17,053 and \$33,311, respectively. For 2002 and 2001, related party interest incurred was \$681,467 and \$657,255, respectively. Accrued interest payable to a related party was \$1,557,674 and \$993,691, at December 31, 2002 and 2001, respectively.

### 3. NOTES PAYABLE

Under the terms of a subordinated promissory note with a related party, as amended January 1, 2001, the Partnership may borrow up to \$10,000,000 at 8.00%. This loan may be prepaid without penalty. Interest is payable quarterly after the first borrowing.

Borrowings at December 31, were as follows:

| Project Location         | Maturity          | Outstanding Balance |              |
|--------------------------|-------------------|---------------------|--------------|
|                          |                   | 2002                | 2001         |
| N. Richland Hills, Texas | December 30, 2008 | \$ 4,562,746        | \$ 3,885,479 |
| Richardson, Texas        | December 30, 2008 | 3,885,479           | 1,987,930    |
| Gilbert, Arizona         | December 30, 2003 |                     |              |
| Corporate                | December 30, 2008 | 987,930             |              |
|                          |                   | \$ 9,436,155        | \$ 8,873,409 |

Under the terms of a construction loan facility with a financial

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institution, as amended March 22, 2002, the Partnership may borrow up to \$18,627,307 to fund the costs of construction of senior living facilities. Project loans may not exceed the lesser of (1) 80% of the appraised value of the project or (2) 85% of the project costs. Amounts borrowed and repaid may not be reborrowed. The amended construction loan maturity date is December 31, 2004, but can be extended subject to the terms of the agreement to December 31, 2006. The facility has commitment, application, reaffirmation, and extension fee requirements. Interest applicable to the borrowings is based on the LIBOR rate, plus 2.25, or at the Partnership's option, the financial institution's base rate, and is payable monthly. As security for the debt, the financial institution has (1) first lien deeds of trust on the properties (2) assignment of leases, rents and licenses and (3) all equipment and furnishings. The facility contains various provisions and restrictive covenants.

Borrowings at December 31, were as follows:

| Project Location         | Maturity          | 2002          | Outstanding<br>2003 |
|--------------------------|-------------------|---------------|---------------------|
| N. Richland Hills, Texas | December 31, 2004 | \$ 8,627,307  | \$                  |
| Richardson, Texas        | December 31, 2004 | 9,839,155     |                     |
| Corporate                | December 31, 2004 | -             | 11,                 |
|                          |                   | \$ 18,466,462 | \$ 11,              |
|                          |                   | \$ 18,466,462 | \$ 11,              |

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### 3. NOTES PAYABLE (CONTINUED)

Maturities of notes payable are as follows for the years ending December 31,:

|            | Affiliate   | Other         | Total         |
|------------|-------------|---------------|---------------|
| 2003       | \$ -        | \$ -          | \$ -          |
| 2004       |             | 18,466,462    | -             |
| 2005       | -           | -             | -             |
| 2006       | -           | -             | -             |
| 2007       | -           | -             | -             |
| Thereafter | 9,436,155   | -             | 9,436,155     |
|            | \$9,436,155 | \$ 18,466,462 | \$ 27,902,617 |
|            | \$9,436,155 | \$ 18,466,462 | \$ 27,902,617 |

### 4. INCOME TAXES

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No provision has been made in the financial statements for Federal income taxes because, under current law, no Federal income taxes are paid directly by the Partnership. The partners are responsible for their respective shares of the Partnership's items of income, deductions, losses and credits.

### 5. COMMITMENTS AND CONTINGENCIES

#### Litigation

The Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Partnership's financial position.

### 6. SUBSEQUENT EVENT (UNAUDITED)

A subsidiary of CSLC (the "purchaser"), (see note 2) has recently made the election to exercise its option to purchase the partnership interests of Triad Partners IV, Inc. (Triad IV). Triad IV and the purchaser entered into a Partnership Interest Purchase Agreement ("Purchase Agreement") on March 25, 2003 whereby Triad IV will sell its general and limited partnership interests for an aggregate of approximately \$108,000. Upon completion of this transaction, which the Partnership expects to take place by the end of the Partnership's second fiscal quarter of 2003, the purchaser will wholly own the Partnership. The purchase agreement is subject to customary terms and conditions.

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(iv) Financial Statements of Triad Senior Living V, LP

#### TRIAD SENIOR LIVING V, LP BALANCE SHEETS

|   | June 30,<br>2003 | December 31,<br>2002 |
|---|------------------|----------------------|
|   | (Unaudited)      | (Audited)            |
| <b>ASSETS</b>                                 |                  |                      |
| <b>PROPERTY HELD FOR INVESTMENT - AT COST</b> |                  |                      |
| Land  | \$ 1,024,404     | \$ 1,024,404         |
| Buildings and improvements                    | 9,661,501        | 9,660,221            |
| Furniture and fixtures                        | 315,601          | 311,499              |
| Vehicles                                      | 49,613           | 49,613               |
|   | 11,051,119       | 11,045,737           |
| Accumulated depreciation                      | (587,619)        | (445,925)            |
| Net property held for investment              | 10,463,500       | 10,599,812           |

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|  |               |               |
|--|---------------|---------------|
| OTHER ASSETS   |               |               |
| Cash   | 65,360        | 116,047       |
| Accounts receivable  | 3,643         | 1,044         |
| Inventories  | 11,139        | 9,211         |
| Prepaid expenses   | -             | 41,665        |
| Deposits   | 757,106       | 757,106       |
| Debt issue costs - net of accumulated amortization<br>of \$153,310 and \$148,310 at June 30, 2003 and<br>December 31, 2002, respectively | 25,000        | 30,000        |
| Total other assets   | 862,248       | 955,073       |
|  | \$ 11,325,748 | \$ 11,554,885 |
|  | =====         | =====         |

LIABILITIES AND PARTNERS' DEFICITY

|                                  |               |               |
|----------------------------------|---------------|---------------|
| LIABILITIES                      |               |               |
| Accounts payable - related party | -             | 5,890         |
| Accounts payable                 | 8,121         | 13,828        |
| Accrued interest - related party | 913,441       | 725,257       |
| Accrued interest                 | 38,053        | 39,757        |
| Accrued expenses - related party | 7,041         | 6,420         |
| Accrued expenses                 | 62,556        | 32,768        |
| Security deposits                | 12,328        | 13,678        |
| Deferred income                  | -             | 27,416        |
| Notes payable - related party    | 4,711,950     | 4,610,950     |
| Notes payable                    | 8,697,888     | 8,794,141     |
| Total liabilities                | 14,451,378    | 14,270,105    |
| PARTNERS' DEFICIT                | (3,125,630)   | (2,715,220)   |
|                                  | \$ 11,325,748 | \$ 11,554,885 |
|                                  | =====         | =====         |

The accompanying notes are an integral part of these financial statements.

