



2019 ANNUAL REPORT

To Our Shareholders:

2019 was a year of progress and transformation for Capital Senior Living, even in a challenging industry environment. In early 2019, we began instituting a new 3-year strategic plan and subsequent actions summarized under four key strategies: STABILIZE, INVEST, NURTURE and GROW, or “SING.” These transformational efforts have extended into 2020, with significant progress made to eliminate long-term lease and debt obligations, providing a foundation for long-term success.

The Year in Review

During 2019, we put in place the operational discipline necessary to improve the business for the long-term. Specifically, we improved the quality of our products and services, upgraded our management talent, improved our data and systems, and enhanced the efficiency and effectiveness of our operational processes. In addition, we strengthened the Company’s financial foundation through the sale of non-core communities. With new supply continuing to outpace demand for the industry, occupancy for the full year of 2019 declined 270 basis points when compared with 2018. Revenue decreased \$12.9 million, or 2.8%, from 2018, to \$447.1 million, for the year ended December 31, 2019. For the full year of 2019, the Company reported Adjusted EBITDAR of \$121.4 million and Adjusted CFFO of \$8.1 million.

Operational Turnaround Plan

The initial step in the operational turnaround involved changes in leadership. In January of 2019, the Board of Directors appointed me as Chief Executive Officer to lead the Company’s turnaround efforts. In February of 2019, Mike Fryar was hired as Chief Revenue Officer to redesign and implement new sales and marketing initiatives to improve occupancy and revenue. Brandon Ribar, a highly experienced operating executive with 15 years of experience in the senior living and long-term care industries, joined the Company in September of 2019 as Chief Operating Officer.

The turnaround plan began with a heavy focus on stabilizing our operations and providing a platform for increased cash flow generation. Initial steps included making all assets “rent ready,” reorganizing the sales management function, optimizing the field support structure, establishing contemporary marketing capabilities, expanding a centralized purchasing platform, establishing community-centered labor utilization targets and aligning incentive compensation programs to overall operating targets for the Company.

Our efforts also included further development of flexible staffing models consistent with the service and care needs of our residents, as well as utilization of technology platforms to avoid costly overtime and third-party agency labor. We continue to evolve our procurement platform to improve the cost of our major expense categories, including food and supplies, while delivering more consistent product quality to our communities and residents.

We continue to focus all of our communities on maintaining simple, key operating processes and procedures emphasizing the customer experience, growing revenue by improving lead response times and utilizing best practice sales tactics while appropriately managing expenses to deliver improved operating metrics.

These initiatives began to result in improved operating results in the fourth quarter of 2019, including the stabilization of revenue as compared to the third quarter of 2019 and sequential Net Operating Income (“NOI”) improvement of \$2.7 million in the first quarter of 2020 as compared to the fourth quarter of 2019.

Balance Sheet / Liquidity

A pivotal aspect of the three-year turnaround plan includes addressing the balance sheet and improving the Company’s liquidity to provide additional financial flexibility. In December 2018, the Company began an aggressive focus on refinancing debt, selling non-core assets, terminating underperforming leases, right-sizing its portfolio and reducing debt. Refinancing actions and asset sales have provided approximately \$50 million of additional liquidity since late 2018.

After numerous months of negotiations, the Company successfully restructured its lease agreements with all three landlords in October 2019 and March 2020. Together, these agreements will provide annual rent relief of approximately \$65 million when fully exited, with annual cash flow improvement of approximately \$22 million per year. Very importantly, the agreements allow the Company to exit from all leases by the end of 2020. In total, the Company will eliminate approximately \$253 million of future rent obligations that would have extended through September 2026.

In August 2020, we initiated the process to transfer operations and ownership of 18 communities that are either underperforming or in underperforming pools to Fannie Mae, which will reduce the Company's overall debt by \$216.3 million and improve cash flow annually by approximately \$10 million.

COVID-19

After seeing notable progress related to our SING strategy in 2019 and early 2020, the COVID-19 pandemic temporarily delayed the execution of certain aspects of the operational turnaround as our attention turned to ensuring the health and wellness of our residents and employees.

Since the onset of COVID-19, we have responded thoughtfully and aggressively to the unprecedented challenges raised by the pandemic. Given our business model, industry and target market of older seniors, we have relentlessly focused on the safety and wellbeing of our residents, employees and caregivers, including restricting or limiting access to communities as deemed appropriate or based on governmental orders. These efforts have resulted in lessening the number of positive COVID-19 cases across our portfolio but have also resulted in declines in the occupancy levels at our communities. In addition, the Company has incurred significant additional operating costs and expenses in order to implement enhanced infection control protocols and otherwise care for its residents. To offset these new expenses, the Company has reduced spending on non-essential supplies, travel costs, and other discretionary items. The Company has received relief dollars from certain state relief programs and expects to receive relief funds under a federal CARES program in the near term.

Conclusion

The Company's leadership team is committed to undertaking aggressive actions to restore operational and financial credibility, with a focus on improving net cash flow. We expect tough industry conditions, exacerbated by the COVID-19 pandemic, to continue for the next 12 to 18 months; however, we are confident that we will achieve continued progress on our SING strategy during this period which will ultimately position Capital Senior Living for accelerated growth in the years ahead. The unrelenting dedication of our valued and talented employees to our residents has never been more evident than in the current COVID-19 environment. Their commitment to providing outstanding care to our residents provides me with tremendous assurance about the future prospects for our Company and our ability to create long-term value for all our shareholders and other stakeholders. We thank our shareholders for their support as we work toward implementing change and affecting positive outcomes.

We look forward to keeping you apprised of our developments and sharing relevant successes with you as our operations continue to improve and SING.

Respectfully,



Kimberly S. Lody
President and Chief Executive Officer

Note: A Non-GAAP reconciliation is provided on Attachment A.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2019

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from

to

Commission file number: 1-13445



Capital Senior Living Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-2678809
(I.R.S. Employer
Identification No.)

14160 Dallas Parkway, Suite 300
Dallas, Texas
(Address of principal executive offices)

75254
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.01 par value per share	CSU	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes No

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the 25,257,764 shares of the Registrant's common stock, par value \$0.01 per share ("Common Stock"), held by non-affiliates (defined to exclude all of the Registrant's executive officers, directors, and certain significant stockholders) on June 28, 2019, the last day of the Registrant's most recently completed second quarter, based upon the adjusted closing price of the Registrant's Common Stock as reported by the New York Stock Exchange on such date was approximately \$127.0 million. As of March 25, 2020, the Registrant had 31,956,439 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement pertaining to its 2020 Annual Meeting of Stockholders and filed or to be filed not later than 120 days after the end of the fiscal year pursuant to Regulation 14A are incorporated herein by reference into Part III of this report.

CAPITAL SENIOR LIVING CORPORATION

TABLE OF CONTENTS

	<u>Page Number</u>
PART I	
Item 1. Business	2
Item 1A. Risk Factors	19
Item 1B. Unresolved Staff Comments	29
Item 2. Properties	29
Item 3. Legal Proceedings	29
Item 4. Mine Safety Disclosures	29
PART II	
Item 5. Market for Registrant’s Common Equity; Related Stockholder Matters and Issuer Purchases of Equity Securities	30
Item 6. Selected Financial Data	31
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	31
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	46
Item 8. Financial Statements and Supplementary Data	46
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	47
Item 9A. Controls and Procedures	47
Item 9B. Other Information	47
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	48
Item 11. Executive Compensation	48
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stock- holder Matters	48
Item 13. Certain Relationships and Related Transactions, and Director Independence	48
Item 14. Principal Accounting Fees and Services	48
PART IV	
Item 15. Exhibits, Financial Statement Schedules	48
Signatures	52
Index to Financial Statements	F-1

PART I

ITEM 1. BUSINESS.

Overview

Capital Senior Living Corporation, a Delaware corporation (together with its subsidiaries, the “Company”), is one of the largest operators of senior housing communities in the United States in terms of resident capacity. The Company and its predecessors have provided senior housing since 1990. As of December 31, 2019, the Company operated 126 senior housing communities in 23 states with an aggregate capacity of approximately 16,000 residents, including 80 senior housing communities that the Company owned and 46 senior housing communities that the Company leased. During 2019, approximately 94.1% of total revenues for the senior housing communities operated by the Company were derived from private pay sources.

The Company’s operating strategy is to provide value to its senior living residents by providing quality senior living services at reasonable prices, while achieving and sustaining a strong, competitive position within its geographically concentrated regions, as well as continuing to enhance the performance of its operations. The Company provides senior living services to the 75+ population, including independent living, assisted living, and memory care services. Many of the Company’s communities offer a continuum of care to meet its residents’ needs as they change over time by integrating independent living, assisted living, and memory care, and is bridged by home care through independent home care agencies, sustaining residents’ autonomy and independence based on their physical and neuro-cognitive abilities.

Recent Developments

After leadership changes in early 2019, we supplemented our operating strategy with initiatives intended to complement and enhance our core operational efforts and position us for future growth and success in light of recent trends in demographics, technology, and healthcare delivery methods.

A key component of our turnaround plan has been the optimization of our portfolio of our senior housing communities, which includes disposing of certain owned and leased communities and restructuring our lease agreements with our three largest landlords. We undertook this initiative to simplify and streamline our business, increase the quality and durability of our cash flows, improve our liquidity, reduce our short and long-term debt and lease leverage, and increase our ownership in our consolidated community portfolio. Recent activities in furtherance of this component of our turnaround plan included:

- On March 15, 2020, we entered into an agreement with Welltower, Inc. (“Welltower”), providing for the early termination of three Master Lease Agreements between us and Welltower covering 24 communities. Pursuant to such agreement, among other things, from February 1, 2020 through December 31, 2020, we agreed to pay Welltower rent of approximately \$2.2 million per month for such communities as compared to approximately \$2.8 million per month that would otherwise have been due and payable under the Master Lease Agreements. We will not be required to comply with certain financial covenants of the Master Lease Agreements during the forbearance period. In conjunction with the agreement, we agreed to release \$6.5 million in security deposits held by Welltower. In addition, our agreement with Welltower provides for the conversion of the lease agreements covering the communities into property management agreements with the Company on December 31, 2020, if such communities have not been transitioned to a successor operator.
- On March 10, 2020, we entered into an agreement with Ventas, Inc. (“Ventas”), providing for the early termination of a Master Lease Agreement between us and Ventas covering seven communities. Pursuant to such agreement, among other things, from February 1, 2020 through December 31, 2020, we agreed to pay Ventas rent of approximately \$1.0 million per month for such communities as compared to approximately \$1.3 million per month that would otherwise have been due and payable under the Master Lease Agreements. We will not be required to comply with certain financial covenants of the Master Lease Agreements during the forbearance period. In conjunction with the agreement, we agreed to release \$3.9 million in security deposits held by Ventas. In addition, our agreement with Ventas provides for the conversion of the lease

agreements covering the communities into property management agreements with the Company on December 31, 2020 if Ventas has not transitioned such communities to a successor operator.

- On October 22, 2019, we executed an amendment to our master lease agreement with Healthpeak Properties, Inc., formerly HCP, Inc. (“Healthpeak”), which was later amended, to transition one of the Healthpeak communities to a new operator on or around January 15, 2020 and to sell the remaining eight communities as soon as possible to one or more buyers. We were obligated to pay a \$250,000 termination fee on the transition of the one community to the new buyer. On March 1, 2020, we executed an agreement providing for the early termination of our master lease agreement with Healthpeak, previously scheduled to mature in April 2026. The master lease agreement was converted to a management agreement under a REIT Investment Diversification Act (“RIDEA”) structure pursuant to which we agreed to manage the six communities that were subject to such lease agreement until such communities are sold by Healthpeak. In conjunction with the agreement, we agreed to release approximately \$1.9 million of security deposits held by Healthpeak.
- Effective October 1, 2019, we sold two communities located in Springfield, Missouri and Peoria, Illinois that were operating at peak performance, which resulted in net proceeds to us of approximately \$14.8 million and the retirement of outstanding mortgage debt of \$44.4 million.
- Effective May 1, 2019, we opportunistically disposed of one senior housing community located in Kokomo, Indiana, which resulted in net proceeds to us of approximately \$1.4 million and the retirement of outstanding mortgage debt of \$3.5 million.

During fiscal 2020, we intend to continue to increase our ownership percentage in our senior housing portfolio by exiting underperforming leases when possible, and opportunistically selling certain communities in order to further strengthen our balance sheet and allow us to strategically invest in certain existing communities.

Website

The Company’s Internet website, www.capitalseior.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 and any amendments to those reports and filings. These reports and filings are available through the Company’s Internet website free of charge as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (“SEC”).

Industry Background

The senior living industry encompasses a broad and diverse range of living accommodations and supportive services that are provided primarily to persons 75 years of age or older.

For seniors who require limited services, independent living residences supplemented at times by home health care, offers a viable option. Most independent living communities typically offer community living packaged with basic services consisting of meals, housekeeping, laundry, 24-hour staffing, transportation, social and recreational activities and health care monitoring. Independent living residents typically are not reliant on assistance with activities of daily living (“ADLs”), although some residents may utilize outside vendors for those services.

As a senior’s need for assistance increases, care in an assisted living residence is often preferable and more cost-effective than home-based care or nursing home care. Typically, assisted living represents a combination of housing and support services designed to aid residents with ADLs such as ambulation, bathing, dressing, eating, grooming, personal hygiene and monitoring or assistance with medications. Certain assisted living residences may also provide assistance to residents with low acuity medical needs. Others may offer higher levels of personal assistance for residents with chronic diseases and conditions or memory care services for residents with Alzheimer’s disease or other cognitive frailties. Generally, assisted living residents require higher levels of care than residents of independent living residences and retirement living centers, but require lower levels of care than patients in skilled nursing facilities. For seniors who need the constant attention of a skilled nurse or medical practitioner, a skilled nursing facility may be required.

According to the American Seniors Housing Association, Seniors Housing Construction Monitor – Winter 2020 Report, as of the fourth quarter of fiscal 2019, 22.3% of the age-restricted seniors housing supply in the United States were assisted living units, 22.5% were independent living units, 47.8% were nursing care units, and 7.6% were memory care units.

The senior living industry is highly fragmented and characterized by numerous small operators. Moreover, the scope of senior living services varies substantially from one operator to another. Many smaller senior living providers do not operate purpose-built residences, do not have extensive professional training for staff and provide only limited assistance with ADLs. The Company believes that, as one of the nation’s largest operators, it has scale and resources to provide the required comprehensive range of senior living services designed to permit residents to “age in place” within the community as residents develop further physical or cognitive frailties, whereas smaller providers do not.

The Company believes that a number of demographic, regulatory and other trends will contribute to the continued growth in the senior living market, including the following:

Consumer Preference

The Company believes that senior housing communities are increasingly becoming the setting preferred by prospective residents and their families for the care of the 75+ population. Senior living offers residents greater independence and allows them to “age in place” in a residential setting, which the Company believes results in a higher quality of life than that experienced in more institutional or clinical settings.

The likelihood of living alone increases with age. Most of this increase is due to an aging population in which women outlive men. Societal changes, such as high divorce rates and the growing numbers of persons choosing not to marry, have further increased the number of Americans living alone. This growth in the number of seniors living alone has resulted in an increased demand for services that historically have been provided by a spouse, other family members or live-in caregivers.

Demographics

The primary market for the Company’s senior living services is comprised of persons aged 75 and older. Due primarily to advancements in healthcare and an increased life expectancy, this age group is one of the fastest growing segments of the United States population. The older population itself is increasingly older. In 2011, the 75-84 age group in the United States (12.8 million persons) was 16 times larger than in 1900 and the 85 and over age group in the United States (5.7 million persons) was 40 times larger. The 85 and over population in the United States is projected to more than double from 5.7 million persons in 2011 to 14.1 million persons in 2040. As the number of persons aged 75 and older continues to grow, the Company believes that there will be corresponding increases in the number of persons who need assistance with ADLs.

Senior Affluence

The average net worth of senior citizens is typically higher than non-senior citizens, partially as a result of accumulated equity through home ownership. The Company believes that a substantial portion of the senior population has historically accumulated significant resources available for their retirement and long-term care needs. The Company’s target population is comprised of moderate to upper income seniors who have, either directly or indirectly through familial support, the financial resources to pay for senior housing communities, including an assisted living alternative to traditional long-term care.

Reduced Reliance on Family Care

Historically, the family has been the primary provider of care for seniors. The Company believes that the increase in the percentage of women in the work force, the reduction of average family size, and overall increased mobility in society is reducing the role of the family as the traditional caregiver for aging parents. The Company believes that these factors will make it necessary for many seniors to look outside the family for assistance as they age.

Restricted Supply of Nursing Beds

Several states in the United States have adopted Certificate of Need (“CON”) or similar statutes generally requiring that, prior to the addition of new skilled nursing beds, the addition of new services, or the making of certain capital expenditures, a state agency must determine that a need exists for the new beds or the proposed activities. The Company believes that this CON process tends to restrict the supply and availability of licensed nursing facility beds. High construction costs, limitations on government reimbursement, and start-up expenses also act to constrain growth in the supply of such facilities. At the same time, nursing facility operators are continuing to focus on improving occupancy and expanding services to sub-acute patients generally of a younger age and requiring significantly higher levels of nursing care. As a result, the Company believes that there has been a decrease in the number of skilled nursing beds available to patients with lower acuity levels and that this trend should increase the demand for the Company’s senior housing communities, including, particularly, the Company’s assisted living communities.

Cost-Containment Pressures

In response to rapidly rising health care costs, governmental and private pay sources have adopted cost containment measures that have reduced admissions and encouraged reduced lengths of stays in hospitals and other acute care settings. Private insurers have begun to limit reimbursement for medical services in general to predetermined charges, and managed care organizations (such as health maintenance organizations) are attempting to limit hospitalization costs by negotiating for discounted rates for hospital and acute care services and by monitoring and reducing hospital use. In response, hospitals are discharging patients earlier and referring aging patients, who may be too sick or frail to manage their lives without assistance, to nursing homes and assisted living residences where the cost of providing care is typically lower than hospital care. In addition, third-party payors are increasingly becoming involved in determining the appropriate health care settings for their insureds or clients, based primarily on cost and quality of care. Based on industry data, the typical day-rate in an assisted living facility is one-fourth of the cost for comparable care in a nursing home and two-thirds of the cost of living at home with a third-party home health care provider.

Senior Living Services

The Company provides senior living services to the residents aged 75 and greater, including independent living, assisted living, and memory care services. By offering a variety of services and encouraging the active participation of the resident and the resident’s family and medical professionals, the Company is able to customize its service plan to meet the specific needs and desires of each resident. As a result, the Company believes that it is able to maximize customer satisfaction and avoid the cost of delivering unnecessary services to residents.

The Company’s operating philosophy is to provide quality senior housing communities and services to senior citizens and deliver a continuum of care for its residents as their needs change over time coordinated with third party post-acute care providers. This continuum of care, which integrates independent living, assisted living, and memory care services and is bridged by home care, sustains residents’ autonomy and independence based on their physical and mental abilities. As residents age, in many of the Company’s communities, they are able to obtain the additional services they need within the same community, avoiding the disruptive and often traumatic move to a different facility.

Independent Living Services

The Company provides independent living services to seniors who typically do not yet need assistance or support with ADLs, but who prefer the physical and psychological comfort of a residential community that offers health care and other services. As of December 31, 2019, the Company owned 37 communities and leased 15 communities that provide independent living services, which include communities that combine assisted living and other services, with an aggregate capacity for approximately 6,500 residents.

Independent living services provided by the Company include daily meals, transportation, social and recreational activities, laundry, housekeeping and 24-hour staffing. The Company also fosters the wellness of its residents by offering access to health screenings (such as blood pressure checks), periodic special services (such as

influenza inoculations), dietary and similar programs, as well as ongoing exercise and fitness classes. Classes are given by health care professionals to keep residents informed about health and disease management. Subject to applicable government regulation, personal care and medical services are available to independent living residents through either the community staff or through the Company's agency or other independent home care agencies. The Company's independent living residents pay an average fee of \$2,700 per month, in general, depending on the specific community, program of services, size of the unit and amenities offered. The Company's contracts with its independent living residents are generally for a term of one year and are typically terminable by either party, under certain circumstances, upon providing 30 days' notice unless state law stipulates otherwise.

