

CAPITAL SENIOR LIVING CORP

Form DEF 14A

April 03, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
SCHEDULE 14A  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (AMENDMENT NO.    )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

**CAPITAL SENIOR LIVING CORPORATION**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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**CAPITAL SENIOR LIVING CORPORATION**  
**14160 Dallas Parkway, Suite 300**  
**Dallas, Texas 75254**  
**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**To Be Held May 9, 2006**

To the Stockholders of Capital Senior Living Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the Annual Meeting ) of Capital Senior Living Corporation, a Delaware corporation (the Company ), will be held at the Bent Tree Country Club, 5201 Westgrove Drive, Dallas, Texas 75248 at 10:00 a.m. (local time), on the 9th day of May, 2006, for the following purposes:

1. To elect three (3) directors of the Company to hold office until the Annual Meeting to be held in 2009 or until their respective successors are duly qualified and elected;
2. To ratify the Audit Committee s appointment of KPMG LLP, independent accountants, as the Company s independent auditors; and
3. To transact any and all other business that may properly come before the Annual Meeting or any adjournment(s) thereof.

The Board of Directors has fixed the close of business on March 10, 2006, as the record date (the Record Date ) for the determination of stockholders entitled to notice of and to vote at such meeting or any adjournment(s) or postponement(s) thereof. Only stockholders of record at the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting. The stock transfer books will not be closed. A list of stockholders entitled to vote at the Annual Meeting will be available for examination at the offices of the Company for 10 days prior to the Annual Meeting.

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

By Order of the Board of Directors

James A. Stroud  
*Chairman of the Board and Secretary*

April 7, 2006  
Dallas, Texas

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**CAPITAL SENIOR LIVING CORPORATION**  
**14160 Dallas Parkway, Suite 300**  
**Dallas, Texas 75254**  
**PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS**  
**To Be Held May 9, 2006**

**Solicitation and Revocability of Proxies**

The accompanying proxy is solicited by the Board of Directors on behalf of Capital Senior Living Corporation, a Delaware corporation (the Company), to be voted at the 2006 Annual Meeting of Stockholders of the Company (the Annual Meeting) to be held on May 9, 2006, at the time and place and for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders (the Notice) and at any adjournment(s) or postponement(s) thereof. **When proxies in the accompanying form are properly executed and received, the shares represented thereby will be voted at the Annual Meeting in accordance with the directions noted thereon; if no direction is indicated, such shares will be voted FOR the election of directors and the ratification of the appointment of the independent auditors as set forth on the accompanying Notice.**

The executive offices of the Company are located at, and the mailing address of the Company is, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254.

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

This proxy statement (the Proxy Statement) and accompanying form of proxy are being mailed on or about April 7, 2006. The Company's Annual Report to Stockholders covering the Company's fiscal year ended December 31, 2005, mailed to the Company's stockholders on or about April 7, 2006, does not form any part of the materials for solicitation of proxies.

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

In addition to the solicitation of proxies by use of the mail, officers and regular employees of the Company may solicit the return of proxies, either by mail, telephone, telecopy, or through personal contact. Such officers and employees will not be additionally compensated but will be reimbursed for out-of-pocket expenses. The Company has retained Georgeson Shareholder Communications Inc. (Georgeson) to assist in soliciting proxies for the Annual Meeting for a fee of \$25,000. This amount includes fees payable to Georgeson, but excludes salaries and expenses of our officers, directors and employees. Brokerage houses and other custodians, nominees, and fiduciaries will, in connection with shares of common stock, par value \$0.01 per share (the Common Stock), registered in their names, be requested to forward solicitation material to the beneficial owners of such shares of Common Stock.

The cost of preparing, printing, assembling, and mailing the Annual Report, the Notice, this Proxy Statement, and the enclosed form of proxy, as well as the reasonable cost of forwarding solicitation materials to the beneficial owners of shares of the Company's Common Stock, and other costs of solicitation, are to be borne by the Company.

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Some banks, brokers and other record holders have begun the practice of "householding" proxy statements and annual reports. "Householding" is the term used to describe the practice of delivering a single set of the proxy statement and annual report to any household at which two or more stockholders share an address. This procedure would reduce the volume of duplicate information stockholders receive and would also reduce the Company's printing and mailing costs. The Company will deliver promptly, upon written or oral request, a separate copy of this Proxy Statement and the Company's annual report to a share-owner at a shared address to which a single copy of the documents was delivered. A stockholder who wishes to receive a separate copy of the proxy statement and annual report, now or in the future, should submit this request to General Counsel, David R. Brickman, at the Company's principal business office, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254 or calling (972) 770-5600. Beneficial owners sharing an address who are receiving multiple copies of proxy materials and annual reports and who wish to receive a single copy of such materials in the future will need to contact their broker, bank or other nominee to request that only a single copy of each document be mailed to all shareowners at the shared address in the future.