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TRIAD SENIOR LIVING V, LP  
STATEMENTS OF OPERATIONS

|  |                    |          |
|--|--------------------|----------|
|  | Three Months Ended |          |
|  | -----              | -----    |
|  | June 30,           | June 30, |
|  |                    |          |
|  | -----              | -----    |
|  | June               | Ju       |



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|                                  | 2003                  | 2002                  |                      |
|----------------------------------|-----------------------|-----------------------|----------------------|
|                                  | -----<br>(Unaudited)  | -----<br>(Unaudited)  | -----<br>(Unaudited) |
| REVENUES                         |                       |                       |                      |
| Rental income                    | \$ 422,714            | \$ 273,640            | \$                   |
| Resident and healthcare income   | 3,313                 | 1,921                 |                      |
| Total revenues                   | -----<br>426,027      | -----<br>275,561      | 84                   |
| COSTS AND EXPENSES               | 432,207               | 416,466               | 84                   |
| OPERATING PROFIT/(LOSS)          | -----<br>(6,180)      | -----<br>(140,905)    |                      |
| OTHER INCOME AND (EXPENSE)       |                       |                       |                      |
| Interest and other income        | -                     | 500                   |                      |
| Interest expense                 | (210,621)             | (211,617)             | (41                  |
| Total other income and (expense) | -----<br>(210,621)    | -----<br>(211,117)    | (41                  |
| NET LOSS                         | -----<br>\$ (216,801) | -----<br>\$ (352,022) | \$ (41               |
|                                  | =====                 | =====                 | =====                |

The accompanying notes are an integral part of these financial statements.

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TRIAD SENIOR LIVING V, LP  
STATEMENTS OF PARTNERS' DEFICIT  
Year Ended December 31, 2002 and Six Months Ended June 30, 2003  
(Unaudited)

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|  | General<br>Partner<br>----- | Limited<br>Partners<br>----- | Total<br>----- |
|--|-----------------------------|------------------------------|----------------|
| Partners' deficit at January 1, 2002   | \$ (1,460,405)              | \$ (1,000)                   | \$ (1,         |
| Capital contribution                   | -                           | 50,000                       |                |
| Net loss                               | (1,254,815)                 | (49,000)                     | (1,            |
|  | -----                       | -----                        | -----          |
| Partners' deficit at December 31, 2002 | (2,715,220)                 | -                            | (2,            |
| Net loss                               | (410,410)                   | -                            | (              |
|  | -----                       | -----                        | -----          |
| Partners' deficit at June 30, 2003     | \$ (3,125,630)              | \$ -                         | \$ (           |
|  | =====                       | =====                        | =====          |

The accompanying notes are an integral part of these financial statements.

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TRIAD SENIOR LIVING V, LP  
STATEMENTS OF CASH FLOWS

|   | Six Months En<br>June 30,<br>2003<br>-----<br>(Unaudited) |
|---|---|
| Operating activities  |   |
| Net loss  | \$ (410,410)  |
| Adjustment to reconcile net loss to net<br>cash provided by operating activities: |   |
| Amortization  | 5,000   |
| Depreciation  | 141,694   |
| Net change in operating assets and liabilities                                    |   |
| Accounts receivable   | (2,599)   |
| Inventories   | (1,928)   |

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|  |            |
|--|------------|
| Prepaid expenses                                 | 41,665     |
| Accounts payable - related party                 | (5,890)    |
| Accounts payable                                 | (5,707)    |
| Accrued interest - related party                 | 188,184    |
| Accrued interest                                 | (1,704)    |
| Accrued expenses - related party                 | 621        |
| Accrued expenses                                 | 29,788     |
| Security deposits                                | (1,350)    |
| Deferred income                                  | (27,416)   |
|  | -----      |
| Net cash used in operating activities            | (50,052)   |
|  | -----      |
| Investing activities                             |            |
| Property held for investment                     | (5,382)    |
| Deposits   | -          |
|  | -----      |
| Net cash used in investing activities            | (5,382)    |
|  | -----      |
| Financing activities                             |            |
| Proceeds from notes payable - related party      | 101,000    |
| Proceeds from notes payable                      | -          |
| Notes repayment                                  | (96,253)   |
| Debt issue costs                                 | -          |
|  | -----      |
| Net cash provided by financing activities        | 4,747      |
|  | -----      |
| Decrease in cash and cash equivalents            | (50,687)   |
| Cash and cash equivalents at beginning of period | 116,047    |
|  | -----      |
| Cash and cash equivalents at end of period       | 65,360     |
|  | =====      |
| Supplemental disclosures:                        |            |
| Cash paid during the year for:                   |            |
| Interest   | \$ 232,309 |
|  | =====      |
| Income taxes                                     | \$ -       |
|  | =====      |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living V, L.P.  
(A Texas Limited Partnership)  
NOTES TO FINANCIAL STATEMENTS

BUSINESS ACTIVITY

Triad Senior Living V, L.P., (the "Partnership") is a limited partnership organized under the laws of the State of Texas on December 1, 1999. The Partnership was formed to acquire, develop, own and operate residential

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rental properties for retirement age occupants. The Partnership will continue until December 31, 2050, unless terminated earlier under certain provisions of the partnership agreement.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

#### Basis of Accounting

The accompanying financial statements of the Partnership have been prepared on the accrual basis of accounting.

#### Allocation of Profits and Losses

Profits and losses have been allocated as provided in the Partnership agreement.

Any adjusted net income realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order of priority:

- (i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then
- (ii) Adjusted net income shall be allocated to the General and Limited Partners in the same proportion that cumulative adjusted net loss has been allocated to the General and Limited Partners for the current year and prior years until each General and Limited Partner has been allocated cumulative adjusted net income for the current and prior years equal to the cumulative adjusted net loss allocated to the General and Limited Partners for the current and prior years; and then
- (iii) All remaining adjusted net income shall be allocated among the General and Limited Partners in proportion to their respective percentage interests.