Assisted Living Services

The Company offers a wide range of assisted living care and services, including personal care services, 24-hour staffing, support services, and supplemental services, including memory care services at some communities as described below. As of December 31, 2019, the Company owned 66 communities and leased 40 communities that provide assisted living services, which include communities that combine independent living and other services, with an aggregate capacity for approximately 9,500 residents. The residents of the Company's assisted living residences generally need help with some or all ADLs, but do not require the more acute medical care traditionally provided in nursing homes. Upon admission to the Company's assisted living communities, and in consultation with the resident, the resident's family and medical consultants, each resident is assessed to determine his or her health status, including functional abilities and need for personal care services. The resident also completes a lifestyles assessment to determine the resident's preferences. From these assessments, a care plan is developed for each resident to ensure that all staff members who render care meet the specific needs and preferences of each resident where possible. Each resident's care plan is reviewed periodically to determine whether a change in care is needed.

The Company has adopted a philosophy of assisted living care that allows a resident to maintain a dignified independent lifestyle. Residents and their families are encouraged to be partners in the residents' care and to take as much responsibility for their well-being as possible. The basic types of assisted living services offered by the Company include the following:

Personal Care Services. These services include assistance with ADLs such as ambulation, bathing, dressing, eating, grooming, personal hygiene, and monitoring or assistance with medications.

Support Services. These services include meals, assistance with social and recreational activities, laundry services, general housekeeping, maintenance services and transportation services.

Supplemental Services. These services include extra transportation services, personal maintenance, extra laundry services, and special care services, such as services for residents with certain forms of dementia. Certain of these services require extra charges.

The Company's assisted living residents pay an average fee of \$4,000 per month, in general, depending on the specific community, the level of personal care services, support service and supplemental services provided to the resident, size of the unit and amenities offered. The Company's contracts with its assisted living residents are generally for a term of one year and are typically terminable by either party, under certain circumstances, upon providing 30 days' notice unless state law stipulates otherwise.

Memory Care Services

The Company maintains programs and special living accommodations at some of its communities for residents with certain forms of dementia, which provide the attention, care and services needed to help those residents maintain a higher quality of life. Specialized services include assistance with ADLs, behavior management and life skills-based activities programs, the goal of which is to provide a normalized environment that supports residents' remaining functional abilities. Special living accommodations for residents with certain forms of dementia are located in a separate area of the community with its own dining facilities, resident lounge areas, and specially trained staff. The special care areas are designed to allow residents the freedom to ambulate as they

wish, while keeping them safely contained within a secure area with a minimum of disruption from other residents. Resident fees for these programs and special living accommodations are dependent on the level of services provided.

The Company's memory care residents pay an average fee of \$5,100 per month, in general, depending on the specific community, the level of personal care services, support service and supplemental services provided to the resident, size of the unit and amenities offered. The Company's contracts with its memory care residents are generally for a term of one year and are typically terminable by either party, under certain circumstances, upon providing 30 days' notice unless state law stipulates otherwise.

Home Care Services

As of December 31, 2019, the Company made home care services available to clients at a majority of its senior housing communities through third-party providers. The Company believes that the provision of private pay, home care services is an attractive adjunct to its independent living services because it allows the Company to make available more services to its residents as they age in place and increases the length of stay in the Company's communities. In addition, the Company makes certain customized physician, dentistry, podiatry and other health-related rehabilitation and therapy services available to its residents through third-party providers.

Operating Communities

The table below sets forth certain information with respect to senior housing communities operated by the Company as of December 31, 2019.

Community	Location	Units	Resident Capacity¹			Ownership	Commencement of Operations²
			IL	AL	Total		
Owned:							
Aspen Grove	Lamberville, MI	78	—	83	83	100%	03/14
Autumn Glen	Greencastle, IN	49	—	64	64	100%	06/13
Brookview Meadows	Green Bay, WI	78	—	156	156	100%	01/15
Canton Regency	Canton, OH	239	162	145	307	100%	03/91
Chateau of Batesville	Batesville, IN	41	—	43	43	100%	10/12
Cottonwood Village	Cottonwood, AZ	163	131	58	189	100%	03/91
Country Charm	Greenwood, IN	89	—	166	166	100%	10/12
Courtyards at Lake Granbury	Granbury, TX	81	—	112	112	100%	03/12
Georgetowne Place	Fort Wayne, IN	159	242	0	242	100%	10/05
Good Tree Retirement and Memories	Stephenville, TX	60	20	75	95	100%	03/12
Gramercy Hill	Lincoln, NE	143	34	113	147	100%	10/98
Greenbriar Village	Indianapolis, IN	124	—	134	134	100%	08/15
Harbor Court	Rocky River, OH	122	—	144	144	100%	12/12
Harrison at Eagle Valley	Indianapolis, IN	104	138	0	138	100%	03/91
Heritage at the Plains at Parish							
Homestead	Oneonta, NY	108	97	53	150	100%	05/15
Keystone Woods Assisted Living	Anderson, IN	58	—	70	70	100%	07/11
Laurel Hurst Laurel Woods	Columbus, NC	102	70	60	130	100%	10/11
Marquis Place of Elkhorn	Elkhorn, NE	65	—	69	69	100%	03/13
Middletown	Middletown, OH	61	—	75	75	100%	09/13
North Pointe	Anderson, SC	64	—	70	70	100%	10/11
Park-Oak Grove	Roanoke, VA	93	—	164	164	100%	08/14
River Crossing Assisted Living	Charlestown, IN	100	—	106	106	100%	12/13
Riverbend Independent and Assisted Living							
Living	Jeffersonville, IN	97	—	114	114	100%	03/12

Community	Location	Units	Resident Capacity ¹			Ownership	Commencement of Operations ²
			IL	AL	Total		
Remington at Valley Ranch	Irving, TX	127	158	—	158	100%	04/12
Residence of Chardon	Chardon, OH	42	—	52	52	100%	10/12
Rose Arbor	Maple Grove, MN	146	86	87	173	100%	06/06
Rosemont Assisted Living and Memory Care	Humble, TX	96	—	120	120	100%	09/16
Sugar Grove	Plainfield, IN	164	48	116	164	100%	12/13
Summit Place	Anderson, SC	80	19	89	108	100%	10/11
Summit Point Living	Macedonia, OH	163	126	98	224	100%	08/11
Towne Centre Retirement Community	Merrillville, IN	213	0	238	238	100%	03/91
Vintage Gardens	St. Joseph, MO	95	44	92	136	100%	05/13
Waterford at Baytown	Baytown, TX	129	18	132	150	100%	03/15
Waterford at Bridle Brook	Mahomet, IL	78	—	120	120	100%	09/15
Waterford at Carpenter's Creek	Pensacola, FL	94	—	105	105	100%	02/16
Waterford at Colby	Colby, TX	44	—	48	48	100%	01/16
Waterford at College Station	College Station, TX	53	—	87	87	100%	03/12
Waterford at Columbia	Columbia, SC	117	141	—	141	100%	11/00
Waterford at Corpus Christi	Corpus Christi, TX	50	—	56	56	100%	10/12
Waterford at Creekside	Pensacola, FL	84	—	98	98	100%	02/16
Waterford at Deer Park	Deer Park, TX	119	144	—	144	100%	11/00
Waterford at Dillon Pointe	Spartanburg, SC	51	—	55	55	100%	12/13
Waterford at Edison Lakes	South Bend, IN	116	—	138	138	100%	12/00
Waterford at Fairfield	Fairfield, OH	120	140	—	140	100%	11/00
Waterford at Fitchburg	Fitchburg, WI	82	—	150	150	100%	10/13
Waterford at Fort Worth	Fort Worth, TX	154	177	—	177	100%	06/00
Waterford at Hartford	Hartford, WI	39	—	53	53	100%	05/15
Waterford at Hidden Lake	Canton, GA	43	—	98	98	100%	12/14
Waterford at Highland Colony	Jackson, MS	119	143	—	143	100%	11/00
Waterford at Ironbridge	Springfield, MO	118	142	—	142	100%	06/01
Waterford at Levis Commons	Toledo, OH	146	163	44	207	100%	04/09
Waterford at Mansfield	Mansfield, OH	118	97	45	142	100%	10/00
Waterford at Mesquite	Mesquite, TX	153	176	—	176	100%	09/99
Waterford at Oakwood	Oakwood, GA	64	—	70	70	100%	09/13
Waterford at Oshkosh	Oshkosh, WI	91	—	109	109	100%	08/14
Waterford at Pantego	Pantego, TX	118	143	—	143	100%	12/00
Waterford at Park Falls	Park Falls, WI	36	—	36	36	100%	01/16
Waterford at Plano	Plano, TX	135	109	57	166	100%	12/00
Waterford at Plymouth	Plymouth, WI	69	—	82	82	100%	08/14
Waterford at Richmond Heights	Richmond Heights, OH	148	117	110	227	100%	04/09
Waterford at Thousand Oaks	San Antonio, TX	119	135	—	135	100%	05/00
Waterford at Virginia Beach	Virginia Beach, VA	111	—	138	138	100%	10/15
Waterford at West Bend	West Bend, WI	40	—	41	41	100%	05/15
Waterford at Wisconsin Rapids	Wisconsin Rapids, WI	58	—	66	66	100%	01/16
Waterford on Cooper	Arlington, TX	105	—	151	151	100%	03/12
Waterford on Huebner	San Antonio, TX	119	135	—	135	100%	04/99
Wellington at Arapaho	Richardson, TX	140	113	57	170	100%	05/02
Wellington at Conroe	Conroe, TX	44	25	35	60	100%	03/12
Wellington at Dayton	Dayton, OH	149	146	94	240	100%	08/08

Community	Location	Units	Resident Capacity ¹			Ownership	Commencement of Operations ²
			IL	AL	Total		
Wellington at North Bend Crossing	Cincinnati, OH	122	54	146	200	100%	11/16
Wellington at North Richland Hills	North Richland Hills, TX	118	139	—	139	100%	01/02
Wellington at Southport	Indianapolis, IN	64	—	105	105	100%	10/12
Wellington at Springfield	Springfield, MA	235	119	117	236	100%	09/16
Whispering Pines Village	Columbiana, OH	68	24	88	112	100%	07/15
Whitcomb House	Milford, MA	87	—	87	87	100%	10/13
Woodlands of Columbus	Columbus, OH	116	—	117	117	100%	10/12
Woodlands of Hamilton	Hamilton, OH	77	—	100	100	100%	10/12
Woodlands of Shaker Heights	Shaker Heights, OH	66	—	85	85	100%	10/12
Woodview Assisted Living	Fort Wayne, IN	88	—	153	153	100%	12/13
Wynnfield Crossing Assisted Living . . .	Rochester, IN	50	—	79	79	100%	07/11

8,068 3,975 6,318 10,293

Leased:

Ventas:

Amberleigh	Buffalo, NY	267	387	66	453	N/A	01/92
Crown Point	Omaha, NE	136	85	80	165	N/A	08/00
Independence Village of East Lansing	East Lansing, MI	146	161	—	161	N/A	08/00
Independence Village of Olde Raleigh	Raleigh, NC	167	177	—	177	N/A	08/00
Villa Santa Barbara	Santa Barbara, CA	125	64	62	126	N/A	08/00
West Shores	Hot Springs, AR	137	131	42	173	N/A	08/00
Whitley Place	Keller, TX	47	—	65	65	N/A	02/08

Welltower:

Azalea Trails Assisted Living	Tyler, TX	56	—	70	70	N/A	09/10
Buffalo Creek Assisted Living	Waxahachie, TX	56	—	70	70	N/A	09/10
Dogwood Trails Assisted Living	Palestine, TX	65	—	75	75	N/A	09/10
Hawkins Creek Assisted Living	Longview, TX	56	—	70	70	N/A	09/10
Hearth at Prestwick	Avon, IN	132	—	150	150	N/A	08/06
Hearth at Windermere	Fishers, IN	128	—	150	150	N/A	08/06
Heritage Oaks Assisted Living	Conroe, TX	75	—	90	90	N/A	09/10
Keepsake Village of Columbus	Columbus, IN	42	—	48	48	N/A	08/06
Magnolia Court Assisted Living	Nacogdoches, TX	56	—	70	70	N/A	09/10
Martin Crest Assisted Living	Weatherford, TX	56	—	86	86	N/A	09/10
Pecan Point Assisted Living	Sherman, TX	56	—	70	70	N/A	09/10
Santa Fe Trails Assisted Living	Cleburne, TX	56	—	86	86	N/A	09/10
Spring Lake Assisted Living	Paris, TX	56	—	70	70	N/A	09/10
Spring Meadows Libertyville	Libertyville, IL	198	208	45	253	N/A	04/11
Spring Meadows Naperville	Naperville, IL	193	186	45	231	N/A	04/11
Spring Meadows at Summit	Summit, NJ	89	—	98	98	N/A	04/11
Spring Meadows at Trumbull	Trumbull, CT	152	182	56	238	N/A	04/11
Stonefield Assisted Living	McKinney, TX	75	—	90	90	N/A	09/10
Walnut Creek Assisted Living	Mansfield, TX	56	—	70	70	N/A	09/10
Waterford at Ames	Ames, IA	49	—	122	122	N/A	02/06
Waterford at Miracle Hills	Omaha, NE	54	—	70	70	N/A	03/06
Waterford at Roxbury Park	Omaha, NE	55	—	70	70	N/A	02/06
Waterford at Van Dorn	Lincoln, NE	63	—	84	84	N/A	02/06

Community	Location	Units	Resident Capacity ¹			Ownership	Commencement of Operations ²
			IL	AL	Total		
Waterford at Woodbridge	Plattsmouth, NE	40	—	45	45	N/A	02/06
HCP:							
Atrium of Carmichael	Sacramento, CA	151	155	—	155	N/A	01/92
Charlotte Square	Charlotte, NC	118	—	150	150	N/A	12/06
Chesapeake Place	Chesapeake, VA	103	—	153	153	N/A	12/06
Covenant Place of Abilene	Abilene, TX	50	—	55	55	N/A	08/04
Covenant Place of Burleson	Burleson, TX	74	—	80	80	N/A	08/04
Covenant Place of Waxahachie	Waxahachie, TX	50	—	55	55	N/A	08/04
Crescent Place	Cedar Hill, TX	80	—	85	85	N/A	11/05
Crescent Point	Cedar Hill, TX	111	134	—	134	N/A	08/04
Crosswood Oaks	Sacramento, CA	121	127	—	127	N/A	01/92
Good Place	North Richland Hills, TX	72	—	80	80	N/A	08/04
Greenville Place	Greenville, SC	85	—	153	153	N/A	12/06
Meadow Lakes	North Richland Hills, TX	118	145	—	145	N/A	08/04
Myrtle Beach Estates	Myrtle Beach, SC	101	—	156	156	N/A	12/06
Tesson Heights	St. Louis, MO	182	134	72	206	N/A	10/98
Veranda Club	Boca Raton, FL	186	129	97	226	N/A	01/92
		<u>4,541</u>	<u>2,405</u>	<u>3,351</u>	<u>5,756</u>		
Total		<u>12,609</u>	<u>6,380</u>	<u>9,669</u>	<u>16,049</u>		

(1) Independent living (IL) residences and assisted living (AL) residences based on community licensure.

(2) Indicates the date on which the Company acquired or commenced operating the community. The Company operated certain of its communities pursuant to management agreements prior to acquiring interests in or leasing the communities.

Operations Overview

The Company believes that the fragmented nature of the senior living industry and the limited capital resources available to many small, private operators provide an attractive opportunity for competitive differentiation. The Company believes that its current operations with geographic concentrations throughout the United States and centralized support infrastructure serve as the foundation on which the Company can build senior living networks in targeted geographic markets and thereby provide a broad range of high-quality care in a cost-efficient manner.

The following are the principal elements of the Company's clear and differentiated operating strategy:

Provide a Broad Range of Quality Personalized Care

Central to the Company's operating strategy is its focus on providing quality care and services that are personalized and tailored to meet the individual needs of each community resident. The Company's residences and services are designed to provide a broad range of care that permits residents to thrive and "age in place" as their needs change and as they develop further physical or cognitive frailties. By creating an environment that maximizes resident autonomy and provides individualized service programs, the Company seeks to attract seniors at an earlier stage, before they need the higher level of care provided in a skilled nursing facility.

Portfolio Optimization

The Company intends to continue to focus on its occupancy, rents and operating margins of its communities. The Company continually seeks to improve occupancy rates and increase average rents by: (i) retaining residents as they "age in place" by extending optional care and service programs and converting existing units to higher levels of care; (ii) attracting new residents through the use of technology, including enhanced digital marketing through social media and other electronic means, and on-site marketing programs focused on residents and family members; (iii) seeking referrals from senior care referral services and professional community outreach sources, including area religious organizations, senior social service programs, civic and business networks, as well as the medical community; (iv) strategically acquiring properties to expand our footprint in the core markets we serve; (v) disposing of properties or exiting leases of properties that do not meet our long-term goals and (vi) continually refurbishing and renovating its communities.

Offer Services Across a Range of Pricing Options

The Company's range of products and services is continually expanding to meet the evolving needs of its residents. The Company has developed a menu of products and service programs that may be further customized to serve both the moderate and upper income markets of a particular targeted geographic area. By offering a range of pricing options that are customized for each target market, the Company believes that it can develop synergies, economies of scale and operating efficiencies in its efforts to serve a larger percentage of the senior population within a particular geographic market.

Improve Operating Efficiencies

The Company seeks to improve operating efficiencies at its communities by actively monitoring and managing operating costs and by moving to a more centralized operating platform. By having an established portfolio of communities in geographically concentrated regions throughout the United States with regional management in place, the Company believes it has established a platform to achieve operating efficiencies through economies of scale in the purchase of bulk items, such as food and supplies, and in the spreading of fixed costs, such as corporate overhead, over a larger revenue base, and to provide more effective management supervision and financial controls.

Centralized Management

The Company centralizes its corporate and other administrative functions so that the community-based management and staff can focus their efforts on resident care. The Company maintains centralized accounting,

finance, human resources, training and other operational functions at its Dallas Support Center located in Dallas, Texas. The Company's Dallas Support Center is generally responsible for: (i) establishing Company-wide policies and procedures relating to, among other things, resident care and operations; (ii) performing accounting functions; (iii) developing employee training programs and materials; (iv) coordinating human resources; (v) coordinating marketing functions; and (vi) providing strategic direction. In addition, financing, development, construction and acquisition activities, including feasibility and market studies, and community design, development, and construction management are conducted at the Company's Dallas Support Center.

The Company seeks to control operational expenses for each of its communities through proprietary expense management systems, standardized management reporting and centralized controls of capital expenditures, asset replacement tracking, and purchasing for larger and more frequently used supplies and food inventories through group purchasing programs. Community expenditures are monitored by regional operational managers and divisional vice presidents who are accountable for the resident satisfaction and financial performance of the communities in their region or division.

Regional Management

The Company provides oversight and support to each of its senior housing communities through experienced regional operational managers and divisional vice presidents. A regional operational manager will generally cover a large geographic area consisting of eight to thirteen communities. In most cases, regional operational managers office out of the Company's senior housing communities. The Company's divisional vice presidents oversee the Company's Southwest, Mid-America, and Great Lakes regions.

The executive director at each community reports to a regional operations manager, who reports to a vice president of operations. Vice presidents of operations report on the operations of each community directly to senior management at the Company's Dallas Support Center. Regional operations managers and divisional vice presidents make regular site visits to each of their assigned communities. The site visits involve a physical plant inspection, quality assurance review, staff training, financial and systems audits, regulatory compliance, and team building.

Community-Based Management and Retention

The Company devotes special attention to the hiring, screening, training, supervising and retention of its employees and caregivers to ensure that quality standards are achieved. In addition to normal on-site training, the Company conducts national management meetings and encourages sharing of expertise among managers. The Company has also implemented a comprehensive online training program that addresses the specific challenges of working within the senior living environment. The Company's commitment to the total quality management concept is emphasized throughout its training programs. This commitment to the total quality management concept means identification of the "best practices" in the senior living market and communication of those "best practices" to the Company's executive directors and their staff. The identification of best practices is realized by a number of means, including: emphasis on regional and executive directors keeping up with professional trade publications; interaction with other professionals and consultants in the senior living industry through seminars, conferences and consultations; visits to other properties; leadership and participation at national and local trade organization events; and information derived from marketing studies and resident satisfaction surveys. This information is continually processed by regional managers and the executive directors and communicated to the Company's employees as part of their training.

An executive director manages the day-to-day operations at each senior housing community, including oversight of the quality of care, delivery of resident services, sales and marketing, and monitoring of the community's financial performance. Depending on the size of the community, the executive director is typically supported by a leadership team consisting of a sales director, wellness director, and business director. However, the executive director is ultimately responsible for all personnel, including food service, maintenance, activities, security, assisted living, housekeeping, and, where applicable, nursing or care services. In most cases, each community also has department managers who direct the environmental services, nursing or care services, business management functions, dining services, activities, transportation, housekeeping, and marketing functions.