**Date for Receipt of Stockholder Proposals**

Stockholder proposals to be included in the proxy statement for the next Annual Meeting must be received by the Company at its principal executive offices on or before December 9, 2006 for inclusion in the Company's Proxy Statement relating to that meeting.

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

**Quorum and Voting**

The record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting was the close of business on March 10, 2006 (the "Record Date"). On the Record Date, there were 26,297,183 shares of Common Stock issued and outstanding.

Each holder of Common Stock is entitled to one vote per share on all matters to be acted upon at the Annual Meeting, and neither the Company's Amended and Restated Certificate of Incorporation nor its Amended and Restated Bylaws allow for cumulative voting rights. The presence, in person or by proxy, of the holders of a majority of the issued and outstanding shares of Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum to transact business. If a quorum is not present or represented at the Annual Meeting, the stockholders entitled to vote at the Annual Meeting, present in person or by proxy, may adjourn the Annual Meeting from time to time without notice or other announcement until a quorum is present or represented. Assuming the presence of a quorum, the affirmative vote of the holders of a majority of the shares of Common Stock voting at the Annual Meeting is required for the election of directors and the ratification of the appointment of the independent auditors.

If you hold shares in your name, and you sign and return a proxy card without giving specific voting instructions, your shares will be voted as recommended by the Board of Directors on all matters and as the proxy holders may determine in their discretion with respect to any other matters that properly come before the meeting. If you hold your shares through a broker, bank or other nominee and you do not provide instructions on how to vote, your broker or other nominee may have authority to vote your shares on certain matters. NYSE regulations prohibit brokers or other nominees that are NYSE member organizations from voting in favor of proposals relating to equity compensation plans and certain other matters unless they receive specific instructions from the beneficial owner of the shares to vote in that manner. NASD member brokers

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are also prohibited from voting on these types of proposals without specific instructions from beneficial holders. Abstentions and broker non-votes are each included in the determination of the number of shares present for determining a quorum. Each proposal is tabulated separately. Abstentions are counted in tabulations of votes cast on proposals presented to stockholders, whereas broker non-votes are not counted as voting for purposes of determining whether a proposal has received the necessary number of votes for approval of the proposal. With regard to the election of directors, votes may be cast in favor of or withheld from each nominee; votes that are withheld will be excluded entirely from the vote and will have no effect.

**Requests for Written Copies of 2005 Annual Report**

**The Company will provide, without charge, a copy of its Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission, upon the written request of any registered or beneficial owner of common stock entitled to vote at the Annual Meeting.** Requests should be made by mailing General Counsel, David R. Brickman, at the Company's principal business office, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254 or calling (972) 770-5600. The Securities and Exchange Commission also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements and other information regarding registrants including the Company.

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

The following table sets forth certain information with respect to beneficial ownership of the Common Stock as of March 10, 2006, by: (i) each person known by the Company to be the beneficial owner of more than five percent of the Common Stock; (ii) each director of the Company; (iii) each of the executive officers named in the Summary Compensation Table (the "Named Executive Officers"); and (iv) all executive officers and directors of the Company as a group. Except as otherwise indicated, the address of each person listed below is 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254.

Name of Beneficial Owner	Shares Beneficially Owned(1)(2) Number	Percent
James Stroud	4,023,159(3)	16.2%
FMR Corp.	2,688,600(4)	10.2%
Edward C. Johnson 3d	2,688,600(4)	10.2%
Mercury Real Estate Advisors LLC	2,569,700(5)	9.8%
David R. Jarvis	2,569,700(5)	9.8%
Malcomb F. MacLean IV	2,569,700(5)	9.8%
Dimensional Fund Advisors Inc.	2,252,899(6)	8.6%
Charles M. Gillman	1,935,000(7)	7.4%
Boston Avenue Capital, L.L.C.	1,935,000(7)	7.4%
Boulder Capital, L.L.C.	1,935,000(7)	7.4%
Yorktown Avenue Capital, L.L.C.	1,935,000(7)	7.4%
T. Rowe Price Associates, Inc.	1,644,800(8)	6.3%
Wasatch Advisors, Inc.	1,661,695(9)	6.3%
T. Rowe Price Small-Cap Value Fund, Inc.	1,561,500(8)	5.9%
Harvey Hanerfeld	1,544,600(10)(11)	5.9%
Roger Feldman	1,522,600(10)(12)	5.8%
Lawrence A. Cohen	741,809(13)	2.8%
Keith N. Johannessen	205,196(14)	*
David R. Brickman	97,324(15)	*
Ralph A. Beattie	68,010(16)	*
James A. Moore	38,071(17)	*
Dr. Victor W. Nee	35,271(18)	*
Craig F. Hartberg	16,500(19)	*
Jill M. Krueger	6,000(20)	*
All directors and executive officers as a group (14 persons)	5,417,049(21)	20.0%

\* Less than one percent.