Any adjusted net loss realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order or priority:

- (i) Adjusted net loss shall be allocated to the General and Limited Partners in proportion to their respective percentage interests until each General and Limited Partner's positive capital account balance is reduced to zero.
- (ii) All remaining adjusted net loss shall be allocated to the General Partner.

Notwithstanding any other provision of the Partnership agreement, from the date that construction commences with respect to a Property (the "Subject Property") to the date 18 months following the date that the Partnership receives a Certificate of Occupancy for the Subject Property, all adjusted net loss from the Subject Property shall be allocated to Triad Partners V,

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Inc. The provisions shall be applied to each Property of the Partnership on a property by property basis.

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Triad Senior Living V, L.P.  
(A Texas Limited Partnership)  
NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Partner Liability

A Limited Partner is not personally liable or bound for the expenses, liabilities, or obligations of the Partnership beyond the amount of such Partner's capital contributions as defined in the Partnership agreement.

No Limited Partner shall be obligated to provide additional capital contributions outside the "original capital contributions" made upon admission to the Partnership or to make a loan to the Partnership.

### 2. TRANSACTIONS WITH AFFILIATED PARTIES

On December 1, 1999, the Partnership and a subsidiary of Capital Senior Living Corporation ("CSLC"), entered into a Development and Turnkey Services Agreement in connection with the development and management of the planned new Waterford Communities where the Partnership would own and finance the construction of the new communities. A subsidiary of CSLC will have an option to purchase the partnership interest of Triad V for an amount equal to the amount Triad V paid for its interest, plus non-compounded interest of 12% per annum. The property management agreements also provide CSLC's subsidiary with an option to purchase the communities developed by the Partnership upon their completion for an amount equal to the fair market value (based on a third-party appraisal but not less than hard and soft costs and lease-up costs).

CSLC has loaned the Partnership \$4,711,950 and \$4,610,950 as of June 30, 2003 and December 31, 2002, respectively.

Asset management fees of \$12,000, payable to affiliates, were incurred and expensed for each of the six months ended June 30, 2003 and 2002. Accounts payable to affiliates at June 30, 2003 and December 31, 2002 totaled \$0 and \$5,890, respectively. For the six months ended June 30, 2003 and 2002, related party interest incurred was \$188,184 and \$150,179, respectively. Accrued interest payable to a related party was \$913,441 and \$725,257 at June 30, 2003 and December 31, 2002, respectively.

### 3. COMMITMENTS AND CONTINGENCIES

#### Litigation

The Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Partnership's financial position.

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4. CSLC PURCHASE OF PARTNERSHIP INTEREST

A subsidiary of CSLC (the "purchaser"), (see note 2) has recently made the election to exercise its option to purchase the partnership interests of Triad Partners V, L.L.C. (Triad V). Triad V and the purchaser entered into a Partnership Interest Purchase Agreement ("Purchase Agreement") on March 25, 2003 whereby Triad V will sell its general and limited partnership interests for an aggregate of approximately \$84,000. On July 29, 2003, CSLC purchased the remaining general and limited partnership interests of the Partnership and wholly owns the Partnership.

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Report of Independent Certified Public Accountants

The Partners  
Triad Senior Living V, L.P.

We have audited the accompanying balance sheets of Triad Senior Living V, L.P. (A Texas Limited Partnership) as of December 31, 2002 and 2001, and the related statements of operations, partners' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Triad Senior Living V, L.P. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Lane Gorman Trubitt, L.L.P.

-----  
Lane Gorman Trubitt, L.L.P.

Dallas, Texas  
February 14, 2003

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Triad Senior Living V, L.P.  
 (A Texas Limited Partnership)  
 BALANCE SHEETS  
 December 31,

|  |       |
|--|-------|
|  | 200   |
|  | ----  |
| ASSETS   |       |
| PROPERTY HELD FOR INVESTMENT - AT COST   |       |
| Land   | \$ 1  |
| Buildings and improvements   | 9     |
| Furniture and fixtures   |       |
| Vehicles   |       |
|  | ----- |
|  | 11    |
| Accumulated depreciation   |       |
|  | ----- |
| Net property held for investment   | 10    |
|  | ----- |
| OTHER ASSETS   |       |
| Cash   |       |
| Accounts receivable  |       |
| Inventories  |       |
| Prepaid expenses   |       |
| Deposits   |       |
| Debt issue costs - net of accumulated amortization of \$148,310<br>and \$201,418 at December 31, 2002 and 2001, respectively |       |
|  | ----- |
| Total other assets   |       |
|  | ----- |
|  | \$ 11 |
|  | ===== |
| LIABILITIES AND PARTNERS' DEFICIT  |       |
| LIABILITIES  |       |
| Accounts payable - related party   | \$    |
| Accounts payable   |       |
| Accrued interest - related party   |       |
| Accrued interest   |       |
| Accrued expenses - related party   |       |
| Accrued expenses   |       |
| Security deposits  |       |
| Deferred income  |       |
| Notes payable - related party  | 4     |
| Notes payable  | 8     |
|  | ----- |

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|                   |       |
|-------------------|-------|
| Total liabilities | 14    |
|                   | ----- |
| PARTNERS' DEFICIT | (2)   |
|                   | ----- |
|                   | \$ 11 |
|                   | ===== |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living V, L.P.  
(A Texas Limited Partnership)  
STATEMENTS OF OPERATIONS  
Years Ended December 31,

|                                  |                |
|----------------------------------|----------------|
|                                  | 2002           |
|                                  | ----           |
| REVENUES                         |                |
| Rental income                    | \$ 1,203,446   |
| Resident and healthcare income   | 6,357          |
|                                  | -----          |
| Total revenues                   | 1,209,803      |
| COSTS AND EXPENSES               |                |
|                                  | 1,689,673      |
|                                  | -----          |
| OPERATING LOSS                   | (479,870)      |
| OTHER INCOME AND (EXPENSE)       |                |
| Interest and other income        | 8,606          |
| Interest expense                 | (832,551)      |
|                                  | -----          |
| Total other income and (expense) | (823,945)      |
|                                  | -----          |
| NET LOSS                         | \$ (1,303,815) |
|                                  | =====          |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living V, L.P.  
(A Texas Limited Partnership)