The assisted living component of the senior housing communities is managed by licensed professionals, such as a nurse and/or a licensed administrator. These licensed professionals have many of the same operational responsibilities as the Company's executive directors, but their primary responsibility is to oversee resident care. Many of the Company's senior housing communities are part of a campus setting, which may include independent living and/or memory care. This campus arrangement allows for cross-utilization of certain support personnel and services, including administrative functions that result in greater operational efficiencies and lower costs than freestanding facilities.

The Company actively recruits qualified personnel to maintain adequate staffing levels at its existing communities and hires new staff for new or acquired communities prior to opening. The Company has adopted comprehensive recruiting and screening programs for management positions that utilize corporate office team interviews and thorough background and reference checks. The Company offers system-wide training and orientation for all of its employees at the community level through a combination of Company-sponsored seminars and conferences.

Quality Assurance

Quality assurance programs are coordinated and implemented by the Company's corporate and regional staff. The Company's quality assurance is targeted to achieve maximum resident and resident family member satisfaction with the care and services delivered by the Company. The Company's primary focus in quality control monitoring includes routine in-service training and performance evaluations of caregivers and other support employees. The Company has established a Corporate Quality Assurance Committee which consists of the Executive Vice President and Chief Operating Officer, and Vice Presidents of Operations, Senior Vice President-Human Resources, Vice President- Finance, Quality and Clinical Directors, and Senior Vice President- General Counsel. The purpose of the committee is to monitor and evaluate the processes by which care is delivered to our residents and the appropriateness and quality of care provided within each of our communities. Additional quality assurance measures include:

Resident and Resident's Family Input. On a routine basis, the Company provides residents and their family members the opportunity to provide valuable input regarding the day-to-day delivery of services. On-site management at each community has fostered and encouraged active resident councils and resident committees who meet independently. These resident bodies meet with on-site management on a monthly basis to offer input and suggestions as to the quality and delivery of services.

Regular Community Inspections. Each community is inspected, on at least a quarterly basis, by a member of the regional and/or operational leadership team. Included as part of this inspection is the monitoring of the overall appearance and maintenance of the community interiors and grounds. The inspection also includes monitoring staff professionalism and departmental reviews of maintenance, housekeeping, activities, transportation, marketing, administration and food and health care services, if applicable. The inspections also include observing residents in their daily activities and the community's compliance with government regulations.

Independent Service Evaluations. The Company engages the services of outside professional independent consulting firms to evaluate various components of the community operations. These services include mystery shops, competing community analysis, pricing recommendations and product positioning. This provides management with valuable unbiased product and service information. A plan of action regarding any areas requiring improvement or change is implemented based on information received. At communities where health care is delivered, these consulting service reviews include the on-site handling of medications, recordkeeping and general compliance with all applicable governmental regulations.

Peer Review Program. During the second quarter of 2019, the Company implemented a peer review program. For each region, a committee consisting of the top performing executive directors, sales directors, wellness directors, maintenance directors, and dietary directors visit other communities within the region to evaluate the performance of their peers at the community and share best practices. In 2019, 54 communities were reviewed, and the Company plans to expand the program in 2020.

Sales and Marketing

Most communities are staffed with an on-site sales director and additional sales and marketing staff depending on the community size and occupancy status. The primary focus of the on-site sales/marketing staff is to create awareness of the community and its services among prospective residents and family members, professional referral sources and other key decision makers. These efforts incorporate a strategic plan to include monthly, quarterly and annual goals for leasing, new lead generation, prospect follow up, community outreach, resident and family referrals, promotional events, and a market specific media program. On-site sales/marketing departments perform a competing community assessment quarterly.

Each community's on-site sales and marketing department's effectiveness and productivity is monitored on a weekly basis. Corporate personnel assist in the development of marketing strategies and campaigns for each community to address the continuously changing resident profile and maintain a focus on building brand awareness and increasing digital traffic and leads. The marketing strategies developed utilize the implementation of application program interface systems with certain website and referral partners, social media platforms and the production of creative media and related marketing collateral. Ongoing sales training of on-site staff is implemented by corporate and regional personnel as well as third-party professionals.

Government Regulation

Changes in existing laws and regulations, adoption of new laws and regulations, and new interpretations of existing laws and regulations could have a material effect on the Company's operations. Failure by the Company to comply with applicable regulatory requirements could have a material adverse effect on the Company's business, financial condition, cash flows, and results of operations. Accordingly, the Company monitors legal and regulatory developments on local and national levels.

The health care industry is subject to extensive regulation and frequent regulatory change. At this time, no federal laws or regulations specifically regulate assisted or independent living residences. While a number of states have not yet enacted specific assisted living regulations, certain of the Company's assisted living communities are subject to regulation, licensing, CON and permitting by state and local health care and social service agencies and other regulatory authorities. While such requirements vary from state to state, they typically relate to staffing, training, physical design, patient privacy, required services and the quality thereof and resident characteristics. The Company believes that such regulation will increase in the future. In addition, health care providers are receiving increased scrutiny under anti-trust laws as integration and consolidation of health care delivery increases and affects competition. Moreover, robust state and federal enforcement of fraud and abuse laws continues. Because some of the Company's communities receive a portion of their funds from Medicaid, such communities are also subject to state and federal Medicaid standards, the noncompliance with which may result in the imposition of penalties or sanctions or suspension or exclusion from participation in the Medicaid program. The Company's communities are also subject to various zoning restrictions, local building codes, and other ordinances, such as fire safety codes. Failure by the Company to comply with applicable regulatory requirements could have a material adverse effect on the Company's business, financial condition, and results of operations. Regulation of the assisted living industry is evolving. The Company is unable to predict the content of new regulations and their effect on its business. There can be no assurance that the Company's operations will not be adversely affected by regulatory developments in the future.

The Company believes that its communities are in substantial compliance with applicable regulatory requirements. However, unannounced surveys or inspections may occur annually or bi-annually, or following a regulator's receipt of a complaint about a community. In the ordinary course of business, one or more of the Company's communities could be cited for deficiencies resulting from such inspections or surveys. Most inspection deficiencies are resolved through an agreed upon plan of corrective action relating to the community's operations, but the reviewing agency typically has the authority to take further action against a licensed or certified community, which could result in the imposition of fines, repayment of amounts previously paid, imposition of a provisional or conditional license, suspension or revocation of a license, suspension or denial of admissions, loss of certification as a provider under federal health care programs or imposition of other sanctions, including criminal penalties. Loss, suspension or modification of a license may also cause us to default under our loan or

lease agreements and/or trigger cross-defaults. Sanctions may be taken against providers or facilities without regard to the providers' or facilities' history of compliance. We may also expend considerable resources to respond to federal and state investigations or other enforcement action under applicable laws or regulations. To date, none of the deficiency reports received by us has resulted in a suspension, fine or other disposition that has had a material adverse effect on our revenues. However, any future substantial failure to comply with any applicable legal and regulatory requirements could result in a material adverse effect to our business as a whole. In addition, states' Attorneys General vigorously enforce consumer protection laws as those laws relate to the senior living industry. State Medicaid Fraud and Abuse Units may also investigate assisted living communities even if the community or any of its residents do not receive federal or state funds.

Under the Americans with Disabilities Act of 1990, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. A number of additional federal, state and local laws exist that also may require modifications to existing and planned properties to permit access to the properties by disabled persons. While the Company believes that its communities are substantially in compliance with present requirements or are exempt therefrom, if required changes involve a greater expenditure than anticipated or must be made on a more accelerated basis than anticipated, additional costs would be incurred by the Company. Further legislation may impose additional burdens or restrictions with respect to access by disabled persons, the costs of compliance with which could be substantial.

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), in conjunction with the federal regulations promulgated thereunder by the Department of Health and Human Services, has established, among other requirements, standards governing the privacy and security of certain protected and individually identifiable health information that is created, received or maintained by a range of covered entities. HIPAA has also established standards governing uniform health care transactions, the codes and identifiers to be used by the covered entities and standards governing the security of certain electronic transactions conducted by covered entities. Penalties for violations can range from civil money penalties for errors and negligent acts to criminal fines and imprisonment for knowing and intentional misconduct. In addition, the Company may be subject to a corrective action plan, the cost of compliance of which could be significant. In addition, some states have begun enacting comprehensive privacy laws, including the California Consumer Privacy Act of 2018.

In addition, the Company is subject to various federal, state and local environmental laws and regulations, which could require an owner or operator of real estate to investigate and clean up hazardous or toxic substances present at or migrating from properties they own, lease, or operate. Such laws and regulations often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of hazardous or toxic substances. The costs of any required remediation or removal of these substances could be substantial and the liability of an owner or operator as to any property is generally not limited under such laws and regulations. Liabilities could exceed the property's value and the aggregate assets of the owner or operator. The presence of these substances or failure to remediate such contamination properly may also adversely affect the owner's ability to sell or rent the property, or to borrow using the property as collateral. Under these laws and regulations, an owner, operator or an entity that arranges for the disposal of hazardous or toxic substances, such as asbestos-containing materials, at a disposal site may also be liable for the costs of any required remediation or removal of the hazardous or toxic substances at the disposal site. In connection with the ownership or operation of its properties, the Company could be liable for these costs, as well as certain other costs, including governmental fines and injuries to persons or properties. The Company has completed Phase I environmental audits of substantially all of the communities in which the Company owns interests, typically at the time of acquisition, and such audits have not revealed any material environmental liabilities that exist with respect to these communities.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at or migrating from such property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean-up costs. The Company is not aware of any environmental liability with respect to any of its owned, leased or managed communities that the Company believes would have a material adverse effect on its business, financial condition, or results of operations. The Company believes that its communities are in compliance in all material respects with all federal, state and local laws, ordinances and regulations regarding hazardous or toxic substances or petroleum products. The Company

has not been notified by any governmental authority, and is not otherwise aware of any material non-compliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with any of the communities the Company currently operates.

The Company believes that the structure and composition of government and, specifically, health care regulations will continue to change and, as a result, regularly monitors developments in the law. The Company expects to modify its agreements and operations from time to time as the business and regulatory environments change. While the Company believes it will be able to structure all its agreements and operations in accordance with applicable law, there can be no assurance that its arrangements will not be successfully challenged.

Competition

The senior living industry is highly competitive. Due to the relatively low barriers of entry into the senior living space, the Company expects that all segments of the industry will become increasingly competitive in the future. Although there are a number of substantial companies active in the senior living industry and in the markets in which the Company operates, the industry continues to be very fragmented and characterized by numerous small operators. The Company primarily competes with national operators such as Brookdale Senior Living Inc. and Five Star Quality Care, Inc. and other regional and local independent operators. The Company believes that the primary competitive factors in the senior living industry are: (i) quality on-site staff; (ii) location; (iii) reputation for and commitment to a high quality of service; (iv) support service offerings (such as food services); (v) fair price for services provided; and (vi) physical appearance and amenities associated with the communities. The Company competes with other companies providing independent living, assisted living, skilled nursing, home health care, and other similar service and care alternatives, some of whom may have greater financial resources than the Company. Because prospective residents tend to choose senior housing communities near their homes, the Company's principal competitors are other senior living and long-term care communities in the same geographic areas as the Company's communities. The Company also competes with other health care businesses with respect to attracting and retaining nurses, technicians, aides and other high quality professional and non-professional employees and managers.

Employees

As of December 31, 2019, the Company employed 6,600 persons (105 of whom are employed at the Company's corporate office), of which 4,202 were full-time employees and 2,398 were part-time employees. None of the Company's employees are currently represented by a labor union and the Company is not aware of any union organizing activity among its employees. The Company believes that its relationship with its employees is good.

Information about Our Executive Officers and Other Key Employees

The following table sets forth certain information concerning each of the Company's executive officers and other key employees as of March 31, 2020:

<u>Name</u>	<u>Age</u>	<u>Position(s) with the Company</u>
Kimberly S. Lody	54	President, Chief Executive Officer and Director
Carey P. Hendrickson	57	Executive Vice President and Chief Financial Officer
Brandon M. Ribar	39	Executive Vice President and Chief Operating Officer
David R. Brickman	61	Senior Vice President, Secretary and General Counsel
Jeremy D. Falke	46	Senior Vice President — Human Resources
Michael C. Fryar	43	Senior Vice President and Chief Revenue Officer
Carole J. Burnell	51	Vice President — Operations
Jeffery P. Cellucci	32	Vice President — Operations
Tiffany L. Dutton	40	Vice President — Accounting and Financial Reporting
Gloria M. Holland	52	Vice President — Finance
Robert F. Hollister	64	Property Controller
Linda M. Zimmerman	41	Corporate Controller

Kimberly S. Lody joined the Company as President and Chief Executive Officer in January 2019, having served as a director of the Company since May 2014. Her more than 25 years of experience in clinical and commercial health care settings includes leadership positions in medical devices, healthcare services, and complex regulatory and payor environments. Prior to joining the Company, Ms. Lody served as President of GN Hearing North America, where she led seven consecutive years of above-market growth and expansion across multiple channels and brands. Prior to GN Hearing, Ms. Lody served as VP Marketing and then President, US Chronic Care at Coloplast from 2009 to 2011. From 2004 to 2009, she served as an independent consultant, providing interim leadership to companies in healthcare, consumer products, and insurance services. Ms. Lody served as Chief Operating Officer of Senior Home Care from 2003 to 2004, as Chief Marketing Officer of Gentiva Health Services from 1997 to 2003, and as VP Managed Care Programs for Apria Healthcare from 1994 to 1997. Ms. Lody received a BS in Business from Hiram College and an MBA in Finance from Wake Forest University.

Carey P. Hendrickson joined the Company in May 2014 and is currently the Executive Vice President and Chief Financial Officer. From 2010 through 2014, he served as the Senior Vice President/Chief Financial Officer and Treasurer of Belo Corp., a television company that owned and operated network-affiliated television stations and their associated websites (“Belo”). Prior to serving in such capacity, Mr. Hendrickson served Belo in various roles including Senior Vice President/Chief Accounting Officer, Vice President/Human Resources, Vice President/Investor Relations and Corporate Communications, and Vice President/Strategic & Financial Planning. He began his career with KPMG LLP and was the director of financial planning for Republic Financial Services before joining Belo in 1992. Mr. Hendrickson received a BBA in Accounting from Baylor University and a Master of Business Administration in Finance from the University of Texas in Arlington.

Brandon M. Ribar joined the Company in September 2019 and is currently the Executive Vice President and Chief Operating Officer. Prior to joining the Company, Mr. Ribar served as an executive healthcare consultant primarily focused on improving existing operations and expanding continuing care retirement communities for multiple investment platforms and operators since 2018. From 2014 through 2018, he served as the Senior Vice President, Operations of Golden Living, a post-acute healthcare provider. Prior to serving in such capacity, Mr. Ribar served Golden Living in various roles including Senior Vice President, Operational Finance and Strategy and Senior Vice President, Corporate Strategy and Business Development. Prior to Golden Living, Mr. Ribar served as Vice President of Fillmore Capital Partners from 2004 through 2009. Mr. Ribar received a BCS in Operations and Management Information Systems from Santa Clara University.

David R. Brickman is currently the Senior Vice President, Secretary, and General Counsel of the Company. He served as Vice President and General Counsel of the Company and its predecessors since July 1992 and has served as Secretary of the Company since May 2007. From 1989 to 1992, Mr. Brickman served as in-house counsel with LifeCo Travel Management Company, a corporation that provided travel services to U.S. corporations. Mr. Brickman earned a Juris Doctor and Masters of Business Administration from the University of South Carolina and a Masters in Health Administration from Duke University. He currently serves on the Board of Advisors for the Southern Methodist University Corporate Counsel Symposium. He is also a member of the National Center for Assisted Living In-house Counsel Roundtable Task Force, as well as the Long-Term Care Risk Legal Forum. Mr. Brickman has either practiced law or performed in-house counsel functions for 33 years.

Jeremy D. Falke joined the Company as Senior Vice President – Human Resources in February 2018. Mr. Falke held various positions within Tenet Healthcare Corporation (“Tenet”) from November 2004 to February 2018, serving most recently as the Vice President, Talent, Culture and Performance Systems in Dallas. In this role, he was responsible for all talent planning, development, and cultural programming and transformation for an organization with over 75 acute-care hospitals and 450 outpatient facilities, employing more than 125,000 people. Prior to this role, Mr. Falke served as the Senior Director, Strategic Operations, Analytics and Reporting in Dallas and as the Chief Human Resources Officer for Creighton University Medical Center, which was then owned by Tenet in Omaha, Nebraska. Mr. Falke received a Bachelor of Science in Business Management from University of Phoenix in Scottsdale, and a Masters of Business Administration with a concentration in Healthcare Management from the University of Nebraska in Omaha.

Michael C. Fryar joined the Company as Chief Revenue Officer in February 2019. His 20 years of experience focusing on brands in complex, multi-channel environments includes leadership positions in medical device

and marketing agency settings, with the majority of his career focused in senior healthcare. Prior to joining the Company, Mr. Fryar served as Vice President of GN Hearing North America, where he was part of a leadership team responsible for seven consecutive years of above-market growth and expansion across multiple channels and brands. Prior to GN Hearing, Mr. Fryar served as Senior Director, Marketing at Starkey Hearing Technologies from 2006 to 2012. From 1998 to 2006, he served as an account director at marketing agency Colle McVoy, specializing in digital and traditional marketing, advertising and public relations. Mr. Fryar received a BA in Communications Studies with a minor in Economics Management from Gustavus Adolphus College.

Carole J. Burnell is currently the Vice President — Operations of the Company. She served as the Regional Operations Manager in the Dallas Region of the Company from January 2004 to March 2019. Ms. Burnell has over 22 years of senior living industry experience and has held a variety of leadership roles during that time. She started her career as an Executive Director with Assisted Living Concepts, and has since served in both large publicly traded and small privately held senior living companies with multi-community oversight responsibilities. She earned a BBA degree with a concentration in Accounting from West Texas A&M University.

Jeffrey P. Cellucci joined the Company as Vice President — Operations in May 2018. Prior to joining the Company, Mr. Cellucci spent nine years with Kindred Healthcare where he most recently served as Division Vice President and was responsible for overseeing the operations and strategic planning of nine long-term acute care hospitals. He also led integration efforts for Kindred's post-acute care service lines in North Texas which included Home Health, Hospice and Rehab. Mr. Cellucci held a variety of other leadership roles with Kindred Hospitals including Hospital CEO and District Chief Operating Officer across the Midwest and Northeast. Mr. Cellucci received his Bachelor of Science in Economics from the Wharton School at the University of Pennsylvania and his Master of Business Administration from Northwestern University. He is currently the Board President for the American Lung Association in North Texas and previously served as a Board Trustee for the DFW Hospital Council. Mr. Cellucci was also selected to the 2018 class of the Texas Hospital Association Leadership Fellows Program.

Tiffany L. Dutton, a Certified Public Accountant, joined the Company as Vice President — Accounting and Financial Reporting in January 2020. Prior to joining the Company, Ms. Dutton served as an accounting consultant primarily focused on assisting healthcare and retail entities with improving financial reporting and accounting structures since 2017. Prior to such time, Ms. Dutton served as the Director- Accounting Policy in 2017 and Assistant Controller- Operations from 2014 to 2017 for Adeptus Health, Inc, Senior Manager- Financial Reporting for RealPage, Inc. from 2013 to 2014, as Manager, Accounting, Reporting and Compliance for Pier 1 Imports from 2010 to 2013, and as Senior Manager of Accounting Policy of Dollar Thrifty Automotive Group from 2008 to 2010. She began her career as a Manager in the assurance and advisory business services practice of Ernst & Young LLP. Ms. Dutton earned a BBA in Accounting and a BBA in Economics and Finance from the University of Oklahoma and is a member of the American Institute of Certified Public Accountants.

Gloria M. Holland has served as Vice President — Finance of the Company since June 2004. From 2001 to 2004, Ms. Holland served as Assistant Treasurer and a corporate officer for Aurum Technology, Inc., a privately held company that provided technology and outsourcing to community banks. From 1996 to 2001, Ms. Holland held positions in Corporate Finance and Treasury at Brinker International, an owner and operator of casual dining restaurants. From 1989 to 1996, Ms. Holland was a Vice President in the Corporate Banking division of NationsBank and predecessor banks. Ms. Holland received a BBA in Finance from the University of Mississippi.

Robert F. Hollister, a Certified Public Accountant, has served as Property Controller for the Company and its predecessors since April 1992. From 1985 to 1992, Mr. Hollister was Chief Financial Officer and Controller of Kavanaugh Securities, Inc., a National Association of Securities Dealers broker dealer.