(1) Pursuant to Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act"), a person has beneficial ownership of any securities as to which such person, directly or indirectly, through any contract, arrangement, undertaking, relationship or otherwise has or shares voting power and/or investment power and as to which such person has the right to acquire such voting and/or investment power within 60 days. Percentage of beneficial ownership as to any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person by the sum of the number of shares outstanding as of such date and the number of shares as to which such person has the right to acquire voting and/or investment power within 60 days.



- (2) Except for the percentages of certain parties that are based on presently exercisable options which are indicated in the following footnotes to the table, the percentages indicated are based on

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26,297,183 shares of Common Stock issued and outstanding on March 10, 2006. In the case of parties holding presently exercisable options, the percentage ownership is calculated on the assumption that the shares presently held or purchasable within the next 60 days underlying such options are outstanding.

- (3) Consists of 55,000 shares held by Mr. Stroud directly, 3,833,750 shares held indirectly over which Mr. Stroud has voting and dispositive power and 134,409 shares that Mr. Stroud may acquire upon the exercise of options immediately or within 60 days after March 10, 2006.
- (4) According to Schedule 13G, filed January 10, 2006. Fidelity Management & Research Company ( Fidelity ), 82 Devonshire Street, Boston, Massachusetts 02109, a wholly-owned subsidiary of FMR Corp., is the beneficial owner of 2,443,800 shares as a result of acting as investment adviser to various investment companies. The ownership of one investment company, Fidelity Small Cap Independence, amounted to 1,336,800 shares. Fidelity Small Cap Independence has its principal business office at 82 Devonshire Street, Boston, Massachusetts 02109. Mr. Johnson and FMR Corp., through its control of Fidelity and the funds each has sole power to dispose of the 2,443,800 shares owned by the funds. Mr. Johnson and FMR Corp., through control of Fidelity Management Trust Company, each has sole dispositive power over 133,600 shares and sole power to vote or to direct the voting of 133,600 shares owned by the institutional accounts, of which Fidelity Management Trust Company, 82 Devonshire Street, Boston, Massachusetts 02109, a wholly-owned subsidiary of FMR Corp., serves as investment manager. Fidelity International Limited ( FIL ), Pembroke Hall, 42 Crow Lane, Hamilton, Bermuda, is the beneficial owner of 111,200 shares. A partnership controlled predominantly by members of the family of Mr. Johnson owns shares of FIL voting stock with the right to cast approximately 38% of the total votes which may be cast by all holders of FIL voting stock. FMR Corp. and FIL are of the view that they are not acting as a group and that they are not otherwise required to attribute to each other the beneficial ownership of securities beneficially owned by the other corporation.
- (5) According to Schedule 13D/ A, filed December 22, 2005. The address of each of Mercury Real Estate Advisors LLC, Mr. Jarvis and Mr. MacLean is c/o Mercury Real Estate Advisors LLC ( Advisors ), 100 Field Point Road, Greenwich, Connecticut 06830. Advisors, a Delaware limited liability company, is the investment advisor to the following investment funds that directly hold shares: Mercury Special Situations Fund LP, a Delaware limited partnership; Mercury Special Situations Offshore Fund, Ltd., a British Virgin Island company; Silvercrest Real Estate Fund (International), a class of the Silvercrest Master Series Trust, a Cayman Islands unit trust; Silvercrest Real Estate Fund, a class of the Silvercrest Master Series Trust, a Cayman Islands unit trust; Mercury Real Estate Securities Fund LP, a Delaware limited partnership; Mercury Real Estate Securities Offshore Fund, Ltd., a British Virgin Island company; and Silvercreek SAV LLC, a Delaware limited liability company. Messrs. Jarvis and MacLean are the managing members of Advisors.
- (6) According to Schedule 13G/ A, filed February 6, 2006. The address of Dimensional Fund Advisors Inc. ( Dimensional ) is 1299 Ocean Avenue, 11th Floor, Santa Monica, California 90401. Consists of shares held in investment companies, trusts and accounts over which Dimensional possesses investment and/or voting power in its role as investment advisor or manager. Dimensional disclaims beneficial ownership of the shares.
- (7) According to Schedule 13D, filed May 12, 2005. The address of each of Charles M. Gillman, Boston Avenue Capital, LLC, an Oklahoma limited liability company, Boulder Capital, LLC, an Oklahoma limited liability company, and Yorktown Avenue Capital, LLC, an Oklahoma limited liability company, is 415 South Boston, 9th Floor, Tulsa, Oklahoma 74103. Mr. Gillman is the manager of all three entities.
- (8) According to Schedule 13G/ A, filed February 15, 2006. The address of T. Rowe Price Associates, Inc, is 100 E. Pratt Street, Baltimore, Maryland 21202. These securities are owned by various individual and institutional investors, including T. Rowe Price Small-Cap Value Fund, Inc. (which owns 1,561,500 shares,