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STATEMENTS OF PARTNERS' DEFICIT  
Years ended December 31, 2002 and 2001

|  | General<br>Partner<br>----- | Limited<br>Partners<br>----- |
|--|-----------------------------|------------------------------|
| Partners' deficit at January 1, 2001   | \$ (359,311)                | \$ (1,000)                   |
| Net loss                               | (1,101,094)                 | -                            |
| Partners' deficit at December 31, 2001 | (1,460,405)                 | (1,000)                      |
| Capital contribution                   | -                           | 50,000                       |
| Net loss                               | (1,254,815)                 | (49,000)                     |
| Partners' deficit at December 31, 2002 | \$ (2,715,220)<br>=====     | \$ -<br>=====                |

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living V, L.P.  
(A Texas Limited Partnership)  
STATEMENTS OF CASH FLOWS  
Years Ended December 31,

|   | 2002<br>-----  |
|---|----------------|
| Cash flows from operating activities  |                |
| Net loss  | \$ (1,303,815) |
| Adjustments to reconcile net loss to net cash<br>used in operating activities |                |
| Amortization  | 56,437         |
| Depreciation  | 281,832        |
| Net change in operating assets and liabilities                                |                |
| Accounts receivable   | 234            |
| Inventories   | (3,710)        |
| Prepaid expenses  | (33,595)       |
| Accounts payable - related party  | (25,028)       |
| Accounts payable  | 7,232          |

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|   |           |
|---|-----------|
| Accrued interest - related party            | 329,602   |
| Accrued interest                            | 39,757    |
| Accrued expenses - related party            | 1,420     |
| Accrued expenses                            | 29,517    |
| Security deposits                           | (72)      |
| Deferred income                             | 25,383    |
|   | -----     |
| Net cash used in operating activities       | (594,806) |
|   | -----     |
| Cash flows from investing activities        |           |
| Property held for investment                | (26,440)  |
| Deposits                                    | (754,106) |
|   | -----     |
| Net cash used in investing activities       | (780,546) |
|   | -----     |
| Cash flows from financing activities        |           |
| Proceeds from notes payable - related party | 1,210,525 |
| Payments on notes payable - related party   | (50,000)  |
| Proceeds from notes payable                 | 361,410   |
| Notes repayment                             | (109,933) |
| Debt issue costs                            | (40,000)  |
| Capital contribution                        | 50,000    |
|   | -----     |
| Net cash provided by financing activities   | 1,422,002 |
|   | -----     |
| Net increase (decrease) in cash             | 46,650    |
|   |           |
| Cash at beginning of year                   | 69,397    |
|   | -----     |
| Cash at end of year                         | 116,047   |
|   | =====     |

The accompanying notes are an integral part of these financial statements.

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Supplemental disclosure of cash flow information

Cash paid during the period

for:

|              |    |         |
|--------------|----|---------|
| Income taxes | \$ | -       |
| Interest     | \$ | 463,192 |

Non-cash investing and financing activities:

|  |    |   |
|--|----|---|
| Sale of property held for investment via reduction in a related party note payable | \$ | - |
|--|----|---|

The accompanying notes are an integral part of these financial statements.

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Triad Senior Living V, L.P.  
(A Texas Limited Partnership)  
NOTES TO FINANCIAL STATEMENTS

BUSINESS ACTIVITY

Triad Senior Living V, L.P., (the "Partnership") is a limited partnership organized under the laws of the State of Texas on December 1, 1999. The Partnership was formed to acquire, develop, own and operate residential rental properties for retirement age occupants. The Partnership will continue until December 31, 2050, unless terminated earlier under certain provisions of the partnership agreement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Basis of Accounting

The accompanying financial statements of the Partnership have been prepared on the accrual basis of accounting.

Allocation of Profits and Losses

Profits and losses have been allocated as provided in the Partnership agreement.

Any adjusted net income realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order of priority:

- (i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then
- (ii) Adjusted net income shall be allocated to the General and Limited Partners in the same proportion that cumulative adjusted net loss has been allocated to the General and Limited Partners for the current year and prior years until each General and Limited Partner has

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been allocated cumulative adjusted net income for the current and prior years equal to the cumulative adjusted net loss allocated to the General and Limited Partners for the current and prior years; and then

- (iii) All remaining adjusted net income shall be allocated among the General and Limited Partners in proportion to their respective percentage interests.

Any adjusted net loss realized by the Partnership for such year shall be allocated among the Partners as follows and in the following order or priority:

- (i) Adjusted net loss shall be allocated to the General and Limited Partners in proportion to their respective percentage interests until each General and Limited Partner's positive capital account balance is reduced to zero.
- (ii) All remaining adjusted net loss shall be allocated to the General Partner.

Notwithstanding any other provision of the Partnership agreement, from the date that construction commences with respect to a Property (the "Subject Property") to the date 18 months following the date that the Partnership receives a Certificate of Occupancy for the Subject Property, all adjusted net loss from the Subject Property shall be allocated to Triad Partners V, Inc. The provisions shall be applied to each Property of the Partnership on a property by property basis.

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Triad Senior Living V, L.P.  
(A Texas Limited Partnership)  
NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Partner Liability

A Limited Partner is not personally liable or bound for the expenses, liabilities, or obligations of the Partnership beyond the amount of such Partner's capital contributions as defined in the Partnership agreement.

No Limited Partner shall be obligated to provide additional capital contributions outside the "original capital contributions" made upon admission to the Partnership or to make a loan to the Partnership.

#### Cash and Cash Equivalents

The Partnership considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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The Partnership maintains its cash balances in financial institutions located in Dallas, Texas and Springfield, Missouri, which at times may exceed insured limits. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

### Inventories

Inventories of food are used in operations and are stated at the lower of cost or market, with cost determined on a first-in, first-out (FIFO) basis.

### Property Held for Investment

Property held for investment is stated at cost. Major renewals and improvements are capitalized, while costs of replacements, maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense as incurred.

|                            |          |
|----------------------------|----------|
| Buildings and improvements | 40 years |
| Furniture and fixtures     | 10 years |
| Vehicles                   | 5 years  |

Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The straight-line method of depreciation is followed for substantially all assets for financial reporting purposes, but accelerated methods are used for tax purposes.