Linda M. Zimmerman, a Certified Public Accountant, has served as Corporate Controller for the Company since September 2019. She previously served as the Assistant Property Controller for the Company from 2014 to 2019. Prior to joining the Company, Ms. Zimmerman served as a Senior Associate for B&J Financial Services from 2013 to 2014. She served Belo as the Supervisor/ Accounting Operations from 2013 to 2017 and Corporate Accountant from 2005 to 2007. She began her career as an Auditor for The Exchange from 2002 to 2005. Ms. Zimmerman earned a Bachelors and Masters in Accounting from Baylor University.

Subsidiaries

Capital Senior Living Corporation is the parent company of several direct and indirect subsidiaries. Although Capital Senior Living Corporation and its subsidiaries are referred to collectively for ease of reference in this Form 10-K as the Company, these subsidiaries are separately incorporated and maintain their legal existence separate and apart from the parent, Capital Senior Living Corporation.

ITEM 1A. RISK FACTORS.

Our business involves various risks and uncertainties. When evaluating our business, the following information should be carefully considered in conjunction with the other information contained in our periodic filings with the SEC. Additional risks and uncertainties not known to us currently or that currently we deem to be immaterial also may impair our business operations. If we are unable to prevent events that have a negative effect from occurring, then our business may suffer. Negative events are likely to decrease our revenue, increase our costs, negatively impact our financial results and/or decrease our financial strength, and may cause our stock price to decline.

Risks Related to Our Business, Industry, and Operations

We have significant debt and our failure to generate cash flow sufficient to cover required interest and principal payments could result in defaults of the related debt.

As of December 31, 2019, we had mortgage and other indebtedness, excluding deferred loan costs, totaling approximately \$930.1 million. We cannot assure you that we will generate cash flow from operations or receive proceeds from refinancings, other financings or the sales of assets sufficient to cover required interest and principal payments. Any payment or other default could cause the applicable lender to foreclose upon the communities securing the indebtedness with a consequent loss of income and asset value to us. Further, because some of our mortgages contain cross-default and cross-collateralization provisions, a payment or other default by us with respect to one community could affect a significant number of our other communities.

We have significant lease obligations and our failure to generate cash flows sufficient to cover these lease obligations could result in defaults under the lease agreements.

As of December 31, 2019, we leased 46 senior housing communities with future lease obligations totaling approximately \$255.0 million, with minimum lease obligations of \$63.5 million in fiscal 2020. We cannot assure you that we will generate cash flow from operations or receive proceeds from refinancings, other financings or the sales of assets sufficient to cover these required operating lease obligations. Any payment or other default under any such lease could result in the termination of the lease and the acceleration of our obligations under such lease. Further, because our leases contain cross-default provisions, a payment or other default by us with respect to one leased community could affect all of our other leased communities with related lessors. Certain of our leases contain various financial and other restrictive covenants, which could limit our flexibility in operating our business. Failure to maintain compliance with the lease obligations as set forth in our lease agreements could have a material adverse impact on us. The termination of a significant portion of our facility lease agreements could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

With regard to our Master Lease Agreements with Ventas and Welltower, we were not in compliance with certain financial covenants as of December 31, 2019, and in February 2020, we began paying Ventas and Welltower monthly rental amounts based on the estimated monthly cash flows generated by the communities in Ventas' and Welltower's respective portfolios, which were less than the rental amounts due and payable under the terms of the Master Lease Agreements. Although we have entered into forbearance agreements with Ventas and Welltower with respect to such defaults, no assurances can be given that we will be able to comply with the terms and conditions of such forbearance agreements or the other terms and conditions of our Master Lease Agreements.

Our failure to comply with financial covenants and other restrictions contained in debt instruments and lease agreements could result in the acceleration of the related debt or lease or in the exercise of other remedies.

Our outstanding indebtedness and leases are secured by our communities, and, in certain cases, a guaranty by our Company or by one or more of our subsidiaries. Therefore, an event of default under the outstanding indebtedness or leases, subject to cure provisions in certain instances, would give the respective lenders or lessors, as applicable, the right to declare all amounts outstanding to be immediately due and payable, terminate the lease, or foreclose on collateral securing the outstanding indebtedness and leases.

There are various financial covenants and other restrictions in certain of our debt instruments and lease agreements, including provisions which:

- require us to meet specified financial tests at the subsidiary company level, which include, but are not limited to, tangible net worth requirements;
- require us to meet specified financial tests at the community level, which include, but are not limited to, lease coverage tests;
- require us to maintain the physical condition of the community and meet certain minimum spending levels for capital and leasehold improvements; and
- require consent for changes in control of us.

If we fail to comply with any of these requirements, then the related indebtedness or lease obligations could become due and payable prior to their stated dates. We cannot assure that we could pay these debt or lease obligations if they became due prior to their stated dates.

Please refer to the immediately preceding risk factor for a description of certain recent defaults under our Master Lease Agreements with Ventas and Welltower and the Forbearance agreements we recently entered into with both Ventas and Welltower with respect to such defaults.

We will require additional financing and/or refinancings in the future and may issue equity securities.

Our ability to obtain such financing or refinancing on terms acceptable to us could have a material adverse effect on our business, financial condition, cash flows, and results of operations. Our ability to meet our long-term capital requirements, including the repayment of certain long-term debt obligations, will depend, in part, on our ability to obtain additional financing or refinancings on acceptable terms from available financing sources, including through the use of mortgage financing, joint venture arrangements, by accessing the debt and/or equity markets and possibly through operating leases or other types of financing, such as lines of credit. Turmoil in the financial markets can severely restrict the availability of funds for borrowing and may make it more difficult or costly for us to raise capital. There can be no assurance that financing or refinancings will be available or that, if available, will be on terms acceptable to us. Moreover, raising additional funds through the issuance of equity securities could cause existing stockholders to experience dilution and could adversely affect the market price of our common stock. Disruptions in the financial markets may have a significant adverse effect on the market value of our common stock and other adverse effects on us and our business. Our inability to obtain additional financing or refinancings on terms acceptable to us could delay or eliminate some or all of our growth plans, necessitate the sales of assets at unfavorable prices or both, and would have a material adverse effect on our business, financial condition, cash flows, and results of operations.

We face risks related to an epidemic, pandemic or other health crisis, such as the recent outbreak of the novel coronavirus (COVID-19), which could cause a significant decrease in the occupancy levels at our communities and have a material adverse effect on our business, financial condition, liquidity, results of operations and prospects.

We face risks related to an epidemic, pandemic or other health crisis. Since its discovery in December 2019, a new strain of coronavirus, which causes the viral disease known as COVID-19, has spread from China to many other countries, including the United States. The outbreak has been declared to be a pandemic by the World

Health Organization, and the Health and Human Services Secretary has declared a public health emergency in the United States in response to the outbreak. Additionally, the Centers for Disease Control and Prevention has stated that older adults are at a higher risk for serious illness from the coronavirus. The extent to which the coronavirus impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of the coronavirus and the actions taken to contain the coronavirus or treat its impact, among others.

Our revenue and operating results depend significantly on the occupancy levels at our communities. The occupancy at our communities could significantly decrease if the coronavirus or other public health outbreak results in early resident move-outs; directly impacts one of our communities; causes us to delay accepting new residents due to quarantines or otherwise; or results in potential new residents determining to postpone moving to a senior housing facility, which could have a material adverse effect on our ability to meet financial and other contractual obligations, including the payment of rent, as well as on our business, financial condition, liquidity, results of operations and prospects.

A pandemic, epidemic or outbreak of a contagious illness, such as COVID-19, could cause our operating costs to increase and divert the time and attention of management and other personnel, which could adversely impact our business, operating results and financial condition.

A pandemic, epidemic, or other outbreak of an infectious illness or other public health crisis could cause a material increase in our operating costs, whether due to actions that we take to address outbreaks (including with respect to enhanced health and safety precautions), an inability to continue to obtain necessary goods and provide adequate staffing at our communities, or other factors. If the residents in any of our senior housing communities test positive for a contagious illness, it would result in increased costs of caring for the residents in that facility and, in all likelihood, a reduced occupancy at that facility. Further, a pandemic, epidemic or other outbreak might adversely impact our operations by causing staffing and supply shortages. In addition, outbreaks, such as the recent COVID-19 outbreak, cause our facilities and our management to spend considerable time planning for such events, which diverts their attention from other business concerns. We are continuing to evaluate and consider the potential impact of the COVID-19 outbreak, which could result in some or all of these negative outcomes and adversely impact our business, operating results and financial condition. There can be no assurances that a pandemic, epidemic or outbreak of a contagious illness, such as COVID-19, will not have a material and adverse impact on our business, operating results and financial condition in the future.

Increases in market interest rates and/or the Consumer Price Index (“CPI”) could significantly increase the costs of our floating rate debt and lease obligations, which could adversely affect our liquidity and earnings.

Our floating rate debt and lease obligations and any future indebtedness and lease obligations, if applicable, exposes us to interest rate and CPI risk. Therefore, any increase in prevailing interest rates or CPI could increase our future interest and/or lease payment obligations, which could in the future have a material adverse effect on our business, financial condition, cash flows, and results of operations.

Termination of resident agreements and resident attrition could affect adversely our revenues and earnings.

State regulations governing assisted living facilities require written resident agreements with each resident. Most of these regulations also require that each resident have the right to terminate the resident agreement for any reason on reasonable notice. Consistent with these regulations, the resident agreements signed by us allow residents to terminate their lease upon 0 to 30 days’ notice. Thus, we cannot contract with residents to stay for longer periods of time, unlike typical apartment leasing arrangements that involve lease agreements with specified leasing periods of up to a year or longer. Our resident agreements generally provide for termination of the lease upon death or allow a resident to terminate their lease upon the need for a higher level of care not provided at the community. In addition, the advanced age of our average resident means that the resident turnover rate in our senior living facilities may be difficult to predict. If a large number of residents elected to or otherwise terminate their resident agreements at or around the same time, then our revenues and earnings could be adversely affected.

We have incurred losses from operations in each of the last three fiscal years and may do so in the future.

We have incurred a net loss in each of fiscal 2019, 2018 and 2017. We currently have limited resources and substantial debt and lease obligations. Given our history of losses and the current industry conditions, it is not certain that we will be able to achieve and/or sustain profitability or positive cash flows from operations in the future, which could adversely affect the trading price of our common stock and our ability to fund our operations and fulfill our debt and lease obligations.

We largely rely on private pay residents and circumstances that adversely affect the ability of the seniors to pay for our services could have a material adverse effect on us.

Approximately 94.1% of our total revenues from communities that we operated were attributable to private pay sources and approximately 5.9% of our revenues from these communities were attributable to reimbursements from Medicaid, in each case, during fiscal 2019. We expect to continue to rely primarily on the ability of residents to pay for our services from their own or family financial resources. Unfavorable economic conditions in the housing, financial, and credit markets, inflation, or other circumstances that adversely affect the ability of seniors to pay for our services could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

The senior living services industry is very competitive and some competitors may have substantially greater financial resources than us.

The senior living services industry is highly competitive, and we expect that all segments of the industry will become increasingly competitive in the future. We compete with other companies providing independent living, assisted living, home health care and other similar services and care alternatives. We also compete with other health care businesses with respect to attracting and retaining nurses, technicians, aides and other high quality professional and non-professional employees and managers. Although we believe there is a need for senior housing communities in the markets where we operate residences, we expect that competition will increase from existing competitors and new market entrants, some of whom may have substantially greater financial resources than us. In addition, some of our competitors operate on a not-for-profit basis or as charitable organizations and have the ability to finance capital expenditures on a tax-exempt basis or through the receipt of charitable contributions, neither of which are available to us. Furthermore, if the development of new senior housing communities outpaces the demand for those communities in the markets in which we have senior housing communities, those markets may become saturated. Regulation in the independent and assisted living industry is not substantial. Consequently, development of new senior housing communities could outpace demand. An oversupply of those communities in our markets could cause us to experience decreased occupancy, reduced operating margins and lower profitability.

We rely on the services of key executive officers and the transition of management or loss of these officers or their services could have a material adverse effect on us.

We depend on the services of our executive officers for our management. We have recently undergone changes in our senior management and may experience further changes in the future. The transition of management, loss of any of our executive officers or our inability to attract and retain qualified management personnel in the future, could affect our ability to manage our business and could adversely affect our business, financial condition, cash flows, and results of operations.

A significant increase in our labor costs could have a material adverse effect on us.

We compete with other providers of senior living services with respect to attracting and retaining qualified management personnel responsible for the day-to-day operations of each of our communities and skilled personnel responsible for providing resident care. We rely upon the quality of our staff as a means to differentiate our services from other providers. A shortage of nurses or trained personnel may require us to enhance our wage and benefits package in order to compete in the hiring and retention of these personnel or to hire more expensive temporary personnel. We also will be dependent on the available labor pool of semi-skilled and unskilled

employees in each of the markets in which we operate. No assurance can be given that our labor costs will not increase, or that, if they do increase, they can be matched by corresponding increases in rates charged to residents. Any significant failure by us to control our labor costs or to pass on any increased labor costs to residents through rate increases could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

We are subject to risks related to the provision for employee health care benefits and ongoing health care reform legislation.

We use a combination of insurance and self-insurance for employee health care plans. We record expenses under these plans based on estimates of the costs of expected claims, administrative costs and stop-loss premiums. These estimates are then adjusted to reflect actual costs incurred. Actual costs under these plans are subject to variability depending primarily upon participant enrollment and demographics, the actual costs of claims and whether stop-loss insurance covers these claims. In the event that our cost estimates differ from actual costs, we could incur additional unplanned health care costs which could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

In March 2010, comprehensive health care reform legislation under the Patient Protection and Affordable Care Act (HR 3590) and the Health Care Education and Affordability Reconciliation Act (HR 4872) was passed and signed into law. This legislation expands health care coverage to many uninsured individuals and expands health care coverage to those already insured under existing plans. The health care reform legislation includes, among other things, guaranteed coverage requirements, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded, and imposes new and significant taxes on health insurers and health care benefits. Provisions of the health care reform legislation become effective at various dates over the next several years. The United States Department of Health and Human Services, National Association of Insurance Commissioners, Department of Labor and Treasury Department continue to issue necessary enabling regulations and guidance with respect to the health care reform legislation. Due to the breadth and complexity of the health care reform legislation, the lack of implementing regulations and interpretative guidance, and the phased-in nature of the implementation, it is difficult to predict the overall impact this legislation will have over the coming years; however, this legislation could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

There is an inherent risk of liability in the provision of personal and health care services, not all of which may be covered by insurance.

The provision of personal and health care services in the long-term care industry entails an inherent risk of liability. In recent years, participants in the long-term care industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant defense costs. Moreover, senior housing communities offer residents a greater degree of independence in their daily living. This increased level of independence may subject the resident and, therefore, us to risks that would be reduced in more institutionalized settings. We currently maintain insurance in amounts we believe are comparable to those maintained by other senior living companies based on the nature of the risks, our historical experience and industry standards, and we believe that this insurance coverage is adequate. However, we may become subject to claims in excess of our insurance or claims not covered by our insurance, such as claims for punitive damages, terrorism and natural disasters. A claim against us not covered by, or in excess of, our insurance could have a material adverse effect upon our business, financial condition, cash flows, and results of operations.

In addition, our insurance policies must be renewed annually. Based upon poor loss experience, insurers for the long-term care industry have become increasingly wary of liability exposure. A number of insurance carriers have stopped writing coverage to this market, and those remaining have increased premiums and deductibles substantially. Therefore, we cannot assure that we will be able to obtain liability insurance in the future or that, if that insurance is available, it will be available on acceptable economic terms.

We are subject to government regulations and compliance, some of which are burdensome and some of which may change to our detriment in the future.

Federal and state governments regulate various aspects of our business. The development and operation of senior housing communities and the provision of health care services are subject to federal, state and local licensure, certification and inspection laws that regulate, among other matters, the number of licensed beds, the provision of services, the distribution of pharmaceuticals, billing practices and policies, equipment, staffing (including professional licensing), operating policies and procedures, fire prevention measures, environmental matters, and compliance with building and safety codes. Failure to comply with these laws and regulations could result in the denial of reimbursement, the imposition of fines, temporary suspension of admission of new residents, suspension or decertification from the Medicaid program, restrictions on the ability to acquire new communities or expand existing communities and, in extreme cases, the revocation of a community's license or closure of a community. We believe that such regulation will increase in the future and we are unable to predict the content of new regulations or their effect on our business, any of which could materially adversely affect our business, financial condition, cash flows, and results of operations.

Various states, including several of the states in which we currently operate, control the supply of licensed beds and assisted living communities through CON or other programs. In those states, approval is required for the addition of licensed beds and some capital expenditures at those communities. To the extent that a CON or other similar approval is required for the acquisition or construction of new communities, the expansion of the number of licensed beds, services, or existing communities, we could be adversely affected by our failure or inability to obtain that approval, changes in the standards applicable for that approval, and possible delays and expenses associated with obtaining that approval. In addition, in most states, the reduction of the number of licensed beds or the closure of a community requires the approval of the appropriate state regulatory agency and, if we were to seek to reduce the number of licensed beds at, or to close, a community, we could be adversely affected by a failure to obtain or a delay in obtaining that approval.

Federal and state anti-remuneration laws, such as "anti-kickback" laws, govern some financial arrangements among health care providers and others who may be in a position to refer or recommend patients to those providers. These laws prohibit, among other things, some direct and indirect payments that are intended to induce the referral of patients to, the arranging for services by, or the recommending of, a particular provider of health care items or services. Federal anti-kickback laws have been broadly interpreted to apply to some contractual relationships between health care providers and sources of patient referral. Similar state laws vary, are sometimes vague, and seldom have been interpreted by courts or regulatory agencies. Violation of these laws can result in loss of licensure, civil and criminal penalties, and exclusion of health care providers or suppliers from participation in the Medicaid program. There can be no assurance that those laws will be interpreted in a manner consistent with our practices.

Under the Americans with Disabilities Act of 1990, all places of public accommodation are required to meet federal requirements related to access and use by disabled persons. A number of additional federal, state and local laws exist that also may require modifications to existing and planned communities to create access to the properties by disabled persons. Although we believe that our communities are substantially in compliance with present requirements or are exempt therefrom, if required changes involve a greater expenditure than anticipated or must be made on a more accelerated basis than anticipated, additional costs would be incurred by us. Further legislation may impose additional burdens or restrictions with respect to access by disabled persons, the costs of compliance with which could be substantial.

The Health Insurance Portability and Accountability Act of 1996, in conjunction with the federal regulations promulgated thereunder by the Department of Health and Human Services, has established, among other requirements, standards governing the privacy of certain protected and individually identifiable health information that is created, received or maintained by a range of covered entities. HIPAA has also established standards governing uniform health care transactions, the codes and identifiers to be used by the covered entities and standards governing the security of certain electronic transactions conducted by covered entities. Penalties for violations can range from civil money penalties for errors and negligent acts to criminal fines and imprisonment for knowing and intentional misconduct. HIPAA is a complex set of regulations and many unanswered questions remain with respect to the manner in which HIPAA applies to businesses such as those operated by us.

In addition, some states have begun to enact more comprehensive privacy laws and regulations addressing consumer rights to data protection or transparency. For example, the California Consumer Privacy Act became effective in 2020, and we expect additional federal and state legislative and regulatory efforts to regulate consumer privacy protection in the future. Compliance with such legislative and regulatory developments could be burdensome and costly, and the failure to comply could have a material adverse effect on our business, financial condition, cash flows and results of operations.

An increasing number of legislative initiatives have been introduced or proposed in recent years that would result in major changes in the health care delivery system on a national or a state level. Among the proposals that have been introduced are price controls on hospitals, insurance market reforms to increase the availability of group health insurance to small businesses, requirements that all businesses offer health insurance coverage to their employees and the creation of government health insurance plans that would cover all citizens and increase payments by beneficiaries. We cannot predict whether any of the above proposals or other proposals will be adopted and, if adopted, no assurances can be given that their implementation will not have a material adverse effect on our business, financial condition or results of operations.

We may be subject to liability for environmental damages.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at the property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean-up costs incurred by those parties in connection with the contamination. These laws typically impose clean-up responsibility and liability without regard to whether the owner knew of or caused the presence of the contaminants, and liability under these laws has been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of responsibility. The costs of investigation, remediation or removal of the substances may be substantial, and the presence of the substances, or the failure to properly remediate the property, may adversely affect the owner's ability to sell or lease the property or to borrow using the property as collateral. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. Persons who arrange for the disposal or treatment of hazardous or toxic substances also may be liable for the costs of removal or remediation of the substances at the disposal or treatment facility, whether or not the facility is owned or operated by the person. Finally, the owner of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. If we become subject to any of these claims the costs involved could be significant and could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

Various factors, including general economic conditions, could adversely affect our financial performance and other aspects of our business.