representing approximately 5.9% of the shares outstanding), which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange

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Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

- (9) According to Schedule 13G, filed February 14, 2005. The address of Wasatch Advisors is 150 Social Hall Avenue, Salt Lake City, Utah 84111.
- (10) According to Schedule 13G, filed February 14, 2006. The address for each of Mr. Hanerfeld and Mr. Feldman is 1919 Pennsylvania Avenue, NW, Suite 275, Washington, DC 20006. As sole stockholders, directors and executive officers of West Creek Capital, Inc., a Delaware corporation that is the general partner of West Creek Capital, L.P., a Delaware limited partnership that is the investment adviser to (i) West Creek Partners Fund L.P., a Delaware limited partnership (the Fund ), and (ii) certain private accounts (the Accounts ), Mr. Feldman and Mr. Hanerfeld may be deemed to have the shared power to direct the voting and disposition of the 705,000 shares of Common Stock owned by the Fund and 110,600 shares of Common Stock held in the Accounts. As voting members of Cumberland Investment Partners, L.L.C., a Delaware limited liability company ( Cumberland ), Mr. Feldman and Mr. Hanerfeld may be deemed to have the shared power to direct the voting and disposition of the 679,000 shares of Common Stock owned by Cumberland.
- (11) Includes 50,000 shares beneficially owned by Mr. Hanerfeld.
- (12) Includes 28,000 shares beneficially owned by Mr. Feldman.
- (13) Consists of 454,100 shares held by Mr. Cohen directly, 65,000 shares of restricted stock, 300 shares held by family members of Mr. Cohen, and 222,409 shares that Mr. Cohen may acquire upon the exercise of options immediately or within 60 days after March 10, 2006.
- (14) Consists of 65,000 shares of restricted stock and 140,196 shares that Mr. Johannessen may acquire upon the exercise of options immediately or within 60 days after March 10, 2006.
- (15) Consists of 15,000 shares of restricted stock and 82,324 shares that Mr. Brickman may acquire upon the exercise of options immediately or within 60 days after March 10, 2006.
- (16) Consists of 25,000 shares of restricted stock, and 43,010 shares that Mr. Beattie may acquire upon the exercise of options immediately or within 60 days after March 10, 2006.
- (17) Consists of 4,800 shares held by Mr. Moore directly and 33,271 shares that Mr. Moore may acquire upon the exercise of options immediately or within 60 days after March 10, 2006.
- (18) Consists of 1,000 shares held by Dr. Nee directly, 1,000 shares held by Mimi Nee, the spouse of Dr. Nee, and 33,271 shares that Dr. Nee may acquire upon the exercise of options immediately or within 60 days after March 10, 2006.
- (19) Consists of 16,500 shares that Mr. Hartberg may acquire upon the exercise of options immediately or within 60 days after March 10, 2006.
- (20) Consists of 6,000 shares that Ms. Krueger may acquire upon exercise of options immediately or within 60 days after March 10, 2006.
- (21) Includes 850,099 shares that such officers and/or directors, collectively, may acquire upon the exercise of options immediately or within 60 days after March 10, 2006.



**Table of Contents****ELECTION OF DIRECTORS  
(PROPOSAL 1)****Nominees and Continuing Directors**

Unless otherwise directed in the enclosed proxy, it is the intention of the persons named in such proxy to vote the shares represented by such proxy for the election of the following named nominees for the office of director of the Company, each to hold office until the Annual Meeting to be held in 2009 and until his successor is duly qualified and elected or until his earlier resignation or removal. Each of the nominees is presently a director of the Company.