During project development, the costs of materials, services and payroll-related expenditures, including interest were capitalized. Capitalized costs of the projects are depreciated over their estimated service lives. Depreciation expense charged to operations was \$281,832 and \$164,093, for the years ended December 31, 2002 and 2001, respectively. When management determines a project will not result in probable future economic benefits, the related capitalized development costs are removed from the accounts and a loss is recognized. Interest is capitalized in connection with the construction of its projects. The capitalized interest is recorded as part of the project and is amortized over the project's estimated life.

The development of senior living communities typically involves a substantial commitment of capital over a 12-month construction period during which time no revenues are generated, following by a 12-month lease-up period. The Partnership anticipates that newly opened or expanded communities will operate at a loss during a substantial portion of the lease-up period.

At each balance sheet date, management reviews the carrying value of property held for investment to determine if facts and circumstances suggest that they may be impaired or that the amortization or depreciation period may need to be changed. Management does not believe there are any indicators that would require an adjustment to the carrying value of the property held for investment or the remaining useful lives as of December 31, 2002 and 2001.

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Triad Senior Living V, L.P.  
(A Texas Limited Partnership)

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## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue Recognition

Revenue is reported at the estimated net realizable amount from residents and third-party payors when services are provided.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Any differences between estimated and actual reimbursements are included in operations in the year of settlement.

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

#### Amortization

Debt issue costs are amortized over the term of the note payable on a straight-line basis.

#### Advertising Costs

Advertising costs, included in costs and expenses, are charged to operations as incurred and were \$16,154 and \$20,383 for the years ended December 31, 2002 and 2001, respectively.

#### Use of Estimates

In preparing the Partnership's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 2. TRANSACTIONS WITH AFFILIATED PARTIES

On December 1, 1999, the Partnership and a subsidiary of Capital Senior Living Corporation ("CSLC"), entered into a Development and Turnkey Services Agreement in connection with the development and management of the planned new Waterford Communities where the Partnership would own and finance the construction of the new communities. A subsidiary of CSLC will have an option to purchase the partnership interest of Triad V for an amount equal to the amount Triad V paid for its interest, plus non-compounded interest of 12% per annum. The property management agreements also provide CSLC's subsidiary with an option to purchase the communities developed by the Partnership upon their completion for an amount equal to the fair market value (based on a third-party appraisal but not less than hard and soft costs and lease-up costs).

During 1998, a related party agreed to loan the Partnership up to \$10,000,000. See Footnote 3.

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During 2001, two properties and the associated notes payable were transferred to an affiliated entity, Triad Senior Living IV, L.P. at a cost of \$2,632,818. No profit or loss on sale was recognized on these transactions.

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Triad Senior Living V, L.P.  
 (A Texas Limited Partnership)  
 NOTES TO FINANCIAL STATEMENTS

2. TRANSACTIONS WITH AFFILIATED PARTIES (CONTINUED)

Development fees of \$-0- and \$171,636, payable to affiliates were incurred and capitalized for the years ended December 31, 2002 and 2001, respectively. Asset management fees of \$24,000, payable to affiliates were incurred and expensed in each of the years ended December 31, 2002 and 2001. Accounts payable to affiliates at December 31, 2002 and 2001 totaled \$5,890 and \$30,918, respectively. For 2002 and 2001, related party interest incurred was \$329,602 and \$395,734, respectively. Accrued interest payable to a related party was \$725,257 and \$395,655 at December 31, 2002 and 2001, respectively.

3. NOTES PAYABLE

Under the terms of a subordinated promissory note with a related party, as amended January 1, 2001, the Partnership may borrow up to \$10,000,000 at 8.00%. This loan may be prepaid without penalty. Interest is payable quarterly after the first borrowing.

Borrowings at December 31, were as follows:

| Project Location      | Maturity          | Outstanding Balance |       |
|-----------------------|-------------------|---------------------|-------|
| -----                 | -----             | 2002                | ----- |
| Springfield, Missouri | December 30, 2008 | \$ 4,107,162        | \$    |
| Corporate             | December 30, 2008 | 503,788             |       |
|                       |                   | -----               | ----- |
|                       |                   | \$ 4,610,950        | \$    |
|                       |                   | =====               | ===== |

Under the terms of a master construction loan facility with a financial institution, dated July 28, 1999, the Partnership may borrow up to \$27,000,000 to fund the costs of construction of senior living facilities. Project loans may not exceed the lesser of (1) 75% of the initial appraised value of the project, (2) 80% of the project costs, or (3) \$10,000,000. Amounts borrowed and repaid may not be reborrowed. The commitment period is eighteen months from the closing of the project loan. Project loans have a

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term of forty-eight months. The facility has commitment, project submission, and construction administration fee requirements. Interest applicable to the borrowings is based on the LIBOR rate, plus 2.50, or at the Partnership's option, the financial institution's base rate plus .75%, and is payable monthly. During months 29 through 48, each loan is payable in monthly installments of principal and interest in amounts necessary to amortize the loan over a term of twenty-five years. As security for the debt, the financial institution has (1) first lien deeds of trust on the properties (2) assignment of leases, rents and licenses and (3) all equipment and furnishings. The facility contains various provisions and restrictive covenants. The Partnership has one project loan dated January 10, 2000, in the original amount of \$9,332,736, due on January 10, 2004 with borrowings of \$8,794,141 and \$8,542,664 at December 31, 2002 and 2001, respectively.

Maturities of notes payable are as follows for the years ending December 31, :

|            | Affiliate    | Other        | Total         |
|------------|--------------|--------------|---------------|
|            |              |              |               |
| 2003       | \$ -         | \$ 184,841   | \$ 184,841    |
| 2004       | -            | 8,609,300    | 8,609,300     |
| 2005       | -            | -            | -             |
| 2006       | -            | -            | -             |
| 2007       | -            | -            | -             |
| Thereafter | 4,610,950    | -            | 4,610,950     |
|            | \$ 4,610,950 | \$ 8,794,141 | \$ 13,405,091 |

#### 4. INCOME TAXES

No provision has been made in the financial statements for Federal income taxes because, under current law, no Federal income taxes are paid directly by the Partnership. The partners are responsible for their respective shares of the Partnership's items of income, deductions, losses and credits.

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Triad Senior Living V, L.P.  
(A Texas Limited Partnership)  
NOTES TO FINANCIAL STATEMENTS

#### 5. COMMITMENTS AND CONTINGENCIES

##### Litigation

The Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the



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Partnership's financial position.