General economic conditions, such as inflation, the consumer price index, commodity costs, fuel and other energy costs, costs of salaries, wages, benefits and insurance, interest rates, and tax rates, affect our facility operating, facility lease, general and administrative and other expenses, and we have no control or limited ability to control such factors. Current global economic conditions and uncertainties, the potential for failures or realignments of financial institutions, and the related impact on available credit may affect us and our business partners, landlords, counterparties, and residents or prospective residents in an adverse manner including, but not limited to, reducing access to liquid funds or credit, increasing the cost of credit, limiting our ability to manage interest rate risk, increasing the risk that certain of our business partners, landlords or counterparties would be unable to fulfill their obligations to us, and other impacts which we are unable to fully anticipate.

Damage from catastrophic weather and other natural events could result in losses.

A certain number of our properties are located in areas that have experienced and may experience in the future catastrophic weather and other natural events from time to time, including snow or ice storms, windstorm, tornados, hurricanes, fires, earthquakes, flooding or other severe weather. The Company maintains insurance policies, including coverage for business interruption, designed to mitigate financial losses resulting from such

adverse weather and natural events; however, there can be no assurance that adverse weather or natural events will not cause substantial damages or losses to our communities that could exceed our insurance coverage. In the event of a loss in excess of insured limits, such loss could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

We rely on information technology in our operations, and failure to maintain the security and functionality of our information technology and computer systems, or to prevent a cybersecurity attack, breach or other unauthorized access, could adversely affect our business, reputation and relationships with our residents, employees and referral sources and may subject us to remediation costs, government inquiries and liabilities under HIPAA and data and consumer protection laws, any of which could materially and adversely impact our revenues, results of operations, cash flow and liquidity.

We rely upon the proper function and availability of our information technology and computer systems, including hardware, software, applications and electronic data storage, to communicate with our residents and patients, their doctors and other healthcare providers, and our employees and vendors and to store, process, safeguard and transmit our business information, including proprietary business information, private health information and personally identifiable information of our residents and employees. We have taken steps and expended significant resources to protect the cybersecurity and physical security of our information technology and computer systems and have developed and implemented policies and procedures to comply with HIPAA and other applicable privacy laws, rules and regulations. However, there can be no assurance that our security measures, policies and procedures and disaster recovery plans will prevent damage to, or interruption or breach of, our information systems or other unauthorized access to private information.

The cybersecurity risks to the Company and our third-party vendors are heightened by, among other things, the frequently changing techniques used to illegally or fraudulently obtain unauthorized access to systems, advances in computing technology and cryptography, and the possibility that unauthorized access may be difficult to detect, which could lead to us or our vendors being unable to anticipate these techniques or implement adequate preventive measures. In addition, components of our information systems that we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise the security or functionality of our information systems. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties with whom we do business or communicate, through computer viruses, hacking, fraud or other forms of deceiving our employees or contractors such as email phishing attacks. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our cybersecurity or to investigate and remediate any cybersecurity vulnerabilities, attacks or incidents.

In addition, we rely on software support of third parties to secure and maintain our information systems and data. Our inability, or the inability of these third parties, to continue to maintain and upgrade our information systems could disrupt or reduce the efficiency of our operations. Costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of our operations.

Failure to maintain the security and functionality of our information systems, or to prevent a cybersecurity attack or other unauthorized access to our information systems, could expose us to a number of adverse consequences, including: (i) interruptions to our business and operations; (ii) the theft, destruction, loss, misappropriation, or release of sensitive information, including proprietary business information and personally identifiable information of our residents, patients and employees; (iii) significant remediation costs; (iv) negative publicity that could damage our reputation and our relationships with our residents, patients, employees and referral sources; (v) litigation and potential liability under privacy, security and consumer protection laws, including HIPAA, or other applicable laws, rules or regulations; and (vi) government inquiries that may result in sanctions and other criminal or civil fines or penalties. Any of the foregoing could materially and adversely impact our revenues, results of operations, cash flow and liquidity.

Actions of activist stockholders could cause us to incur substantial costs, divert management's attention and resources, and have an adverse effect on our business, results of operations, cash flow, and the market price of our common stock.

We value constructive input from our stockholders and engage in dialogue with our stockholders regarding our governance practices, strategy, and performance. However, activist stockholders may disagree with the composition of our board of directors or management, our strategy, or capital allocation decisions and may seek to effect change through various strategies that range from private engagement to public campaigns, proxy contests, efforts to force proposals, or transactions not supported by our board of directors and litigation. Responding to these actions may be costly and time-consuming, disrupt our operations, divert the attention of our board of directors, management, and our associates and interfere with our ability to pursue our strategy and to attract and retain qualified board and executive leadership. The perceived uncertainty as to our future direction that may result from actions of activist stockholders may also negatively impact our ability to attract and retain residents at our communities. We cannot provide assurance that constructive engagement with our stockholders will be successful. Any such stockholder activism may have an adverse effect on our business, results of operations, and cash flow and the market price of our common stock.

The potential phasing out of LIBOR may increase the interest costs of our debt obligations, which could adversely affect our results of operations and cash flow.

The interest rates for certain of our variable-rate debt obligations are calculated based on the London Interbank Offer Rate (LIBOR) plus a spread. LIBOR is regulated by the United Kingdom's Financial Conduct Authority, which has announced that it plans to phase-out LIBOR by the end of 2021. Although certain of such debt obligations are scheduled to mature prior to the end of 2021, such debt obligations may be extended or we may enter into new variable interest rate debt obligations based on LIBOR. If LIBOR were to be discontinued, the terms of such variable-rate debt agreements may provide that the lender will have the right to choose an alternative index based on comparable information. It is unclear whether LIBOR will cease to exist or if new methods of calculating LIBOR will evolve by the end of 2021, or whether alternative and comparable index rates will be established and adopted by our lenders and other financial institutions. If LIBOR ceases to exist or if the methods of calculating LIBOR change, interest rates on any such variable-rate debt obligations may increase, which would adversely affect our results of operations and cash flow.

Risks Related to Our Common Stock

Anti-takeover provisions in our governing documents, governing law and material agreements may discourage, delay or prevent a merger or acquisition that our stockholders may consider favorable or prevent the removal of our current board of directors and management.

Certain provisions of our amended and restated certificate of incorporation and our amended and restated by-laws may discourage, delay or prevent a merger or acquisition that our stockholders may consider favorable or prevent the removal of our current board of directors and management. We have a number of anti-takeover devices in place that will hinder takeover attempts, including: a staggered board of directors consisting of three classes of directors, each of whom serve three-year terms; removal of directors only for cause, and only with the affirmative vote of at least a majority of the voting interest of stockholders entitled to vote; right of our directors to issue preferred stock from time to time with voting, economic and other rights superior to those of our common stock without the consent of our stockholders; provisions in our amended and restated certificate of incorporation and amended and restated by-laws limiting the right of our stockholders to call special meetings of stockholders; advance notice requirements for stockholders with respect to director nominations and actions to be taken at annual meetings; requirement for two-thirds stockholder approval for amendment of our by-laws and certain provisions of our certificate of incorporation; and no provision in our amended and restated certificate of incorporation for cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of our common stock can elect all the directors standing for election. Our board of directors has approved amendments to our certificate of incorporation that will phase out the Company's staggered board of directors over a three-year period and to eliminate the requirement that directors may only be removed for cause, but such amendments are subject to the approval of our stockholders and there are no reassurances as to when, if at all, such approval will be received.

Several of our leases, loan documents and other material agreements require approval in case of a change of control of our company. These provisions may have the effect of delaying or preventing a change of control of our company even if this change of control would benefit our stockholders.

In addition to the anti-takeover provisions described above, we are subject to Section 203 of the Delaware General Corporation Law. Section 203 generally prohibits a person beneficially owning, directly or indirectly, 15% or more of our outstanding common stock from engaging in a business combination with us for three years after the person acquired the stock. However, this prohibition does not apply if (A) our directors approve in advance the person's ownership of 15% or more of the shares or the business combination or (B) the business combination is approved by our stockholders by a vote of at least two-thirds of the outstanding shares not owned by the acquiring person.

Because we do not presently have plans to pay dividends on our common stock, stockholders must look solely to appreciation of our common stock to realize a gain on their investment.

It is the policy of our board of directors to retain any future earnings to finance the operation and expansion of the Company's business. Accordingly, the Company has not and does not currently anticipate declaring or paying cash dividends on your common stock in the foreseeable future. The payment of cash dividends in the future will be at the sole discretion of our board of directors and will depend on, among other things, the Company's earnings, operations, capital requirements, financial condition, restrictions in then existing financing agreements and other factors deemed relevant by our board of directors. Accordingly, stockholders must look solely to appreciation of our common stock to realize a gain on their investment. This appreciation may not occur.

If we cannot meet the NYSE continued listing requirements, the NYSE may delist our common stock.

Our common stock is currently listed on the NYSE. In the future, if we are unable to meet the continued listing requirements of the NYSE, including, among other things: (i) the requirement of maintaining a minimum average closing price of \$1.00 per share over a consecutive 30 trading-day period, and (ii) the requirement to maintain an average market capitalization of not less than \$50 million over a 30 trading-day period and at the same time stockholders' equity is also less than \$50 million, we would fall below compliance standards and risk having our common stock delisted. In addition, in the event of an abnormally low share price of our common stock and/or we fail to maintain an average market capitalization of at least \$15 million over a 30-trading day period, we would be subject to immediate delisting under the NYSE's rules without any opportunity to cure. On March 19, 2020, the NYSE filed a proposed rule change to suspend until June 30, 2020, the application of the NYSE continued listing requirement with respect to the \$15 million average market capitalization rule as a result of COVID-19 market turbulence. On March 25, 2020, the closing price of our common stock on the NYSE was \$0.57 per share and our market capitalization was approximately \$18.2 million.

A delisting of our common stock could negatively impact us by, among other things:

- reducing the liquidity and market price of our common stock;
- reducing the number of investors, including institutional investors, willing to hold or acquire our common stock, which could negatively impact our ability to raise equity;
- decreasing the amount of news and analyst coverage relating to us;
- limiting our ability to issue additional securities, obtain additional financing or pursue strategic restructuring, refinancing or other transactions; and
- impacting our reputation and, as a consequence, our ability to attract new business.

The price of our common stock has fluctuated substantially over the past several years and may continue to fluctuate substantially in the future.

Our stock price has been, and may continue to be, subject to significant fluctuations as a result of a variety of factors, which are described throughout this Annual Report on Form 10-K, including those factors discussed under this section entitled "Risk Factors." Some of these factors are beyond our control. We may fail to meet the

expectations of our stockholders or securities analysts at some point in the future, and our stock price could decline as a result. This volatility may prevent you from being able to sell your common stock at or above the price you paid for your common stock.

In addition, the stock markets in general have experienced extreme volatility recently that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. Such litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources and harm our business, operating results and financial condition.

Future offerings of equity securities by us may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by offering additional equity securities. Additional equity offerings may dilute the economic and voting rights of our existing stockholders and/or reduce the market price of our common stock. Our decision to issue equity securities in a future offering will depend on market conditions and other factors, some of which are beyond our control, we cannot predict or estimate the amount, timing, or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting their holdings in our Company.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The executive and administrative offices of the Company are located at 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254, and consist of approximately 26,000 square feet. The lease on the premises currently extends through September 2020. The Company is currently negotiating an extension to the office lease. The Company believes that its corporate office facilities are adequate to meet its requirements through at least fiscal 2020 and that suitable additional space will be available, as needed, to accommodate further physical expansion of corporate operations.

As of December 31, 2019, the Company owned or leased and managed the senior housing communities referred to in Item 1 above under the caption "Operating Communities."

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a) Market Price of and Dividends on the Registrant’s Common Equity and Related Stockholder Matters.

Market Information and Holders

The Company’s shares of common stock are listed for trading on the New York Stock Exchange (“NYSE”) under the symbol “CSU”. At March 25, 2020, there were 138 stockholders of record of the Company’s common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table presents information relating to the Company’s equity compensation plans as of December 31, 2019:

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted-Average Exercise Price of the Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)</u>
Equity compensation plans approved by security holders	—	\$—	2,366,759
Equity compensation plans not approved by security holders	—	—	—
Total	<u>—</u>	<u>\$—</u>	<u>2,366,759</u>

(b) Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities.

Not applicable.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

The following information is provided pursuant to Item 703 of Regulation S-K. The information set forth in the table below reflects information regarding the aggregate shares repurchased by the Company pursuant to its share repurchase program (as described below) as of December 31, 2019.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)</u>
Total at September 30, 2019	494,115	\$6.94	494,115	\$6,570,222
October 1 – October 31, 2019	—	—	—	6,570,222
November 1 – November 30, 2019	—	—	—	6,570,222
December 1 – December 31, 2019	—	—	—	6,570,222
Total at December 31, 2019	<u>494,115</u>	<u>\$6.94</u>	<u>494,115</u>	<u>\$6,570,222</u>

(1) On January 22, 2009, the Company’s board of directors approved a share repurchase program that authorized the Company to purchase up to \$10.0 million of the Company’s common stock. The repurchase program does not obligate the Company to acquire any particular amount of common stock and the share repurchase authorization has no stated expiration date. On January 14, 2016, the Company announced that its board of directors approved a continuation of the share repurchase program. All shares that have been acquired by the Company under this program were purchased in open-market transactions. The Company does not expect to repurchase any shares of the Company’s common stock in the near term.

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Certain information contained in this report constitutes "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which can be identified by the use of forward-looking terminology such as "may," "will," "would," "intend," "could," "believe," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. Examples of forward-looking statements, include, without limitation, those relating to the Company's future business prospects and strategies, financial results, working capital, liquidity, capital needs and expenditures, interest costs, insurance availability and contingent liabilities. Forward-looking statements are subject to certain risks and uncertainties that could cause the Company's actual results and financial condition to differ materially from those indicated in the forward-looking statements, including, but not limited to, the Company's ability to generate sufficient cash flows from operations, additional proceeds from debt refinancings, and proceeds from the sale of assets to satisfy its short- and long-term debt and lease obligations and to fund the Company's capital improvement projects to expand, redevelop, and/or reposition its senior living communities; the Company's ability to obtain additional capital on terms acceptable to it; the Company's ability to extend or refinance its existing debt as such debt matures; the Company's compliance with its debt and lease agreements, including certain financial covenants and the terms and conditions of its recent forbearance agreements, and the risk of cross-default in the event such non-compliance occurs; the Company's ability to complete acquisitions and dispositions upon favorable terms or at all; the risks related to an epidemic, pandemic, or other health crisis, such as the recent outbreak of the novel coronavirus (COVID-19); the risk of oversupply and increased competition in the markets which the Company operates; the risk of increased competition for skilled workers due to wage pressure and changes in regulatory requirements; the departure of the Company's key officers and personnel; the cost and difficulty of complying with applicable licensure, legislative oversight, or regulatory changes; the risks associated with a decline in economic conditions generally; the adequacy and continued availability of the Company's insurance policies and the Company's ability to recover any losses it sustains under such policies; changes in accounting principles and interpretations; and the other risks and factors identified from time to time in the Company's reports filed with the SEC.

Overview

The following discussion and analysis addresses (i) the Company's results of operations on a historical consolidated basis for the years ended December 31, 2019 and 2018, and (ii) liquidity and capital resources of the Company, and should be read in conjunction with the Company's historical consolidated financial statements and the selected financial data contained elsewhere in this report.

The Company is one of the largest operators of senior housing communities in the United States. The Company's operating strategy is to provide value to its senior living residents by providing quality senior living services at reasonable prices, while achieving and sustaining a strong, competitive position within its geographically concentrated regions, as well as continuing to enhance the performance of its operations. The Company provides senior living services to the 75+ population, including independent living, assisted living, and memory care services at reasonable prices. Many of the Company's communities offer a continuum of care to meet its residents' needs as they change over time. This continuum of care, which integrates independent living, assisted living, and memory care, and is bridged by home care through independent home care agencies, sustains residents' autonomy and independence based on their physical and mental abilities.

As of December 31, 2019, the Company operated 126 senior housing communities in 23 states with an aggregate capacity of approximately 16,000 residents, including 80 senior housing communities that the Company owned and 46 senior housing communities that the Company leased.

Significant Financial and Operational Highlights

The Company primarily derives its revenue by providing senior living housing and services to the 75+ population. When comparing fiscal 2019 to fiscal 2018, the Company generated total revenues of approximately \$447.1 million compared to total revenues of approximately \$460.0 million, respectively, representing a decrease of approximately \$12.9 million, or 2.8%. Our resident revenue was positively impacted by the lease-up of our two communities impacted by the aftermath of Hurricane Harvey. These communities were closed beginning in the third quarter of 2017 for physical repairs. The Company began accepting residents during the third quarter of fiscal 2018, which resulted in an increase of approximately \$3.2 million in our resident revenue during fiscal 2019 when compared to fiscal 2018. However, the increase in resident revenue from the two properties impacted by Hurricane Harvey was fully offset by a decrease in resident revenue at the Company's other communities of approximately \$16.1 million, which was primarily due to a 2.4% decrease in average financial occupancies.

Excluding the two senior housing communities impacted by Hurricane Harvey and the three communities sold during 2019, the weighted average financial occupancy rate for fiscal 2019 and 2018 was 82.6% and 85.0%, respectively. Although our occupancies declined, we achieved a 0.2% increase in average monthly rental rates when comparing fiscal 2019 to fiscal 2018. The increase in average monthly rental rates during fiscal 2019 was primarily the result of annual rent increases for our existing residents and the capital improvements we have invested in our communities for unit conversions which enable us to provide a broader range of senior living services at higher levels of care.

On December 23, 2019, the Company obtained \$31.5 million of mortgage debt from Fifth Third Bank on its Autumn Glen and Cottonwood Village senior housing communities. The new mortgage loan is interest-only and has a two-year term and an initial variable interest rate of LIBOR plus 3.25%. The Company incurred approximately \$0.6 million in deferred financing costs related to this loan, which are being amortized over the term of the loan. On the same date, the Company amended and repaid \$24.5 million in principal on its interest-only mortgage loan with BBVA USA, secured by the Company's Cottonwood Village, Georgetowne Place, Harrison at Eagle Valley, and Rose Arbor communities. As a result of the amendment, BBVA USA released the Cottonwood Village assets from collateral for the mortgage and extended the maturity date from July 11, 2020 to December 10, 2021. The Company had previously exercised its option to extend such mortgage loan from May 11, 2020 to July 11, 2020. The amended mortgage has an interest-only variable rate of LIBOR plus 4.5%.

As mentioned above, the Company had two of its senior housing communities located in southeast Texas impacted by Hurricane Harvey during the third quarter of fiscal 2017. We maintain insurance coverage on these communities which includes damage caused by flooding. The insurance claim for this incident required a deductible of \$100,000 that was expensed as a component of operating expenses in the Company's Consolidated Statement of Operations and Comprehensive Loss in the third quarter of fiscal 2017. Physical repairs have been completed to restore the communities to their condition prior to the incident and these communities reopened and began accepting residents in July 2018. We have incurred approximately \$6.2 million in clean-up and physical repair costs, almost all of which have been recovered through insurance proceeds. At December 31, 2019, we expected to receive an additional \$0.3 million in insurance proceeds from our carriers relating to such costs. In addition to the repairs of physical damage to the buildings, the Company's insurance coverage includes loss of business income ("Business Interruption"). Business Interruption includes reimbursement for lost revenue as well as incremental expenses incurred as a result of such Hurricane. The Company received payments from our insurance underwriters during fiscal 2019 and 2018 totaling approximately \$2.5 million and \$5.1 million related to Business Interruption, respectively, which have been included as a reduction to operating expenses in the Company's Consolidated Statement of Operations and Comprehensive Loss for each respective year. Business Interruption payments ceased in accordance with our insurance policy in July 2019.

Facility Leases

As of December 31, 2019, the Company leased 46 senior housing communities from certain real estate investment trusts ("REITs"). The lease terms are generally for 10-15 years with renewal options for five-20 years at the Company's option. Under these lease agreements, the Company is responsible for all operating costs, maintenance and repairs, insurance and property taxes. No new facility leases were entered into by the Company during fiscal 2019.