<b>Name</b>	<b>Age</b>	<b>Position(s) with the Company</b>	<b>Director s Term Expires</b>
<b>Nominees:</b>			
James A. Stroud	55	Chairman of the Board and Chairman and Secretary of the Company	2009
Keith N. Johannessen	49	President and Chief Operating Officer of the Company and Director	2009
Jill M. Krueger	47	Director	2009
<b>Continuing Directors:</b>			
James A. Moore	71	Director	2007
Dr. Victor W. Nee	70	Director	2007
Lawrence A. Cohen	52	Vice Chairman of the Board and Chief Executive Officer of the Company	2008
Craig F. Hartberg	69	Director	2008

*James A. Stroud* has served as a director and officer of the Company and its predecessors since January 1986. He currently serves as Chairman of the Board and Chairman and Secretary of the Company. Mr. Stroud also serves on the boards of various educational and charitable organizations and in varying capacities with several trade organizations, including as an Owner/ Operator Advisory Group member to the National Investment Conference. Mr. Stroud has served as a member of the Founder s Council and Leadership Counsel of the Assisted Living Federation of America and as a Founding Sponsor of The Johns Hopkins University Senior Housing and Care Program. Mr. Stroud was the past President and a member of the board of directors of the National Association for Senior Living Industry Executives. He was also a Founder of the Texas Assisted Living Association and served as a member of its board of directors. Mr. Stroud has earned a Masters in Law, is a licensed attorney and is also a Certified Public Accountant. Mr. Stroud has had positions with businesses involved in senior living for 21 years.

*Lawrence A. Cohen* has served as a director and Vice Chairman of the Board since November 1996. He has served as Chief Executive Officer of the Company since May 1999 and was Chief Financial Officer from November 1996 to May 1999. From 1991 to 1996, Mr. Cohen served as President and Chief Executive Officer of Paine Webber Properties Incorporated, which controlled a real estate portfolio having a cost basis of approximately \$3.0 billion, including senior living facilities of approximately \$110.0 million. Mr. Cohen serves on the boards of various charitable organizations and was a founding member and is on the executive committee of the Board of the American Seniors Housing Association. Mr. Cohen has earned a Masters in Law, is a licensed attorney and is also a Certified Public Accountant. Mr. Cohen has had positions with businesses involved in senior living for 21 years.

*Keith N. Johannessen* has served as President of the Company and its predecessors since March 1994, and previously served as Executive Vice President from May 1993 to February 1994. Mr. Johannessen has served as a director and Chief Operating Officer since May 1999. From 1992 to 1993, Mr. Johannessen served as Senior Manager in the health care practice of Ernst & Young. From 1987 to 1992, Mr. Johannessen was Executive Vice President of Oxford Retirement Services, Inc. Mr. Johannessen has served on the State of the



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Industry and Model Assisted Living Regulations Committees of the American Seniors Housing Association. Mr. Johannessen has been active in operational aspects of senior housing for 27 years.

*Craig F. Hartberg* has been a director since February 2001. Mr. Hartberg currently serves as a Small Business Advisor for the Louisiana Department of Development. Mr. Hartberg was in the banking industry for 28 years. From 1991 to 2000, Mr. Hartberg served as First Vice President, Senior Housing Finance for Bank One, Texas, N.A. From 1989 to 1991, Mr. Hartberg was the Senior Vice President, Manager Private Banking for Team Bank in Dallas, Texas. Mr. Hartberg graduated from the Southwestern Graduate School of Banking at Southern Methodist University. He earned his Masters of Business Administration at the University of Wyoming. Mr. Hartberg served as a member of the Board of Directors of the National Association of Senior Living Industry Executives and as a member of the Assisted Living Federation of America.

*James A. Moore* has been a director since October 1997. Mr. Moore is President of Moore Diversified Services, Inc., a senior living consulting firm engaged in market feasibility studies, investment advisory services, and marketing and strategic consulting in the senior living industry. Mr. Moore has over 40 years of industry experience and has conducted over 1,800 senior living consulting engagements in approximately 600 markets, in 47 states and six countries. Mr. Moore has authored numerous senior living and health care industry technical papers and trade journal articles, as well as the books *Assisting Living Pure & Simple Development and Operating Strategies* and *Assisted Living 2000*, which are required assisted living certification course materials for the American College of Health Care Administrators. Mr. Moore's latest book, *Assisted Living Strategies for Changing Markets*, was released in May 2001. Mr. Moore holds a Bachelor of Science degree in Industrial Technology from Northeastern University in Boston and an MBA in Marketing and Finance from Texas Christian University in Fort Worth, Texas.