### 6. SUBSEQUENT EVENT (UNAUDITED)

A subsidiary of CSLC (the "purchaser"), (see note 2) has recently made the election to exercise its option to purchase the partnership interests of Triad Partners V, L.L.C. (Triad V). Triad V and the purchaser entered into a Partnership Interest Purchase Agreement ("Purchase Agreement") on March 25, 2003 whereby Triad V will sell its general and limited partnership interests for an aggregate of approximately \$84,000. Upon completion of this transaction, which the Partnership expects to take place by the end of the Partnership's second fiscal quarter of 2003, the purchaser will wholly own the Partnership. The purchase agreement is subject to customary terms and conditions.

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### (b) Pro Forma Financial Information

#### INTRODUCTION TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The Pro Forma Consolidated Balance Sheet as of June 30, 2003 and the Pro Forma Consolidated Statements of Income for the six months ended June 30, 2003 and for the year ended December 31, 2002, represent the financial position and results of operations of Capital Senior Living Corporation ("Capital") for such periods after giving effect to the transactions described in the accompanying notes, relating to the purchase of the remaining partnership interest in the Triad Entities effective July 1, 2003 as if they had occurred as of June 30, 2003 for the Pro Forma Consolidated Balance Sheet, and as of January 1, 2002 for the Pro Forma Consolidated Statements of Income.

The financial data for the Triad Entities reflects the use of their unaudited balance sheets as of June 30, 2003, audited statements of income for the year ended December 31, 2002, and unaudited statements of income for the six months ended June 30, 2003.

The pro forma financial statements reflect the purchase of the remaining interest in the Triad Entities for cash consideration of \$1.3 million, a note of \$0.4 million and assumption of liabilities.

The Pro Forma Consolidated Balance Sheet and Pro Forma Consolidated Statements of Income are presented for informational purposes only and do not necessarily reflect the financial position or results of operations of Capital which would have actually resulted with the Triad Entities if the acquisition had occurred as of the dates indicated, or the future results of operations of Capital. The Pro Forma Consolidated Balance Sheet and Pro Forma Consolidated Statement of Income and the accompanying notes should be read in conjunction with the historical consolidated financial statements and notes thereto of Capital and the Triad Entities contained elsewhere in this document.

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Capital Senior Living Corporation  
 Unaudited Pro Forma Consolidated Balance Sheets  
 As of June 30, 2003

|  | Capital<br>June 30,<br>2003 | Triad<br>Entities<br>June 30,<br>2003 | Adjustments    |
|--|-----------------------------|---------------------------------------|----------------|
|  | -----                       | -----                                 | -----          |
| <b>ASSETS</b>  |                             |                                       |                |
| Current assets:  |                             |                                       |                |
| Cash and cash equivalents                                    | \$ 6,268,000                | \$ 1,613,000                          | \$ (1,490,000) |
| Restricted cash & marketable securities                      | 4,490,000                   | 7,954,000                             | -              |
| Accounts receivable, net                                     | 1,156,000                   | 10,000                                | -              |
| Accounts receivable from affiliates                          | 424,000                     | -                                     | -              |
| Deferred taxes   | 462,000                     | -                                     | -              |
| Assets held for sale   | 1,739,000                   | -                                     | -              |
| Prepaid expenses and other                                   | 4,728,000                   | 26,000                                | -              |
|  | -----                       | -----                                 | -----          |
| Total current assets   | 19,267,000                  | 9,603,000                             | (1,490,000)    |
| Property and equipment, net                                  | 144,150,000                 | 127,751,000                           | 55,889,000     |
| Deferred taxes   | 6,842,000                   | -                                     | -              |
| Due from affiliates  | 456,000                     | -                                     | (185,000)      |
| Notes receivable from affiliates                             | 92,886,000                  | -                                     | (73,203,000)   |
| Investments in limited partnerships                          | 1,712,000                   | -                                     | -              |
| Assets held for sale   | 2,392,000                   | -                                     | -              |
| Other assets   | 4,568,000                   | 1,199,000                             | -              |
|  | -----                       | -----                                 | -----          |
| Total assets   | 272,273,000                 | 138,553,000                           | (18,989,000)   |
|  | =====                       | =====                                 | =====          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                  |                             |                                       |                |
| Current liabilities:   |                             |                                       |                |
| Accounts payable   | 1,533,000                   | 410,000                               | (185,000)      |
| Accrued expenses   | 4,132,000                   | 13,563,000                            | (11,671,000)   |
| Current portion of notes payable                             | 10,408,000                  | 861,000                               | 402,000        |
| Federal and State Income Taxes Payable                       | 680,000                     | -                                     | -              |
| Customer deposits  | 939,000                     | 589,000                               | -              |
|  | -----                       | -----                                 | -----          |
| Total current liabilities                                    | 17,692,000                  | 15,423,000                            | (11,454,000)   |
| Deferred income from affiliates                              | 916,000                     | -                                     | (627,000)      |
| Deferred income  | -                           | -                                     | -              |
| Notes payable, net of current portion                        | 130,649,000                 | 170,740,000                           | (62,003,000)   |
| Line of credit   | -                           | -                                     | -              |
| Minority interest in consolidated partnerships               | 443,000                     | -                                     | -              |
| Other long-term liabilities                                  | -                           | 7,485,000                             | -              |
| Commitments and contingencies                                | -                           | -                                     | -              |
| Shareholders' equity:  |                             |                                       |                |
| Preferred stock, \$.01 par value:                            | -                           | -                                     | -              |
| Authorized share 15,000,000; no shares issued or outstanding |                             |                                       |                |

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Common stock, \$.01 par value:

|   |               |               |                 |
|---|---------------|---------------|-----------------|
| Authorized share 65,000,000; shares<br>outstanding 19,746,901 | 197,000       | -             | -               |
| Partners' deficit   | -             | (55,095,000)  | 55,095,000      |
| Additional paid-in capital                                    | 92,014,000    | -             | -               |
| Retained earnings   | 30,362,000    | -             | -               |
|   | -----         | -----         | -----           |
| Total shareholders' equity                                    | 122,573,000   | (55,095,000)  | 55,095,000      |
|   | -----         | -----         | -----           |
| Total liabilities and shareholders' equity                    | \$272,273,000 | \$138,553,000 | \$ (18,989,000) |
|   | =====         | =====         | =====           |

The accompanying notes are an integral part of these pro forma consolidated financial statements.