Ventas

As of December 31, 2019, the Company leased seven senior housing communities (collectively the “Ventas Lease Agreements”) from Ventas. Effective January 31, 2017, the Company acquired from Ventas the underlying real estate associated with four of its operating leases for a total acquisition price of \$85.0 million (the “Four Property Lease Transaction”). The Company obtained interim, interest-only, bridge financing from Commercial Mortgage LLC (“Berkadia”) for \$65.0 million of the acquisition price with an initial variable interest rate of LIBOR plus 4.0% and a 36-month term, with an option to extend six months, and the balance of the acquisition price paid was from the Company’s existing cash resources. Prior to the Four Property Lease Transaction, the Company previously leased 11 senior housing communities from Ventas.

During the second quarter of fiscal 2015, the Company executed amendments to the master lease agreements with Ventas to facilitate up to \$24.5 million of leasehold improvements for 10 communities within the Ventas lease portfolio and extend the lease terms until September 30, 2025, with two five-year renewal extensions available at the Company’s option. During the second quarter of fiscal 2016, the Company executed amendments to the master lease agreements with Ventas to increase the funds budgeted for leasehold improvements (the “Special Project Funds”) from \$24.5 million to \$28.5 million and extend the date for completion of the leasehold improvements to June 30, 2017. During the second quarter of fiscal 2017, the Company executed amendments to the master lease agreements with Ventas to decrease the Special Project Funds for leasehold improvements from \$28.5 million to approximately \$17.0 million due to the Four Property Lease Transaction and extend the date for completion of the leasehold improvements to June 30, 2018. During the second quarter of fiscal 2019, the Company executed amendments to the master lease agreements with Ventas to increase the Special Project Funds for leasehold improvements from approximately \$17.0 million to approximately \$20.0 million and extend the date for completion of the leasehold improvements to December 31, 2020. The initial lease rates under each of the Ventas Lease Agreements ranged from 6.75% to 8% and are subject to contingent rent escalation clauses. When a contingency is resolved and an escalation occurs, the amount is included within lease payments and reflected in the right-of-use (“ROU”) asset and lease liability.

On March 10, 2020, the Company entered into an agreement with Ventas, which was subsequently amended on March 26, 2020, providing for the early termination of a Master Lease Agreement between it and Ventas covering seven communities. Pursuant to such agreement, among other things, from February 1, 2020 through December 31, 2020, the Company agreed to pay Ventas rent of approximately \$1.0 million per month for such communities as compared to approximately \$1.3 million per month that would otherwise have been due and payable under the Master Lease Agreements. The Company will not be required to comply with certain financial covenants of the Master Lease Agreements during the forbearance period. In conjunction with the agreement, the Company agreed to release \$3.9 million in security deposits held by Ventas. In addition, the agreement with Ventas provides for the conversion of the lease agreements covering the communities into property management agreements with the Company on December 31, 2020 if Ventas has not transitioned such communities to a successor operator.

Healthpeak

As of December 31, 2019, the Company leased 15 senior housing communities (collectively the “Healthpeak Lease Agreements”) from Healthpeak Properties, Inc., formerly HCP, Inc. (“Healthpeak”). During the fourth quarter of fiscal 2013, the Company executed an amendment to the master lease agreement with Healthpeak to facilitate up to \$3.3 million of leasehold improvements for one community within the Healthpeak lease portfolio and extend the initial lease terms for nine communities until October 31, 2020. During the second quarter of fiscal 2015, the Company exercised its right to extend the lease term with Healthpeak for the remaining six communities in the Healthpeak lease portfolio until April 30, 2026. The initial lease rates under the Healthpeak Lease Agreements ranged from 7.25% to 8% and are subject to certain conditional escalation clauses. When a contingency is resolved and an escalation occurs, the amount is included within lease payments and reflected in the ROU asset and lease liability.

On October 22, 2019, the Company executed an amendment to the master lease agreement with Healthpeak, which was later amended, to transition one of the Healthpeak communities to a new operator on or around January 15, 2020, and to sell the remaining eight communities as soon as possible to one or more buyers. The

Company was obligated to pay a \$250,000 termination fee on the transition of the one community to a new operator. On March 1, 2020, the Company executed an agreement providing for the early termination of its master lease agreement with Healthpeak, previously scheduled to mature in April 2026. The master lease agreement was converted to a management agreement under a RIDEA structure pursuant to which the Company agreed to manage the six communities that was subject to such lease agreement until the communities have been sold by Healthpeak. In conjunction with the agreement, the Company agreed to release approximately \$1.9 million of security deposits held by Healthpeak.

Welltower

As of December 31, 2019, the Company leased 24 senior housing communities (collectively the “Welltower Lease Agreements”) from Welltower, formerly Health Care REIT, Inc. The Welltower Lease Agreements each have an initial term of 15 years. The initial lease rates under the Welltower Lease Agreements ranged from 7.25% to 8.5% and are subject to certain conditional escalation clauses. When a contingency is resolved and an escalation occurs, the amount is included within lease payments and reflected in the ROU asset and lease liability. The initial terms on the Welltower Lease Agreements expire on various dates through from April 2025 through April 2026.

On March 15, 2020, the Company entered into an agreement with Welltower, providing for the early termination of three Master Lease Agreements between it and Welltower covering 24 communities. Pursuant to such agreement, among other things, from February 1, 2020 through December 31, 2020, the Company agreed to pay Welltower rent of approximately \$2.2 million per month for such communities as compared to approximately \$2.8 million per month that would otherwise have been due and payable under the Master Lease Agreements. The Company will not be required to comply with certain financial covenants of the Master Lease Agreements during the forbearance period. In conjunction with the agreement, the Company agreed to release \$6.5 million in security deposits held by Welltower. In addition, the agreement with Welltower provides for the conversion of the lease agreements covering the communities into property management agreements with the Company on December 31, 2020, if the transition of such communities have not been transitioned to a successor operator.

The following table summarizes each of the Company's facility lease agreements as of December 31, 2019 (dollars in millions):

<u>Landlord</u>	<u>Initial Date of Lease</u>	<u>Number of Communities</u>	<u>Value of Transaction</u>	<u>Current Expiration and Renewal Term</u>	<u>Initial Lease Rate (1)</u>	<u>Lease Acquisition and Modification Costs (2)</u>	<u>Deferred Gains / Lease Concessions (3)</u>
Ventas	September 30, 2005	4	\$ 61.4	September 30, 2025 (4) (Two five-year renewals)	8%	\$ 7.7	\$ 4.2
Ventas	January 31, 2008	1	5.0	September 30, 2025 (4) (Two five-year renewals)	7.75%	0.2	—
Ventas	June 27, 2012	2	43.3	September 30, 2025 (4) (Two five-year renewals)	6.75%	0.8	—
Healthpeak	May 1, 2006	3	54.0	October 31, 2020 (5) (Two 10-year renewals)	8%	0.3	12.8
Healthpeak	May 31, 2006	6	43.0	April 30, 2026 (6) (One 10-year renewal)	8%	0.2	0.6
Healthpeak	December 1, 2006	4	51.0	October 31, 2020 (5) (Two 10-year renewals)	8%	0.7	—
Healthpeak	December 14, 2006	1	18.0	October 31, 2020 (5) (Two 10-year renewals)	7.75%	0.3	—
Healthpeak	April 11, 2007	1	8.0	October 31, 2020 (5) (Two 10-year renewals)	7.25%	0.1	—
Welltower	April 16, 2010	5	48.5	April 30, 2025 (15 years) (One 15-year renewal)	8.25%	0.6	0.8
Welltower	May 1, 2010	3	36.0	April 30, 2025 (15 years) (One 15-year renewal)	8.25%	0.2	0.4
Welltower	September 10, 2010	12	104.6	September 30, 2025 (15 years) (One 15-year renewal)	8.50%	0.4	2.0
Welltower	April 8, 2011	4	141.0	April 30, 2026 (15 years) (One 15-year renewal)	7.25%	0.9	16.3
Subtotal						<u>12.4</u>	<u>37.1</u>
Accumulated amortization through December 31, 2018						(7.9)	—
Accumulated deferred gains / lease concessions recognized through December 31, 2018						—	(26.2)
Adoption of ASC 842						<u>(4.5)</u>	<u>(10.9)</u>
Net lease acquisition costs / deferred gains / lease concessions as of December 31, 2019						<u>\$ —</u>	<u>\$ —</u>

(1) Initial lease rates are measured against agreed upon fair market values and are subject to conditional lease escalation provisions as set forth in each respective lease agreement.

(2) Prior to the adoption of Accounting Standards Codification ("ASC") 842, lease acquisition and modification costs were amortized over the respective lease terms. The unamortized portion of lease acquisition and modification

costs totaling approximately \$4.5 million were reclassified into operating lease right-of-use assets in conjunction with the Company's adoption of ASC 842 on January 1, 2019.

- (3) Prior to the adoption of ASC 842, deferred gains of \$34.5 million and lease concessions of \$2.6 million were recognized in the Company's Consolidated Statements of Operations and Comprehensive Loss as a reduction in facility lease expense over the respective initial lease term. The unamortized balance of deferred gains associated with sale leaseback transactions totaling approximately \$10.0 million was written-off to retained deficit in conjunction with the Company's adoption of ASC 842 on January 1, 2019. Lease concessions of \$0.6 million related to the transaction with Healthpeak on May 31, 2006, and \$2.0 million related to the transaction with Welltower on September 10, 2010. The unamortized portion of lease concessions totaling approximately \$0.9 million were reclassified into operating lease right-of-use assets in conjunction with the Company's adoption of ASC 842 on January 1, 2019.
- (4) Effective June 17, 2015, the Company executed amendments to the master lease agreements with Ventas to facilitate leasehold improvements for 10 of the leased communities, of which the underlying real estate associated with four of its operating leases was acquired by the Company upon closing the Four Property Lease Transaction on January 31, 2017, and extend the lease terms through September 30, 2025, with two five-year renewal extensions available at the Company's option.
- (5) On November 11, 2013, the Company executed an amendment to the master lease agreement associated with nine of its leased communities with Healthpeak to facilitate leasehold improvements for one of the leased communities and extend the respective lease terms through October 31, 2020, with two 10-year renewal extensions available at the Company's option.
- (6) On April 24, 2015, the Company exercised its right to extend the lease terms with Healthpeak through April 30, 2026, with one 10-year renewal extension remaining available at the Company's option. See the description above under Healthpeak for amendment affecting all of the Healthpeak leased properties.

There are various financial covenants and other restrictions in the Company's lease agreements. The Company was in compliance with all of its lease covenants at December 31, 2018. With regard to its Master Lease Agreements with Ventas and Welltower, the Company was not in compliance with certain financial covenants as of December 31, 2019. In February 2020, the Company began paying Ventas and Welltower monthly rental amounts based on the estimated monthly cash flows generated by the communities in Ventas' and Welltower's respective portfolios, which were less than the rental amounts due and payable under the terms of the Master Lease Agreements. Although the Company has entered into forbearance agreements with Ventas and Welltower with respect to such defaults, no assurances can be given that we will be able to comply with the terms and conditions of such forbearance agreements or the other terms and conditions of the Master Lease Agreements.

Debt Transactions

On December 23, 2019, the Company obtained \$31.5 million of mortgage debt from Fifth Third Bank on its Autumn Glen and Cottonwood Village senior housing communities. The new mortgage loan is interest-only and has a two-year term and an initial variable interest rate of LIBOR plus 3.25%. The Company incurred approximately \$0.5 million in deferred financing costs related to this loan, which are being amortized over the remaining initial loan term. On the same date, the Company amended and repaid \$24.5 million in principal on its interest-only mortgage loan with BBVA USA for the Company's Cottonwood Village, Georgetowne Place, Harrison at Eagle Valley, and Rose Arbor communities. As a result of the amendment, BBVA USA released the Cottonwood Village assets from collateral for the mortgage and extended the maturity date from July 11, 2020 to December 10, 2021. The Company had previously exercised its option to extend such mortgage loan from May 11, 2020 to July 11, 2020. The amended mortgage has an interest-only variable rate of LIBOR plus 4.5%.

On May 31, 2019, the Company renewed certain insurance policies and entered into two finance agreements totaling approximately \$2.6 million and \$2.7 million, respectively. The finance agreements each have a fixed interest rate of 4.4%, with the principal being repaid over a 11-month and 18-month term, respectively.

The Company issued standby letters of credit with Wells Fargo Bank, totaling approximately \$3.4 million, for the benefit of Hartford Financial Services associated with the administration of workers compensation, which remain outstanding as of December 31, 2019.

The Company issued standby letters of credit with JPMorgan Chase Bank (“Chase”), totaling approximately \$6.5 million, for the benefit of Welltower on certain leases between Welltower and the Company, which remain outstanding as of December 31, 2019.

The Company issued standby letters of credit with Chase, totaling approximately \$2.9 million, for the benefit of Healthpeak on certain leases between Healthpeak and the Company, which remain outstanding as of December 31, 2019.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements and related notes. Management bases its estimates and assumptions on historical experience, observance of industry trends and various other sources of information and factors, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially could result in materially different results under different assumptions and conditions. The Company believes the following are our most critical accounting policies and/or typically require management’s most difficult, subjective and complex judgments.

Revenue Recognition

Resident revenue consists of fees for basic housing and certain support services and fees associated with additional housing and expanded support requirements such as assisted living care, memory care, and ancillary services. Basic housing and certain support services revenue is recorded when services are rendered and amounts billed are due from residents in the period in which the rental and other services are provided. Residency agreements are generally short-term in nature with durations of one year or less and are typically terminable by either party, under certain circumstances, upon providing 30 days’ notice, unless state law provides otherwise, with resident fees billed monthly in advance. Revenue for certain ancillary services is recognized as services are provided, and includes fees for services such as medication management, daily living activities, beautician/barber, laundry, television, guest meals, pets, and parking, which are generally billed monthly in arrears.

The Company’s senior housing communities have residency agreements that generally require the resident to pay a community fee prior to moving into the community and are recorded initially by the Company as deferred revenue. The deferred amounts are amortized over the respective residents’ initial lease term, which is consistent with the contractual obligation associated with the estimated stay of the resident.

Revenues from the Medicaid program accounted for approximately 5.9% of the Company’s revenue in fiscal 2019 and 5.4% of the Company’s revenue in fiscal 2018. During fiscal 2019 and 2018, 41 and 40, respectively, of the Company’s communities were providers of services under Medicaid programs. Accordingly, these communities were entitled to reimbursement under the foregoing program at established rates that were lower than private pay rates. Patient service revenue for Medicaid patients was recorded at the reimbursement rates as the rates were set prospectively by the applicable state upon the filing of an annual cost report. None of the Company’s communities were providers of services under the Medicare program during fiscal 2019 or 2018.

Laws and regulations governing the Medicaid program are complex and subject to interpretation. The Company 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 Medicaid program.

Credit Risk and Allowance for Doubtful Accounts

The Company’s resident receivables are generally due within 30 days from the date billed. Accounts receivable are reported net of an allowance for doubtful accounts of \$8.6 million and \$6.8 million at December 31,

2019 and 2018, respectively, and represent the Company's estimate of the amount that ultimately will be collected. The adequacy of the Company's allowance for doubtful accounts is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, as well as a review of specific accounts, and adjustments are made to the allowance as necessary. Credit losses on resident receivables have historically been within management's estimates, and management believes that the allowance for doubtful accounts adequately provides for expected losses.

Off-Balance Sheet Arrangements

The Company had no material off-balance sheet arrangements at December 31, 2019 or 2018.

Lease Accounting

Effective January 1, 2019, the Company adopted the new lease standard provisions of ASC 842. Due to the adoption of ASC 842, the unamortized balances of lease acquisition costs and lease incentives were reclassified as a component of the respective operating lease right-of-use asset. Additionally, the unamortized balance of deferred gains associated with sale leaseback transactions totaling approximately \$10.0 million was written-off to retained deficit.

Management determines if a contract is or contains a lease at the inception or modification of such contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control over the use of the identified asset means the lessee has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset.

Operating lease right-of-use assets and liabilities are recognized based on the present value of future minimum lease payments over the expected lease term on the lease commencement date. When the implicit lease rate is not determinable, management uses the Company's incremental borrowing rate based on the information available at the lease commencement date in determining the present value of future minimum lease payments. The expected lease terms include options to extend or terminate the lease when it is reasonably certain the Company will exercise such options. Lease expense for minimum lease payments is recognized on a straight-line basis over the expected lease terms.

Financing lease right-of-use assets are recognized within property, plant and equipment and leasehold improvements, net on the Company's consolidated balance sheets. The Company recognizes interest expense on the financing lease liabilities utilizing the effective interest method. The right-of-use asset is generally amortized to depreciation and amortization expense on a straight-line basis over the lease term.

Certain of the Company's lease arrangements have lease and non-lease components. The Company accounts for the lease components and non-lease components as a single lease component for all classes of underlying assets. Leases with an expected lease term of 12 months or less are not recorded on the balance sheet and the related lease expense is recognized on a straight-line basis over the expected lease term.

Self-Insurance Liability Accruals

The Company offers full-time employees an option to participate in its health and dental plans. The Company is self-insured up to certain limits and is insured if claims in excess of these limits are incurred. The cost of employee health and dental benefits, net of employee contributions, is shared between the corporate office and the senior housing communities based on the respective number of plan participants. Funds collected are used to pay the actual program costs including estimated annual claims, third-party administrative fees, network provider fees, communication costs, and other related administrative costs incurred by the plans. Claims are paid as they are submitted to the Company's third-party administrator. The Company records a liability for outstanding claims and claims that have been incurred but not yet reported. This liability is based on the historical claim reporting lag and payment trends of health insurance claims. Management believes that the liability for outstanding losses and expenses is adequate to cover the ultimate cost of losses and expenses incurred at December 31, 2019; however, actual claims and expenses may differ. Any subsequent changes in estimates are recorded in the period in which they are determined.

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

Long-Lived Assets and Impairment

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets. At each balance sheet date, the Company reviews the carrying value of its property and equipment to determine if facts and circumstances indicate the carrying amount of an asset group may not be recoverable or that the depreciation period may need to be changed. The Company considers internal factors such as net operating losses along with external factors relating to each asset, including contract changes, local market developments, and other publicly available information to determine whether impairment indicators exist.

If an indicator of impairment is identified, the carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such asset is separately identifiable and is less than its carrying value. Recoverability of an asset group is assessed by comparing its carrying amount to the estimated future undiscounted net cash flows expected to be generated by the asset group through operation or disposition, calculated utilizing the lowest level of identifiable cash flows. If this comparison indicates that the carrying amount of an asset group is not recoverable, we are required to recognize an impairment loss. The Company determines the fair value of operating lease ROU assets by comparing the contractual rent payments to estimated market rental rates. Long-lived ROU and fixed assets are valued at fair value using inputs classified as Level 3 in the fair value hierarchy, which are unobservable inputs based on the Company's assumptions. Impairment, if any, is recorded in the period in which the impairment occurred.

For property and equipment where indicators of impairment were identified, tests of recoverability were performed at December 31, 2019 and 2018. The Company recorded impairment charges of \$1.6 million and \$1.4 million related to fixed assets and lease ROU assets, respectively, related to the Company's property located in Boca Raton, Florida, which transferred to a new operator subsequent to (see Note 18, *Subsequent Events*, for discussion of the property's transition) December 31, 2019. The Company has concluded its property and equipment was recoverable and did not warrant adjustment to the carrying value or remaining useful lives as of December 31, 2018.

Income Taxes

Income taxes are computed using the asset and liability method and current income taxes are recorded based on amounts refundable or payable. Deferred income taxes are recorded based on the estimated future tax effects of loss carryforwards and temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which we expect those carryforwards and temporary differences to be recovered or settled. Management regularly evaluates the future realization of deferred tax assets and provides a valuation allowance, if considered necessary, based on such evaluation. As part of the evaluation, management has evaluated taxable income in carryback years, future reversals of taxable temporary differences, feasible tax planning strategies, and future expectations of income. Based upon this evaluation, a valuation allowance has been recorded to reduce the Company's net deferred tax assets to the amount that is more likely than not to be realized. However, in the event that we were to determine that it would be more likely than not that the Company would realize the benefit of deferred tax assets in the future in excess of their net recorded amounts, adjustments to deferred tax assets would increase net income in the period we made such a determination. The benefits of the net deferred tax assets might not be realized if actual results differ from expectations. The effective tax rates for fiscal 2019 and 2018 differ from the statutory tax rates due to state income taxes, permanent tax differences, and changes in the deferred tax asset valuation allowance. The effective

tax rate for fiscal 2017 differs from the statutory tax rate primarily due to state income taxes, changes in the deferred tax asset valuation allowance, tax reform impact on deferred income taxes, adoption of ASU 2016-09, and other permanent tax differences. The Company is impacted by the Texas Margin Tax (“TMT”), which effectively imposes tax on modified gross revenues for communities within the State of Texas. During each of fiscal 2019, 2018, and 2017, the Company consolidated 38 Texas communities and the TMT increased the overall provision for income taxes.