*Dr. Victor W. Nee* has been a director since October 1997. Mr. Nee has been a Professor in the Department of Aerospace and Mechanical Engineering at the University of Notre Dame since 1965. Dr. Nee is currently Professor Emeritus at the University of Notre Dame. In addition to his professorial duties, Dr. Nee served as Director of the Advanced Technology Center at the University of Massachusetts, Dartmouth from 1993 to 1995, and as Director of the Advanced Engineering Research Laboratory at the University of Notre Dame from 1991 to 1993. Dr. Nee received a Bachelors of Science from the National Taiwan University in Civil Engineering and a Ph.D. in Fluid Mechanics from The Johns Hopkins University. Dr. Nee holds international positions as an advisor to governmental, educational and industrial organizations in China.

*Jill M. Krueger* has been a director since February 2004. Ms. Krueger has served as President and Chief Executive of Health Resources Alliance, Inc. ( HRA ), a company specializing in providing for rehabilitative and wellness services, institutional pharmacy services and products and programs designed to promote independence, health and wellness for elderly persons. Ms. Krueger also manages Senior Care Network, a St. Louis based alliance, and Alliance Continuing Care Network, a New York based alliance, both of which create and implement innovative programs and services either to enhance quality of life for seniors through wellness and prevention or create cost efficiencies. Ms. Krueger was a partner at KPMG responsible for overseeing the firm's national Long-term Care and Retirement Housing Practice. Ms. Krueger served as a public commissioner for the Continuing Care Accreditation Commission ( CCAC ) and as a member of the CCAC financial advisory board from 1987 to 2001. Ms. Krueger also served on the American Association for Homes and Services for Aged ( AAHSA ) House of Delegates, the AAHSA Managed Care Committee, and has been a member of the Alexian Brothers Health Systems Strategic Planning Committee since 1996. Ms. Krueger has served on the Board of Directors and the Finance/ Audit Committee for The Children Place, an organization dedicated to assisting children that are HIV or drug affected. Ms. Krueger has served on the Board of Directors and is the Chairperson for the Audit Committee for Franciscan Sisters Communities of Chicago since 2003.

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



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vote the shares represented in such proxy for the election of such other person or persons as may be nominated or designated by the Board of Directors.

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

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

**BOARD OF DIRECTORS AND COMMITTEES**

**General**

The Company's Board of Directors currently consists of seven directors. The Board of Directors has determined that Craig F. Hartberg, James A. Moore, Dr. Victor W. Nee and Jill M. Krueger are independent within the meaning of the corporate governance rules of the NYSE. The Company has adopted a Director Independence Policy, described below under the heading Director Independence Policy. The Board of Directors determined that Ms. Krueger, Messrs. Hartberg and Moore and Dr. Nee are independent in accordance with this Policy.

The Board of Directors held ten meetings during 2005. No director attended fewer than 75% of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings held by all committees of the Board on which such director served. Under the Company's Corporate Governance Guidelines, each director is expected to attend meetings of the Board of Directors, the annual shareholders meeting and meetings of the committees of the Board on which they serve. All directors then serving on the Board attended the Company's 2005 Annual Meeting of Stockholders. At the start of each regularly scheduled executive session of the non-management directors, a presiding director is selected by a majority vote of the non-management directors.

**Director Independence Policy**

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

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

a director who is, or has been within the last three years, an employee of the Company, or whose immediate family member is, or has been within the last three years, an executive officer, of the Company is not independent ;

a director who received, or whose immediate family member received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent ;

a director (a) who is or whose immediate family member is a current partner of a firm that is the Company's internal or external auditor, (b) who is a current employee of such a firm, (c) whose immediate family member is a current employee of such a firm and participates in the firm's audit, assurance or tax compliance (but not tax planning) practice, or (d) who is or whose immediate family

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member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time, is not independent ;

a director who is, or whose immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that other company's compensation committee is not independent ;

a director who is a current employee, or whose immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues, is not independent ;

a director who serves as an executive officer, or whose immediate family member serves as an executive officer, of a tax exempt organization that, within the preceding three years received contributions from the Company, in any single fiscal year, of an amount equal to the greater of \$1 million or 2% of such organization's consolidated gross revenue, is not independent ; and

a director who has a beneficial ownership interest of 10% or more in a company which has received remuneration from the Company in any single fiscal year in an amount equal to the greater of \$1 million or 2% of such Company's consolidated gross revenue is not independent until three years after falling below such threshold. In addition, members of the Audit Committee may not accept any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries or affiliates other than directors' compensation.