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Capital Senior Living Corporation  
Unaudited Pro Forma Consolidated Statements of Income  
For the Six Months Ended June 30, 2003

|  | Capital<br>June 30,<br>2003 | Triad<br>Entities<br>June 30,<br>2003 | Adjustments |       |
|--|-----------------------------|---------------------------------------|-------------|-------|
|  | -----                       | -----                                 | -----       | ----- |
| Revenues:                                      |                             |                                       |             |       |
| Resident and healthcare revenue                | \$26,517,000                | 9,702,000                             | \$ -        | \$    |
| Unaffiliated management services revenue       | 295,000                     | -                                     | -           |       |
| Affiliated management services revenue         | 1,802,000                   | -                                     | (1,433,000) | 1     |
| Affiliated development fees                    | 137,000                     | -                                     | (85,000)    | 3     |
|  | -----                       | -----                                 | -----       |       |
| Total revenues                                 | 28,751,000                  | 9,702,000                             | (1,518,000) |       |
| Expenses:                                      |                             |                                       |             |       |
| Operating expenses                             | 15,843,000                  | 7,920,000                             | (1,419,000) | 2,4   |
| General and administrative expenses            | 5,267,000                   | 2,003,000                             | -           |       |
| Depreciation and amortization                  | 2,686,000                   | 1,781,000                             | -           |       |
|  | -----                       | -----                                 | -----       |       |
| Total expenses                                 | 23,796,000                  | 11,704,000                            | (1,419,000) |       |
| Income (loss) from operations                  | 4,955,000                   | (2,002,000)                           | (99,000)    |       |
| Other income (expense)                         |                             |                                       |             |       |
| Interest expense                               | (5,170,000)                 | (5,195,000)                           | 2,468,000   | 6     |
| Interest income                                | 3,421,000                   | 54,000                                | (2,468,000) | 5     |
| Equity in the earnings of affiliates           | 73,000                      | -                                     | 77,000      | 7     |
| Gain on sale of properties                     | 3,491,000                   | 238,000                               | -           |       |
|  | -----                       | -----                                 | -----       |       |
| Income (loss) before income taxes and minority |                             |                                       |             |       |

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|   |              |                |              |
|---|--------------|----------------|--------------|
| interest in consolidated partnerships                               | 6,770,000    | (6,905,000)    | (22,000)     |
| (Provision) benefit for income taxes                                | (2,612,000)  | -              | 2,702,000 8  |
|   | -----        | -----          | -----        |
| Income (loss) before minority interest in consolidated partnerships | 4,158,000    | (6,905,000)    | 2,680,000    |
| Minority interest in consolidated partnerships                      | 110,000      | -              | -            |
|   | -----        | -----          | -----        |
| Net income (loss)   | \$ 4,268,000 | \$ (6,905,000) | \$ 2,680,000 |
|   | =====        | =====          | =====        |
| Net income (loss) per share:  |              |                |              |
| Basic   | \$ 0.22      |                |              |
| Diluted   | \$ 0.21      |                |              |
| Weighted average share - basic                                      | 19,747,000   |                |              |
| Weighted average share - diluted                                    | 19,897,000   |                |              |

The accompanying notes are an integral part of these pro forma consolidated financial statements.

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Capital Senior Living Corporation  
Unaudited Pro Forma Consolidated Statements of Income  
For the Year Ended December 31, 2003

|  | Capital<br>December 31,<br>2002 | Triad<br>Entities<br>December 31,<br>2002 | Adjustments     | Ca<br>Pr<br>Dece |
|--|---------------------------------|---|-----------------|------------------|
|  | -----                           | -----                                     | -----           | -----            |
| Revenues:                                |                                 |   |                 |                  |
| Resident and healthcare revenue          | \$ 57,574,000                   | \$ 13,032,000                             | \$ -            | \$ 7             |
| Rental and lease income                  | 37,000                          | -   | -               |                  |
| Unaffiliated management services revenue | 1,069,000                       | -   | -               |                  |
| Affiliated management services revenue   | 2,062,000                       | -   | (1,332,000) 1   |                  |
| Affiliated development fees              | 740,000                         | -   | (636,000) 3     |                  |
|  | -----                           | -----                                     | -----           | -----            |
| Total revenues                           | 61,482,000                      | 13,032,000                                | (1,968,000)     | 7                |
| Expenses:                                |                                 |   |                 |                  |
| Operating expenses                       | 32,851,000                      | 14,285,000                                | (1,306,000) 2,4 | 4                |
| General and administrative expenses      | 11,824,000                      | 3,732,000                                 | -               | 1                |
| Depreciation and amortization            | 5,846,000                       | 3,430,000                                 | -               |                  |
|  | -----                           | -----                                     | -----           | -----            |
| Total expenses                           | 50,521,000                      | 21,447,000                                | (1,306,000)     | 7                |
| Income (loss) from operations            | 10,961,000                      | (8,415,000)                               | (662,000)       |                  |

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|  |              |                 |              |       |
|--|--------------|-----------------|--------------|-------|
| Other income (expense)   |              |                 |              |       |
| Interest expense   | (10,749,000) | (10,252,000)    | 4,201,000    | 6     |
| Interest income  | 5,968,000    | 170,000         | (4,201,000)  | 5     |
| Equity in the earnings of affiliates   | 69,000       | -               | 147,000      | 7     |
| Gain on sale of properties   | 1,876,000    | (26,000)        | -            |       |
|  | -----        | -----           | -----        | ----- |
| Income (loss) before income taxes and minority interest in consolidated partnerships | 8,125,000    | (18,523,000)    | (515,000)    | (1    |
| (Provision) benefit for income taxes   | (3,015,000)  | -               | 7,425,000    | 8     |
|  | -----        | -----           | -----        | ----- |
| Income (loss) before minority interest in consolidated partnerships                  | 5,110,000    | (18,523,000)    | 6,910,000    | (     |
| Minority interest in consolidated partnerships                                       | (428,000)    | -               | -            |       |
|  | -----        | -----           | -----        | ----- |
| Net income (loss)  | \$ 4,682,000 | \$ (18,523,000) | \$ 6,910,000 | \$ (  |
|  | =====        | =====           | =====        | ===== |
| Net income (loss) per share:   |              |                 |              |       |
| Basic  | \$           | 0.24            |              | \$    |
| Diluted  | \$           | 0.24            |              | \$    |
| Weighted average share - basic   |              | 19,726,000      |              | 19    |
| Weighted average share - diluted   |              | 19,917,000      |              | 19    |

The accompanying notes are an integral part of these pro forma consolidated financial statements.