The Company evaluates uncertain tax positions through consideration of accounting and reporting guidance on criteria, measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial-statement comparability among different companies. The Company is required to recognize a tax benefit in its financial statements for an uncertain tax position only if management’s assessment is that its position is “more likely than not” (i.e., a greater than 50 percent likelihood) to be upheld on audit based only on the technical merits of the tax position. The Company’s policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as income tax expense. The Company is generally no longer subject to federal and state income tax audits for years prior to 2016.

Recently Issued Accounting Guidance

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*, which modifies certain disclosure requirements in Topic 820, such as the removal of the need to disclose the amount of and reason for transfers between Level 1 and Level 2 of the fair value hierarchy, and several changes related to Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. The Company does not expect the adoption of ASU 2018-13 to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments*. Current U.S. generally accepted accounting principles (“GAAP”) require an “incurred loss” methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. ASU 2016-13 replaces the current incurred loss methodology for credit losses and removes the thresholds that companies apply to measure credit losses on financial statements measured at amortized cost, such as loans, receivables, and held-to-maturity debt securities with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. For smaller reporting companies, ASU 2016-13 is effective for fiscal years and for interim periods within those fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new lease standard requires lessees to recognize on the balance sheet a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. Additionally, in July 2018, the FASB issued ASU 2018-11, *Leases, Targeted Improvements*, which provided entities with a transition method option to not restate comparative periods presented, but to recognize a cumulative effect adjustment to beginning retained earnings in the period of adoption. The Company adopted the new lease standard on January 1, 2019, forgoing comparative reporting using the modified retrospective adoption method, the simplified transition method available pursuant to the standard. This allowed the Company to continue to apply the legacy accounting guidance under ASC 840, including its disclosure requirements, in the comparative periods presented in the year of adoption. The Company elected to utilize certain practical expedients permitted under the transition guidance within the new standard, which allowed the Company to carryforward the historical lease classification, not separate the lease and non-lease components for all classes of underlying assets in which it is the lessee, not reassess initial direct costs for existing leases, and make an accounting policy election not to account for leases with an initial term of 12 months or less on the balance sheet. Adoption of the lease standards by the Company initially resulted in the recording of operating lease right-of-use assets of \$255.4 million and operating lease liabilities of \$289.5 million on the Company’s Consolidated Balance Sheet as of January 1, 2019. The difference between amounts recorded for the operating

lease right-of-use assets and operating lease liabilities is due to net reductions for the reclassification of certain deferred lease costs and lease incentives of \$16.3 million and impairment write-down adjustments of \$17.8 million recorded to retained deficit. The fair value of the right-of-use assets was estimated, using level 3 inputs as defined in the accounting standards codification, utilizing a discounted cash flow approach based upon historical and projected cash flows and market data, including management fees and a market supported lease coverage ratio. The estimated future cash flows were discounted at a rate that is consistent with a weighted average cost of capital from a market participant perspective. The adoption of the lease standard did not have a material impact on the consolidated cash flows of the Company and had no impact on the Company's covenant compliance under its current debt and lease agreements. See additional discussion at "Note 16 – Leases."

The adoption of ASC 842 resulted in the following adjustments to the Company's Consolidated Balance Sheet at January 1, 2019:

Assets	
Prepaid expenses and other	\$ (2,050)
Property and equipment, net	(15,569)
Operating lease right-of-use assets, net	255,386
Other assets, net	<u>(4,715)</u>
Total assets	<u>\$233,052</u>
Liabilities and Shareholders' Equity	
Deferred income	\$ (17,498)
Financing obligations	(35,956)
Operating lease liabilities	289,513
Other long-term liabilities	<u>(15,643)</u>
Total liabilities	<u>\$220,416</u>
Total shareholders' equity	<u>\$ 12,636</u>

Results of Operations

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

	Year Ended December 31,			
	2019		2018	
	\$	%	\$	%
Revenues:				
Resident revenue	\$447,100	100.0%	\$460,018	100.0%
Expenses:				
Operating expenses (exclusive of facility lease expense and depreciation and amortization expense shown below)	306,786	68.6	294,661	64.1
General and administrative expenses	27,518	6.2	26,961	5.9
Facility lease expense	57,021	12.8	56,551	12.3
Provision for bad debts	3,765	0.8	2,990	0.7
Stock-based compensation expense	2,509	0.6	8,428	1.6
Depreciation and amortization expense	64,190	14.4	62,824	13.7
Total expenses	461,789	103.3	452,415	98.3
Income (Loss) from operations	(14,689)	(3.3)	7,603	1.7
Other income (expense):				
Interest income	221	—	165	—
Interest expense	(49,802)	(11.1)	(50,543)	(11.0)
Write-off of deferred loan costs and prepayment premiums	(4,843)	(1.1)	(12,623)	(2.7)
Long-lived asset impairment	(3,004)	(0.7)	—	—
Gain (Loss) on disposition of assets, net	36,528	8.2	28	—
Other income	7	—	3	—
Loss before benefit (provision) for income taxes	(35,582)	(8.0)	(55,367)	(12.0)
Benefit (Provision) for income taxes	(448)	(0.1)	1,771	0.4
Net loss and comprehensive loss	<u>\$ (36,030)</u>	<u>(8.1)%</u>	<u>\$ (53,596)</u>	<u>(11.6)%</u>

Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

Revenues

Resident revenue was \$447.1 million for the year ended December 31, 2019, compared to \$460.0 million for the year ended December 31, 2018, representing a decrease of \$12.9 million, or 2.8%. Our resident revenue was positively impacted by the lease-up of our two communities impacted by the aftermath of Hurricane Harvey. These communities were closed beginning in the third quarter of 2017 for repairs. The Company began accepting residents once repairs were completed during the third quarter of 2018, which resulted in an increase of approximately \$3.2 million in our resident revenue during fiscal 2019 when compared to fiscal 2018. However, the increase in resident revenue from the two properties impacted by Hurricane Harvey was fully offset by a net decrease in resident revenue at the Company's other communities of approximately \$16.1 million, which was primarily due to a 240 basis points decrease in average financial occupancies.

Expenses

Total expenses were \$461.8 million during fiscal 2019 compared to \$452.4 million during fiscal 2018, representing an increase of \$9.4 million, or 2.1%. This increase is primarily the result of a \$12.1 million increase in operating expenses, a \$0.6 million increase in general and administrative expenses, a \$0.8 million increase in bad

debt expense due to an increase in the Medicaid-related bad debt reserve, a \$0.5 million increase in facility lease costs due to lease escalations, and a \$1.4 million increase in depreciation and amortization expense, partially offset by a \$5.9 million decrease in stock-based compensation expense.

- The increase in operating expenses primarily results from an increase of \$4.0 million in insurance-related expenses due to increased premiums and a decrease in insurance proceeds the Company received during fiscal 2019 related to Business Interruption for two communities located in southeast Texas that were impacted by Hurricane Harvey, an increase of \$4.5 million due to increased wages and benefits to employees for annual merit increases and incremental costs, including increased contract labor expense needed to supplement and maintain current staffing levels in a competitive labor market, an increase of \$1.3 million in promotion and marketing costs, an increase of \$0.8 million in service contracts costs, and an increase of \$0.7 million in repairs and maintenance expenses, and a \$0.7 million increase in supplies expenses.
- The \$0.6 million increase in general and administrative expenses primarily results from a \$1.1 million increase in labor-related costs primarily attributable to employee incentive compensation and wages for annual merit increases, an increase of \$0.7 million in travel-related expenses, a \$0.1 million net increase in other expenses, including consulting and contract labor, due to the need to supplement and maintain current staffing levels in an increasingly competitive labor market, partially offset by a decrease of \$1.3 million in separation, placement and retention costs. Travel expenditure increases were due to the new members of the Company's corporate operations and marketing leadership team providing hands-on leadership directly to our communities, and the creation of peer review teams in the second quarter of 2019 that provide constructive feedback and best practice recommendations across our communities.
- The \$1.4 million increase in depreciation and amortization expense primarily results from an increase in depreciable assets at the Company's communities resulting from ongoing capital improvements and refurbishments.
- The \$5.9 million decrease in stock-based compensation expense is primarily attributable to the retirement of the Company's former CEO and separation of the Company's former COO, which resulted in the cancellation of their unvested restricted stock awards in the first quarter of 2019. Additionally, the Company concluded performance metrics associated with certain performance-based restricted stock awards were no longer probable of achievement, which resulted in remeasurement adjustments.

Other income and expense.

- Interest income generally reflects interest earned on the investment of cash balances and escrowed funds or interest associated with certain income tax refunds or property tax settlements.
- Interest expense decreased \$0.7 million in fiscal 2019 when compared to fiscal 2018 primarily due to the early repayment of mortgage debt associated with the closing of the Company's sale of communities located in Kokomo, Indiana, Springfield, Missouri, and Peoria, Illinois. The write-off of deferred loan costs and prepayment premiums is attributable to the early repayment of certain mortgage debt associated with the closing of these sale transactions, which resulted in the accelerated amortization of deferred financing charges and early repayment fees and retirement costs.
- The \$3.0 million increase in impairment expense was due to the Company recording \$1.6 million and \$1.4 million in impairment expense related to fixed assets and the ROU lease asset, respectively, of a leased property located in Boca Raton, Florida, that transferred to a new operator subsequent to year-end.

Benefit (Provision) for income taxes

The provision for income taxes for fiscal 2019 was \$(0.4) million, or (0.1%) of revenues, compared to a benefit for income taxes of \$1.8 million, or 0.4% of revenues, for fiscal 2018. The effective tax rates for fiscal 2019 and 2018 differ from the statutory tax rates due to state income taxes, permanent tax differences, and changes in the deferred tax asset valuation allowance. The Company is impacted by the TMT, which effectively

imposes tax on modified gross revenues for communities within the State of Texas. During each of fiscal 2019 and 2018, the Company consolidated 38 Texas communities and the TMT increased the overall provision for income taxes. The variation in benefit (provision) for income taxes from fiscal 2019 to fiscal 2018 was attributable to the Company electing real property trade or business under Section 163(j)(7)(B) of the Internal Revenue code to opt out of the interest expense limitation

Management regularly evaluates the future realization of deferred tax assets and provides a valuation allowance, if considered necessary, based on such evaluation. As part of the evaluation, management has evaluated taxable income in carryback years, future reversals of taxable temporary differences, feasible tax planning strategies, and future expectations of income. Based upon this evaluation, adjustments to the deferred tax asset valuation allowance of \$4.4 million and \$9.5 million were recorded during fiscal 2019 and 2018, respectively, to reduce the Company's net deferred tax assets to the amount that is more likely than not to be realized. Of the \$4.4 million adjustment to the valuation allowance during fiscal 2019, a \$3.0 million decrease in the valuation allowance was the result of the retained earnings impact related to the adoption of ASC 842 and a \$7.4 million increase to the valuation allowance was due to current year activity.

Net loss and comprehensive loss

As a result of the foregoing factors, the Company reported net loss and comprehensive loss of \$36.0 million for the fiscal year ended December 31, 2019 and net loss and comprehensive loss of \$53.6 million for the fiscal year ended December 31, 2018.

Quarterly Results

The following table presents certain unaudited quarterly financial information for each of the four quarters ended December 31, 2019 and 2018. This information has been prepared on the same basis as the audited consolidated financial statements of the Company appearing elsewhere in this report and include, in the opinion of the Company's management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the quarterly results when read in conjunction with the audited consolidated financial statements of the Company and the related notes thereto.

	2019 Calendar Quarters			
	First	Second	Third	Fourth (1)
	(In thousands, except per share amounts)			
Total revenues	\$114,176	\$113,126	\$111,110	\$108,688
Income (loss) from operations	1,970	203	(8,105)	(8,757)
Net income (loss) and comprehensive income				
(loss)	(12,984)	(12,534)	(20,731)	10,219
Net income (loss) per share, basic	\$ (0.43)	\$ (0.41)	\$ (0.68)	\$ 0.34
Net income (loss) per share, diluted	\$ (0.43)	\$ (0.41)	\$ (0.68)	\$ 0.34
Weighted average shares outstanding, basic	30,102	30,279	30,324	30,342
Weighted average shares outstanding, fully diluted	30,102	30,279	30,324	30,412

(1) The fourth quarter of calendar 2019 was impacted by a \$38.8 million gain the Company recognized due to the sale of two communities located in Springfield, Missouri and Peoria, Illinois on October 1, 2019.

	2018 Calendar Quarters			
	First	Second	Third	Fourth (1)
	(In thousands, except per share amounts)			
Total revenues	\$114,643	\$114,627	\$115,650	\$115,098
Income (loss) from operations	5,386	3,643	1,696	(3,122)
Net loss and comprehensive loss	(7,156)	(9,060)	(11,089)	(26,291)
Net loss per share, basic	\$ (0.24)	\$ (0.30)	\$ (0.37)	\$ (0.88)
Net loss per share, diluted	\$ (0.24)	\$ (0.30)	\$ (0.37)	\$ (0.88)
Weighted average shares outstanding, basic	29,627	29,831	29,877	29,908
Weighted average shares outstanding, fully diluted	29,627	29,831	29,877	29,908

(1) The fourth quarter of calendar 2018 was impacted by \$4.2 million of additional general and administrative expenses for separation and placement costs primarily associated with the retirement and replacement of the Company's former CEO and \$12.6 million for write-off of deferred loan costs and prepayment premiums from the early repayment of certain mortgage debt on the Company's owned properties due to the opportunity to establish a master credit facility ("MCF") with Berkadia and extend scheduled maturities.

Liquidity and Capital Resources

In addition to approximately \$24.0 million of unrestricted cash balances on hand as of December 31, 2019, the Company's principal sources of liquidity are expected to be cash flows from operations, additional proceeds from debt refinancings, equity issuances, and/or proceeds from the sale of assets. The Company expects its available cash and cash flows from operations, additional proceeds from debt refinancings, and proceeds from the sale of assets to be sufficient to fund its short-term working capital requirements. The Company's long-term capital requirements, primarily for acquisitions and other corporate initiatives, could be dependent on its ability to access additional funds through joint ventures and the debt and/or equity markets. The Company from time to time considers and evaluates transactions related to its portfolio including debt re-financings, equity issuances, purchases and sales of assets, reorganizations and other transactions. There can be no assurance that the Company will continue to generate cash flows at or above current levels or that the Company will be able to obtain the capital necessary to meet the Company's short and long-term capital requirements.

Recent changes in the economic environment, and other future changes, could result in decreases in the fair value of assets, slowing of transactions, and tightening liquidity and credit markets. These impacts could make securing debt for acquisitions or refinancings for the Company, its joint ventures, or buyers of the Company's properties more difficult or on terms not acceptable to the Company. Additionally, the Company may be more susceptible to being negatively impacted by operating or performance deficits based on the exposure associated with certain lease coverage requirements.

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

	Year Ended December 31,	
	2019	2018
Net cash provided by operating activities	\$ 5,229	\$ 36,870
Net cash provided by (used in) investing activities	47,778	(21,908)
Net cash used in financing activities	(60,264)	(1,666)
Increase (decrease) in cash and cash equivalents	\$ (7,257)	\$ 13,296

Operating Activities

The Company had net cash provided by operating activities of \$5.2 million and \$36.9 million in fiscal 2019 and 2018, respectively. The net cash provided by operating activities for fiscal 2019 primarily results from net

non-cash charges of \$39.4 million, an increase in accrued expenses of \$4.3 million, an increase in deferred resident revenue of \$0.6 million, and a decrease in tax and insurance deposits of \$0.5 million, partially offset by a net loss of \$36.0 million, a decrease in accounts payable of \$0.7 million, and increases in prepaid expenses, accounts receivable, and other assets of \$1.0 million, \$1.3 million, and \$0.5 million, respectively. The net cash provided by operating activities for fiscal 2018 primarily results from net non-cash charges of \$87.1 million, a decrease in other assets of \$1.4 million, an increase in accounts payable of \$1.3 million, a decrease in tax and insurance deposits of \$1.2 million, a decrease in prepaid expenses of \$1.1 million, an increase in accrued expenses of \$1.1 million, and an increase in deferred resident revenue of \$0.6 million, partially offset by net loss of \$53.6 million and an increase in accounts receivable of \$3.2 million.

Investing Activities

The Company had net cash provided by (used in) investing activities of \$47.8 million and \$(21.9 million) in fiscal 2019 and 2018, respectively. The net cash provided by investing activities for fiscal 2019 primarily results from the Company's receipt of \$68.1 million in proceeds from the disposition of assets, partially offset by capital expenditures associated with ongoing capital renovations and refurbishments of the Company's senior housing communities of \$20.3 million. The net cash used in investing activities for fiscal 2018 primarily results from capital expenditures associated with ongoing capital renovations and refurbishments at the Company's senior housing communities.

Financing Activities

The Company had net cash flows used in financing activities of \$60.3 million and \$1.7 million in fiscal 2019 and 2018, respectively. The net cash used in financing activities for fiscal 2019 primarily results from notes payable proceeds of \$37.5 million, of which approximately \$31.5 million resulted from mortgage debt refinancings and supplemental mortgage debt financings and the remaining \$6.0 million related to insurance premium financing, which was offset by repayments of notes payable of \$95.1 million, inclusive of \$4.4 million in debt prepayment penalties, and deferred financing charges paid of \$1.2 million and payments on financing leases and financing obligations of \$1.5 million. The net cash used in financing activities for fiscal 2018 primarily results from notes payable proceeds of \$208.8 million, of which approximately \$206.3 million resulted from mortgage debt refinancings and supplemental mortgage debt financings and the remaining \$2.5 million related to insurance premium financing, offset by repayments of notes payable of \$204.1 million, inclusive of \$11.1 million in debt repayment penalties, deferred financing charges paid of \$3.3 million, and payments on capital lease and financing obligations of \$3.2 million.

Impact of Inflation

To date, inflation has not had a significant impact on the Company. However, inflation could affect the Company's future revenues and results of operations because of, among other things, the Company's dependence on senior residents, many of whom rely primarily on fixed incomes to pay for the Company's services. As a result, during inflationary periods, the Company may not be able to increase resident service fees to account fully for increased operating expenses. In structuring its fees, the Company attempts to anticipate inflation levels, but there can be no assurance that the Company will be able to anticipate fully or otherwise respond to any future inflationary pressures.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements of the Company are included under Item 15 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

The Company had no disagreements on accounting or financial disclosure matters with its independent accountants to report under this Item 9.

ITEM 9A. CONTROLS AND PROCEDURES.

Effectiveness of Controls and Procedures

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

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

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's fiscal quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Internal Controls Over Financial Reporting

Management's Report On Internal Control Over Financial Reporting

Management of the Company, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) under the Exchange Act. The Company's internal controls were designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control – Integrated Framework* (2013 framework). Based on our assessment, we believe that, as of December 31, 2019, the Company's internal control over financial reporting is effective based on those criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2019, has been audited by Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, as stated in their report which is included as part of this Annual Report on Form 10-K. The Ernst & Young LLP report is on page F-37 of this report.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.*

ITEM 11. EXECUTIVE COMPENSATION.*

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.*

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.*

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.*

* Information required by Items 10, 11, 12, 13 and 14 will be set forth in the definitive proxy statement relating to the 2020 Annual Meeting of Stockholders of Capital Senior Living Corporation, which will be filed with SEC pursuant to Regulation 14A under the Exchange Act. This definitive proxy statement relates to a meeting of stockholders involving the election of directors and the portions therefrom required to be set forth in this Form 10-K by Items 10, 11, 12, 13 and 14 are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

The following documents are filed as part of this Report:

(1) Financial Statements:

The response to this portion of Item 15 is submitted as a separate section of this Report. See “Index to Financial Statements” at page F-1.

(2) Financial Statement Schedules:

All schedules have been omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

(3) Exhibits:

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

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registration Statement No. 333-33379 on Form S-1/A filed by the Company with the Securities and Exchange Commission on September 8, 1997.)
3.1.1	Amendment to Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999, filed by the Company with the Securities and Exchange Commission.)
3.2	Second Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on March 8, 2013.)