The term Company means Capital Senior Living Corporation and any direct or indirect subsidiary of Capital Senior Living Corporation which is part of the consolidated group. An immediate family member includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than domestic employees) who shares such person's home.

**Committees**

Committees of the Board of Directors include the Audit Committee, the Nominating Committee and the Compensation Committee.

***Audit Committee***

The Audit Committee consists of Messrs. Hartberg and Moore and Ms. Krueger, each of whom is independent, as defined by the listing standards of the NYSE in effect as of the date of this Proxy Statement. The Board of Directors has determined that Ms. Krueger qualifies as an audit committee financial expert within the meaning of Securities and Exchange Commission regulations. The Board of Directors adopted in 2004 an amended and restated Audit Committee Charter which is available on the Company's website at <http://www.capitalsenior.com> in the Investor Relations section, is included as Appendix A to this Proxy Statement and is available in print to any shareholder who requests it. Pursuant to this Charter, the Audit Committee serves as an independent party to oversee the Company's financial reporting process and internal control system, to appoint, replace, provide for compensation of and to oversee the Company's independent accountants and provide an open avenue of communication among the independent accountants and the Company's senior management and the Board of Directors. The Audit Committee held seven meetings during 2005.

***Nominating Committee***

The Nominating Committee consists of Messrs. Hartberg and Moore and Dr. Nee, each of whom is independent, as defined by the listing standards of the NYSE in effect as of the date of this Proxy Statement. The Nominating Committee identifies individuals qualified to become Board members and recommends Board nominees to the Board of Directors. The Nominating Committee also oversees the evaluation of the

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Board of Directors and management and develops and recommends for Board of Directors approval the Company's Code of Business Conduct and Ethics and Corporate Governance Guidelines. The amended and restated Nominating Committee Charter and the Company's Code of Business Conduct and Ethics and Corporate Governance Guidelines are available on the Company's website at <http://www.capitalsenior.com> in the Investor Relations section and are available in print to any shareholder who requests it. The Nominating Committee held one meeting during 2005.

### ***Compensation Committee***

The Compensation Committee consists of Messrs. Hartberg and Moore and Dr. Nee. The Compensation Committee held six meetings during 2005 and is responsible for approval of the compensation and objectives and goals of the Chief Executive Officer of the Company and for making recommendations to the Board of Directors concerning the Company's executive compensation policies for other senior officers and administering the 1997 Omnibus Stock and Incentive Plan. The Compensation Committee Charter is available on the Company's website at <http://www.capitalsenior.com> in the Investor Relations section and is available in print to any shareholder who requests it.

### **Director Nominations**

The Nominating Committee of the Board of Directors is responsible under its charter for identifying and recommending qualified candidates for election to the Board of Directors. In addition, shareholders who wish to recommend a candidate for election to the Board of Directors may submit the recommendation to the chairman of the Nominating Committee, in care of the General Counsel of the Company. Any recommendation must include name, contact information, background, experience and other pertinent information on the proposed candidate and must be received in writing by December 9, 2006 for consideration by the Nominating Committee for the 2007 Annual Meeting of Stockholders.

Although the Nominating Committee is willing to consider candidates recommended by shareholders, it has not adopted a formal policy with regard to the consideration of any director candidates recommended by shareholders. The Nominating Committee believes that a formal policy is not necessary or appropriate because of the small size of the Board of Directors and because the Company's current Board of Directors already has a diversity of business background, shareholder representation and industry experience.

The Nominating Committee does not have specific minimum qualifications that must be met by a candidate for election to the Board of Directors in order to be considered for nomination by the Committee. In identifying and evaluating nominees for director, the Committee considers each candidate's qualities, experience, background and skills, as well as any other factors which the candidate may be able to bring to the Board that the Board currently does not possess. The process is the same whether the candidate is recommended by a shareholder, another director, management or otherwise. The Company does not pay a fee to any third party for the identification of candidates, but the Company has paid a fee in the past to a third party for a background check for a candidate.

With respect to this year's nominees for director, each of Mr. Stroud, Mr. Johannessen and Ms. Krueger is a current director standing for re-election.

### **Website**

The Company's internet website [www.capitalsenior.com](http://www.capitalsenior.com) contains an Investor Relations section, which provides links to the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Section 16 filings, amendments to those reports and filings, code of business conduct and ethics, corporate governance guidelines, director independence policy and charters of the committees of the Board of Directors. These documents are available in print free of charge to any stockholder who requests it as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. The materials on the website are not incorporated by reference into this Proxy Statement and do not form any part of the materials for solicitation of proxies.