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CAPITAL AND THE TRIAD ENTITIES  
NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS  
(Unaudited)

Note 1. Basis of Presentation.

The purchase of the remaining partnership interests in the Triad Entities by Capital are being accounted for as a purchase business combination as follows:

|                                    |                   |
|------------------------------------|-------------------|
|                                    | Triad<br>Entities |
|                                    | -----             |
| Purchase price:                    |                   |
| Cash paid for partnership interest | 1,293,000         |
| Note payable                       | 402,000           |

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|                                   |             |
|-----------------------------------|-------------|
| Cash paid for acquisition costs   | 197,000     |
| Bank debt assumed                 | 109,598,000 |
| Capital debt and accrued interest | 73,674,000  |
| Other liabilities assumed         | 10,377,000  |
| Deferred income eliminated        | (627,000)   |
| Triad note reserves eliminated    | (471,000)   |

|                |             |
|----------------|-------------|
| Purchase price | 194,443,000 |
|----------------|-------------|

Assets acquired:

|                        |             |
|------------------------|-------------|
| Cash                   | 1,613,000   |
| Other assets           | 9,189,000   |
| Property and equipment | 183,641,000 |
|                        | 194,443,000 |

Note 2. Pro Forma Adjustments.

The pro forma adjustments to the consolidated balance sheet and consolidated statements of income are detailed below:

Pro Forma Balance Sheet

As of June 30, 2003

1. To record the step up in basis on the assets of the Triad Entities.

|                                    |            |            |
|------------------------------------|------------|------------|
| A. Property and equipment          | 56,987,000 |            |
| B. Partners' deficit               |            | 55,095,000 |
| C. Cash paid                       |            | 1,293,000  |
| D. Notes payable                   |            | 402,000    |
| E. Cash paid for acquisition costs |            | 197,000    |
|                                    | 56,987,000 | 56,987,000 |

2. To eliminate Capital deferred management fees, deferred interest and deferred development fees relating to the Triad Entities.

|                           |         |         |
|---------------------------|---------|---------|
| A. Deferred income        | 627,000 |         |
| B. Property and equipment |         | 627,000 |

3. To eliminate capital's note receivable reserve related to the Triad Entities.

|                           |         |         |
|---------------------------|---------|---------|
| A. Notes receivable       | 471,000 |         |
| B. Property and equipment |         | 471,000 |

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CAPITAL AND THE TRIAD ENTITIES  
NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

4. To eliminate related party payables and receivables between Capital and the Triad Entities.

|                           |         |         |
|---------------------------|---------|---------|
| A. Accounts payable       | 185,000 |         |
| B. Due to/from affiliates |         | 185,000 |

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5. To eliminate related notes and accrued interest between Capital and the Triad Entities.

|                     |            |            |
|---------------------|------------|------------|
| A. Accrued interest | 11,671,000 |            |
| B. Notes payable    | 62,003,000 |            |
| C. Notes receivable |            | 73,674,000 |

Pro Forma Statement of Income

For the Six Months Ended June 30, 2003

1. Adjustment to reflect the elimination of affiliated management services revenue between Capital and the Triad Entities.

Affiliated management services revenue 1,433,000

2. Adjustment to reflect the elimination of affiliated management services expense between Capital and the Triad Entities.

Operating expenses 1,433,000

3. Adjustment to reflect the elimination of affiliated development fees between Capital and the Triad Entities.

Affiliated development fees 85,000

4. Adjustment to reflect the elimination of affiliated deferred management services expenses between Capital and the Triad Entities.

Operating expenses 14,000

5. Adjustment to reflect the elimination of interest income between Capital and the Triad Entities.

Interest income 2,468,000

6. Adjustment to reflect the elimination of interest expense between Capital and the Triad Entities.

Interest expense 2,468,000

7. Eliminate Equity in the earnings in affiliates between Capital and the Triad Entities.

Equity in the earnings of affiliates 77,000

8. Adjustment to record the income tax benefit derived from the net losses of the Triad Entities using an effective tax rate of 39%.

Provision for income taxes 2,702,000

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CAPITAL AND THE TRIAD ENTITIES  
NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

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Pro Forma Statement of Income  
For the Year Ended December 31, 2002

1. Adjustment to reflect the elimination of affiliated management services revenue between Capital and the Triad Entities.

Affiliated management services revenue 1,332,000

2. Adjustment to reflect the elimination of affiliated management services expense between Capital and the Triad Entities.

Operating expenses 1,332,000

3. Adjustment to reflect the elimination of affiliated development fees between Capital and the Triad Entities.

Affiliated development fees 636,000

4. Adjustment to reflect the elimination of affiliated deferred management services expenses between Capital and the Triad Entities.

Operating expenses 26,000

5. Adjustment to reflect the elimination of interest income between Capital and the Triad Entities.

Interest income 4,201,000

6. Adjustment to reflect the elimination of interest expense between Capital and the Triad Entities.

Interest expense 4,201,000

7. Eliminate Equity in the earnings in affiliates between Capital and the Triad Entities.

Equity in the earnings of affiliates 147,000

8. Adjustment to record the income tax benefit derived from the net losses of the Triad Entities using an effective tax rate of 39%.

Provision for income taxes 7,425,000

PF-7

SIGNATURE

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

Date: December 5, 2003

Capital Senior Living Corporation

By: /s/ Ralph A. Beattie

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Name: Ralph A. Beattie

Title: Executive Vice President and



EXHIBIT INDEX

| Exhibit No. | Description  |
|-------------|--|
| 10.1        | Form of Partnership Interest Purchase Agreements, dated as of March 25, 2003, between Capital Senior Living Properties, Inc. and the Triad Entities, regarding the exercise of the registrant's options to purchase the partnership interests in the Triad Entities owned by non-registrant parties (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed by the registrant with the Securities and Exchange Commission on July 29, 2003) |
| 99.1        | Press Release dated July 29, 2003 (incorporated by reference to Exhibit 99.1 to the registrant's Current Report on Form 8-K, filed by the registrant with the Securities and Exchange Commission on July 29, 2003)   |