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Correspondence may be sent to the directors, including the non-management directors individually (each of whom may be selected to serve as a presiding director at regularly scheduled executive sessions of the non-management directors) or as a group, in care of James A. Stroud, Chairman, with a copy to the General Counsel, David R. Brickman, at the Company's principal business office, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254.

All communication received as set forth above will be opened by the Chairman and General Counsel for the sole purpose of determining whether the contents represent a message to the Company's directors. Appropriate communications other than advertising, promotions of a product or service, or patently offensive material will be forwarded promptly to the addressee.

**Director Compensation**

Directors who are employees of the Company do not receive additional compensation for serving as directors of the Company. Non-employee directors are entitled to an annual retainer of \$15,000 payable, in arrears, on the date of each Annual Meeting. Non-employee directors are also entitled to a fee of \$1,000 for each Board meeting attended by such director, and \$1,000 for each committee meeting attended by such director. All directors are entitled to reimbursement for their actual out-of-pocket expenses incurred in connection with attending meetings. In addition, non-employee directors receive options to purchase shares of Common Stock or shares of restricted stock in accordance with the provisions of the 1997 Omnibus Stock and Incentive Plan.

**Executive Compensation**

The following table sets forth certain summary information concerning the compensation paid to any person who served as the Company's Chief Executive Officer and each of the other four most highly compensated executive officers whose salary exceeded \$100,000 for services rendered in all capacities to the Company for the fiscal years ended December 31, 2005, 2004 and 2003, respectively. All of the executive officers named below are referred to herein as the Named Executive Officers.

**Summary Compensation Table**

Name and Principal Positions	Year	Annual Compensation(1)			Long-Term Compensation	
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(2)	Restricted Stock Awards (\$)	Securities Underlying Options/SARs
Lawrence A. Cohen Chief Executive Officer and Vice Chairman of the Board	2005	381,423	228,366	6,000	454,350	
	2004	366,753	317,619	6,000		
	2003	352,647	254,262	6,000		
James A. Stroud Chairman and Secretary of the Company and Chairman of the Board	2005	317,852	126,851	10,836		
	2004	305,627	216,114	10,035		
	2003	293,872	197,756	8,151		
Keith N. Johannessen President and Chief Operating Officer	2005	243,360	116,468	7,000	454,350	
	2004	234,000	167,123	6,500		
	2003	225,000	151,516	6,000		
Ralph A. Beattie	2005	227,207	103,276	6,537	174,750	
	2004	218,468	159,104	7,481		

Executive Vice President and Chief Financial Officer	2003	210,066	138,835	6,000		
David R. Brickman	2005	180,988	40,000	3,511	104,850	
Vice President General	2004	174,446	45,000	3,255		
Counsel	2003	168,547	30,000	3,018		41,120

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- (1) Annual compensation does not include the cost to the Company of benefits that certain executive officers receive in addition to salary and cash bonuses. The aggregate amounts of such personal benefits, however, did not exceed the lesser of either \$50,000 or 10% of the total annual compensation of such executive officer.
- (2) Other annual compensation includes Employer 401(k) match and auto allowance.
- (3) Represents the value of shares of restricted stock issued pursuant to the Company's 1997 Stock Incentive Plan on July 1, 2005. The shares vest ratably over a three and one half year period, although the vesting schedule will be accelerated in the event of a change in control of the Company. Persons holding shares of restricted stock are entitled to receive any dividends declared prior to the date of vesting. The shares of restricted stock issued to the named executive officers were 65,000 to each of Mr. Cohen and Mr. Johannessen, 25,000 to Mr. Beattie and 15,000 to Mr. Brickman. The closing price of the Company's common stock on the date of grant was \$7.00. The value of these restricted stock awards, based upon the closing price of the Company's common stock of \$10.34 at December 30, 2005, was \$672,100 for Mr. Cohen and Mr. Johannessen, \$258,500 for Mr. Beattie and \$155,100 for Mr. Brickman. These shares of restricted stock represent the aggregate number of shares of restricted stock held by the named executive officers as of December 31, 2005.

**Aggregated Stock Option/ SAR Exercises During 2005 and Stock  
Option/ SAR Values as of December 31, 2005**

The following table provides information regarding the exercise of stock options during 2005 by the Named Executive Officers and describes for each of the Named Executive Officers the potential realizable values for their options at December 31, 2005:

**Aggregated Option/ SAR Exercises in Last Fiscal Year and  
Option/ SAR Values at December 31, 2005**

Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year End (#)	Value of Unexercised In-the-Money Options/SARs at Fiscal Year End(1)
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