<u>Exhibit Number</u>	<u>Description</u>
4.1	2007 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation (Incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-8 filed by the Company with the Securities and Exchange Commission on May 31, 2007.)
4.2	First Amendment to 2007 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation (Incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-8 filed by the Company with the Securities and Exchange Commission on May 31, 2007.)
4.3	Amended and Restated Second Amendment to the 2007 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation, as amended (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on May 22, 2015.)
4.4	2019 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on May 15, 2019)
*4.5	Description of the Company's securities
10.1	Employment Agreement, dated as of November 26, 1996, by and between Capital Senior Living, Inc. and David R. Brickman (Incorporated by reference to Exhibit 10.12 to the Registration Statement No. 333-33379 on Form S-1 filed by the Company with the Securities and Exchange Commission.)
10.2	Agreement of Limited Partnership of Triad Senior Living II, L.P., dated September 23, 1998 (Incorporated by reference to Exhibit 10.57 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, filed by the Company with the Securities and Exchange Commission.)
10.3	Agreement of Limited Partnership of Triad Senior Living III, L.P., dated November 10, 1998 (Incorporated by reference to Exhibit 10.58 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, filed by the Company with the Securities and Exchange Commission.)
10.4	Agreement of Limited Partnership of Triad Senior Living IV, L.P., dated December 22, 1998 (Incorporated by reference to Exhibit 10.59 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, filed by the Company with the Securities and Exchange Commission.)
10.5	Second Amended and Restated Agreement of Limited Partnership of Triad Senior Living I, L.P. (Incorporated by reference to Exhibit 10.78 to the Company's Annual Report on Form 10-K, dated March 30, 2000, filed by the Company with the Securities and Exchange Commission.)
10.5.1	Amendment No. 1 to Second Amended and Restated Agreement of Limited Partnership of Triad Senior Living I, LP. (Incorporated by reference to Exhibit 10.105 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002, filed by the Company with the Securities and Exchange Commission.)
10.6	First Amendment to Triad II Partnership Agreement (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, dated August 15, 2000, filed by the Company with the Securities and Exchange Commission.)
10.7	Second Amendment to the Employment Agreement of David R. Brickman, dated January 27, 2003, by and between David R. Brickman and Capital Senior Living Corporation (Incorporated by reference to Exhibit 10.109 to the Company's Annual Report on Form 10-K, dated March 26, 2003, filed by the Company with the Securities and Exchange Commission.)

<u>Exhibit Number</u>	<u>Description</u>
10.8	Master Lease Agreement, dated June 30, 2005, between Ventas Amberleigh, LLC and Capital Senior Management 2, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A, dated June 30, 2005, filed by the Company with the Securities and Exchange Commission on July 11, 2005.)
10.9	Schedule identifying substantially identical agreements to Exhibit 10.10 (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A, dated June 30, 2005, filed by the Company with the Securities and Exchange Commission on July 11, 2005.)
10.10	Master Lease Agreement, dated October 18, 2005, between Ventas Georgetowne, LLC and Capital Senior Management 2, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated October 18, 2005, filed by the Company with the Securities and Exchange Commission.)
10.11	Master Lease Agreement, dated May 31, 2006, between subsidiaries of the Company and Healthpeak (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated May 31, 2006, filed by the Company with the Securities and Exchange Commission.)
10.12	Lease, dated May 31, 2006, between subsidiaries of the Company and Healthpeak regarding the Crosswood Oaks Facility in Citrus Heights, California (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, dated May 31, 2006, filed by the Company with the Securities and Exchange Commission.)
10.13	Schedule identifying substantially identical agreements to Exhibit 10.14 (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, dated May 31, 2006, filed by the Company with the Securities and Exchange Commission.)
10.14	Master Lease Agreement, dated as of September 10, 2010, between Capital Texas S, LLC and the Landlord parties thereto (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 16, 2010.)
*10.15	Employment Agreement dated December 23, 2019, by and between Capital Senior Living Corporation and Carey P. Hendrickson
10.16	Form of Outside Director's Restricted Share Unit Award Under the 2007 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed by the Company with the Securities and Exchange Commission on August 5, 2015.)
10.17	Employment Agreement dated January 7, 2019, by and between Capital Senior Living Corporation and Kimberly S. Lody (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on January 8, 2019.)
10.18	Nonqualified Stock Option Agreement dated January 7, 2019, by and between Capital Senior Living Corporation and Kimberly S. Lody (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on January 8, 2019.)
10.19	Performance Award Agreement dated January 7, 2019, by and between Capital Senior Living Corporation and Kimberly S. Lody (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on January 8, 2019.)

<u>Exhibit Number</u>	<u>Description</u>
10.20	Restricted Stock Award Agreement dated January 7, 2019, by and between Capital Senior Living Corporation and Kimberly S. Lody (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on January 8, 2019.)
10.21	Separation Agreement and Release, entered into as of March 1, 2019, by and between Capital Senior Living, Inc. and Brett D. Lee (Incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on March 7, 2019.)
10.22	Employment Agreement, dated February 20, 2019, by and between Capital Senior Living, Inc. and Michael C. Fryar (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019, filed by the Company with the Securities and Exchange Commission)
10.23	Employment Agreement, dated as of September 10, 2019, by and between Capital Senior Living Corporation and Brandon M. Ribar. (Incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on September 10, 2019.)
10.24	Sign-On Performance Award Agreement, dated as of September 10, 2019, by and between Capital Senior Living Corporation and Brandon M. Ribar. (Incorporated by reference to exhibit 10.2 to the Company's Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on September 10, 2019.)
10.25	Sign-On Restricted Stock Award Agreement, dated as of September 10, 2019, by and between Capital Senior Living Corporation and Brandon M. Ribar. (Incorporated by reference to exhibit 10.3 to the Company's Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on September 10, 2019.)
*21.1	Subsidiaries of the Company
*23.1	Consent of Ernst & Young LLP
*31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)
*31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)
*32.1	Certification of Kimberly S. Lody pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Carey P. Hendrickson pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CAPITAL SENIOR LIVING CORPORATION

By: /s/ KIMBERLY S. LODY

Kimberly S. Lody

President, Chief Executive Officer and Director

Date: March 31, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. Each person whose signature to this report appears below hereby appoints Kimberly S. Lody and Carey P. Hendrickson and each of them, any one of whom may act without the joinder of the other, as his or her attorney-in-fact to sign on his behalf, individually and in each capacity stated below, and to file all amendments to this report, which amendment or amendments may make such changes in and additions to the report as any such attorney-in-fact may deem necessary or appropriate.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ KIMBERLY S. LODY</u> Kimberly S. Lody	President, Chief Executive Officer (Principal Executive Officer) and Director	March 31, 2020
<u>/s/ CAREY P. HENDRICKSON</u> Carey P. Hendrickson	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2020
<u>/s/ MICHAEL W. REID</u> Michael W. Reid	Chairman of the Board	March 31, 2020
<u>/s/ PHILIP A. BROOKS</u> Philip A. Brooks	Director	March 31, 2020
<u>/s/ ED A. GRIER</u> Ed A. Grier	Director	March 31, 2020
<u>/s/ E. RODNEY HORNBAKE</u> E. Rodney Hornbake	Director	March 31, 2020
<u>/s/ PAUL J. ISAAC</u> Paul J. Isaac	Director	March 31, 2020
<u>/s/ JILL M. KRUEGER</u> Jill M. Krueger	Director	March 31, 2020
<u>/s/ ROSS B. LEVIN</u> Ross B. Levin	Director	March 31, 2020
<u>/s/ STEVEN T. PLOCHOCKI</u> Steven T. Plochocki	Director	March 31, 2020

INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Consolidated Financial Statements of Capital Senior Living Corporation	
Report of Independent Registered Public Accounting Firm, Ernst & Young LLP	F-2
Consolidated Balance Sheets — December 31, 2019 and 2018	F-3
Consolidated Statements of Operations and Comprehensive Loss — For the years ended December 31, 2019, 2018 and 2017	F-4
Consolidated Statements of Shareholders' Equity — For the years ended December 31, 2019, 2018 and 2017	F-5
Consolidated Statements of Cash Flows — For the years ended December 31, 2019, 2018 and 2017	F-6
Notes to Consolidated Financial Statements	F-7
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting, Ernst & Young LLP	F-37

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Capital Senior Living Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Capital Senior Living Corporation (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 31, 2020 expressed an unqualified opinion thereon.

Adoption of ASU No. 2016-02

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for leases effective January 1, 2019 due to the adoption of Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), and the related amendments.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2006.
Dallas, Texas
March 31, 2020

CAPITAL SENIOR LIVING CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2019	2018
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,975	\$ 31,309
Restricted cash	13,088	13,011
Accounts receivable, net	8,143	10,581
Federal and state income taxes receivable	72	152
Property tax and insurance deposits	12,627	13,173
Prepaid expenses and other	5,308	5,232
Total current assets	63,213	73,458
Property and equipment, net	969,211	1,059,049
Operating lease right-of-use assets, net	224,523	—
Deferred taxes, net	76	152
Other assets, net	10,673	16,485
Total assets	\$1,267,696	\$1,149,144
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,382	\$ 9,095
Accrued expenses	46,227	41,880
Current portion of notes payable, net of deferred loan costs	15,819	14,342
Current portion of deferred income	7,201	14,892
Current portion of financing obligations	1,741	3,113
Current portion of lease liabilities	45,988	—
Federal and state income taxes payable	420	406
Customer deposits	1,247	1,302
Total current liabilities	129,025	85,030
Deferred income, net of current portion	—	8,151
Financing obligations, net of current portion	9,688	45,647
Lease liabilities, net of current portion	208,967	—
Other long-term liabilities	—	15,643
Notes payable, net of deferred loan costs and current portion	905,637	959,408
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value:	—	—
Authorized shares — 15,000; no shares issued or outstanding		
Common stock, \$.01 par value:		
Authorized shares — 65,000; issued and outstanding shares 31,441 and 31,273		
in 2019 and 2018, respectively	319	318
Additional paid-in capital	190,386	187,879
Retained deficit	(172,896)	(149,502)
Treasury stock, at cost — 494 shares in 2019 and 2018	(3,430)	(3,430)
Total shareholders' equity	14,379	35,265
Total liabilities and shareholders' equity	\$1,267,696	\$1,149,144

See accompanying notes to consolidated financial statements.

CAPITAL SENIOR LIVING CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Year Ended December 31,		
	2019	2018	2017
	(In thousands, except per share data)		
Revenues:			
Resident revenue	\$447,100	\$460,018	\$466,997
Expenses:			
Operating expenses (exclusive of facility lease expense and depreciation and amortization expense shown below)	306,786	294,661	290,662
General and administrative expenses	27,518	26,961	23,574
Facility lease expense	57,021	56,551	56,432
Loss on facility lease termination	—	—	12,858
Provision for bad debts	3,765	2,990	1,748
Stock-based compensation expense	2,509	8,428	7,682
Depreciation and amortization expense	64,190	62,824	66,199
Total expenses	461,789	452,415	459,155
Income (Loss) from operations	(14,689)	7,603	7,842
Other income (expense):			
Interest income	221	165	73
Interest expense	(49,802)	(50,543)	(49,471)
Write-off of deferred loan costs and prepayment premiums	(4,843)	(12,623)	—
Long-lived asset impairment	(3,004)	—	—
Gain (Loss) on disposition of assets, net	36,528	28	(123)
Other income	7	3	7
Loss before benefit (provision) for income taxes	(35,582)	(55,367)	(41,672)
Benefit (Provision) for income taxes	(448)	1,771	(2,496)
Net loss	\$(36,030)	\$(53,596)	\$(44,168)
Per share data:			
Basic net loss per share	\$ (1.19)	\$ (1.80)	\$ (1.50)
Diluted net loss per share	\$ (1.19)	\$ (1.80)	\$ (1.50)
Weighted average shares outstanding — basic	30,263	29,812	29,453
Weighted average shares outstanding — diluted	30,263	29,812	29,453
Comprehensive loss	\$(36,030)	\$(53,596)	\$(44,168)

See accompanying notes to consolidated financial statements.

CAPITAL SENIOR LIVING CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Retained Deficit	Treasury Stock	Total
	Shares	Amount				
	(In thousands)					
Balance at January 1, 2017	30,012	305	171,599	(51,556)	(3,430)	116,918
Restricted stock unit conversions	3	—	0	—	—	0
Restricted stock awards	490	5	(4)	—	—	1
Stock-based compensation	—	—	7,864	(182)	—	7,682
Net loss	—	—	—	(44,168)	—	(44,168)
Balance at December 31, 2017	30,505	310	179,459	(95,906)	(3,430)	80,433
Restricted stock awards	768	8	(8)	—	—	—
Stock-based compensation	—	—	8,428	—	—	8,428
Net loss	—	—	—	(53,596)	—	(53,596)
Balance at December 31, 2018	31,273	318	187,879	(149,502)	(3,430)	35,265
Adoption of ASC 842	—	—	—	12,636	—	12,636
Restricted stock awards	168	1	(2)	—	—	(1)
Stock-based compensation	—	—	2,509	—	—	2,509
Net loss	—	—	—	(36,030)	—	(36,030)
Balance at December 31, 2019	<u>31,441</u>	<u>\$319</u>	<u>\$190,386</u>	<u>\$(172,896)</u>	<u>\$(3,430)</u>	<u>\$ 14,379</u>

See accompanying notes to consolidated financial statements.

CAPITAL SENIOR LIVING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Operating Activities			
Net loss	\$(36,030)	\$ (53,596)	\$ (44,168)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	64,190	62,824	66,199
Amortization of deferred financing charges	1,612	1,709	1,626
Amortization of deferred lease costs and lease intangibles, net	—	849	859
Amortization of lease incentives	—	(2,074)	(1,336)
Deferred income	1,078	(1,391)	(1,397)
Deferred taxes	157	(2,245)	1,941
Operating lease expense adjustment	(5,243)	—	—
Lease incentives	—	3,376	5,673
Loss on facility lease termination	—	—	12,858
Write-off of deferred loan costs and prepayment premiums	4,843	12,623	—
(Gain) Loss on disposition of assets, net	(36,528)	(28)	123
Long-lived asset impairment	3,004	—	—
Provision for bad debts	3,765	2,990	1,748
Stock-based compensation expense	2,509	8,428	7,682
Changes in operating assets and liabilities:			
Accounts receivable	(1,326)	(3,173)	(8,159)
Property tax and insurance deposits	545	1,213	279
Prepaid expenses and other	(1,013)	1,100	33
Other assets	(500)	1,350	4,061
Accounts payable	(715)	1,294	2,750
Accrued expenses	4,343	1,129	1,689
Other liabilities	—	—	5,017
Federal and state income taxes receivable/payable	14	23	165
Deferred resident revenue	579	561	(1,898)
Customer deposits	(55)	(92)	(151)
Net cash provided by operating activities	5,229	36,870	55,594
Investing Activities			
Capital expenditures	(20,306)	(21,965)	(39,959)
Cash paid for acquisitions	—	—	(85,000)
Proceeds from disposition of assets	68,084	57	19
Net cash provided by (used in) investing activities	47,778	(21,908)	(124,940)
Financing Activities			
Proceeds from notes payable	37,499	208,841	77,197
Repayments of notes payable	(95,077)	(204,093)	(20,099)
Cash payments for financing lease and financing obligations	(1,516)	(3,151)	(2,869)
Deferred financing charges paid	(1,170)	(3,263)	(1,182)
Net cash provided by (used in) financing activities	(60,264)	(1,666)	53,047
Increase (Decrease) in cash and cash equivalents	(7,257)	13,296	(16,299)
Cash and cash equivalents and restricted cash at beginning of year	44,320	31,024	47,323
Cash and cash equivalents and restricted cash at end of year	<u>\$ 37,063</u>	<u>\$ 44,320</u>	<u>\$ 31,024</u>
Supplemental Disclosures			
Cash paid during the year for:			
Interest	\$ 47,448	\$ 49,225	\$ 47,022
Income taxes	\$ 505	\$ 555	\$ 543

See accompanying notes to consolidated financial statements.

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

1. Organization

Capital Senior Living Corporation, a Delaware corporation (together with its subsidiaries, the “Company”), is one of the largest operators of senior housing communities in the United States in terms of resident capacity. The Company owns, operates, develops and manages senior housing communities throughout the United States. As of December 31, 2019, the Company operated 126 senior housing communities in 23 states with an aggregate capacity of approximately 16,000 residents, including 80 senior housing communities which the Company owned and 46 senior housing communities that the Company leased. The accompanying consolidated financial statements include the financial statements of Capital Senior Living Corporation and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with original maturities of three months or less at the date of acquisition to be cash equivalents. The Company has deposits in banks that exceed Federal Deposit Insurance Corporation insurance limits. Management believes that credit risk related to these deposits is minimal. Restricted cash consists of deposits required by certain lenders as collateral pursuant to letters of credit. The deposit must remain so long as the letter of credit is outstanding which is subject to renewal annually.

The following table sets forth our cash and cash equivalents and restricted cash (in thousands):

	Year Ended December 31,	
	2019	2018
Cash and cash equivalents	\$23,975	\$31,309
Restricted cash	13,088	13,011
	\$37,063	\$44,320

Long-Lived Assets and Impairment

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets. At each balance sheet date, the Company reviews the carrying value of its property and equipment to determine if facts and circumstances suggest that they may be impaired or that the depreciation period may need to be changed. The Company considers internal factors such as net operating losses along with external factors relating to each asset, including contract changes, local market developments, and other publicly available information to determine whether impairment indicators exist.

If an indicator of impairment is identified, the carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such asset is separately identifiable and is less than its carrying value. Recoverability of an asset group is assessed by comparing its carrying amount to the estimated future undiscounted net cash flows expected to be generated by the asset group through operation or disposition, calculated utilizing the lowest level of identifiable cash flows. If this comparison indicates that the carrying amount of an asset group is not recoverable, we are required to recognize an impairment loss. The Company determines the fair value of operating lease ROU assets by comparing the contractual rent payments to estimated market rental rates. Long-lived ROU and fixed assets are valued at fair value using inputs classified as Level 3 in the fair value hierarchy, which are unobservable inputs based on the Company’s assumptions. Impairment, if any, is recorded in the period in which the impairment occurred.

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

Assets Held for Sale

Assets are classified as held for sale when the Company has determined all of the held-for-sale criteria have been met. The Company determines the fair value, net of costs of disposal, of an asset on the date the asset is categorized as held for sale, and the asset is recorded at the lower of its fair value, net of cost of disposal, or carrying value on that date. The Company periodically reevaluates assets held for sale to determine if the assets are still recorded at the lower of fair value, net of cost of disposal, or carrying value. The fair values are generally determined based on market rates, industry trends and recent comparable sales transactions.

During the year ended December 31, 2019, the Company determined a remeasurement write down of approximately \$2.3 million was required to adjust the carrying value of a community classified as held for sale to its fair value, net of cost of disposal, which is included in gain (loss) on disposition of assets, net on the Company's Consolidated Statements of Operations and Comprehensive Loss. The community was sold prior to December 31, 2019. The Company did not recognize any expense related to assets held for sale during the year ended December 31, 2018. The fair values are generally determined based on market rates, industry trends, and recent comparable sales transactions. The actual sales price of these assets could differ significantly from the Company's estimates. There were no senior housing communities classified as held for sale by the Company at December 31, 2019 or 2018.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense was approximately \$3.9 million, \$3.3 million and \$2.8 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Off-Balance Sheet Arrangements

The Company had no material off-balance sheet arrangements at December 31, 2019 or 2018.

Income Taxes

Income taxes are computed using the asset and liability method and current income taxes are recorded based on amounts refundable or payable. Deferred income taxes are recorded based on the estimated future tax effects of loss carryforwards and temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which we expect those carryforwards and temporary differences to be recovered or settled. Management regularly evaluates the future realization of deferred tax assets and provides a valuation allowance, if considered necessary, based on such evaluation. As part of the evaluation, management has evaluated taxable income in carryback years, future reversals of taxable temporary differences, feasible tax planning strategies, and future expectations of income.

The Company evaluates uncertain tax positions through consideration of accounting and reporting guidance on criteria, measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial-statement comparability among different companies. The Company is required to recognize a tax benefit in its financial statements for an uncertain tax position only if management's assessment is that its position is "more likely than not" (i.e., a greater than 50 percent likelihood) to be upheld on audit based only on the technical merits of the tax position. The Company's policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as income tax expense.

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

Revenue Recognition

Resident revenue consists of fees for basic housing and certain support services and fees associated with additional housing and expanded support requirements such as assisted living care, memory care, and ancillary services. Basic housing and certain support services revenue is recorded when services are rendered and amounts billed are due from residents in the period in which the rental and other services are provided which totaled approximately \$440.1 million and \$452.5 million, respectively, for the fiscal years ended December 31, 2019 and 2018. Residency agreements are generally short term in nature with durations of one year or less and are typically terminable by either party, under certain circumstances, upon providing 30 days' notice, unless state law provides otherwise, with resident fees billed monthly in advance. The Company had contract liabilities for deferred fees paid by our residents prior to the month housing and support services were to be provided totaling approximately \$4.3 million and \$4.5 million, respectively, which are included as a component of deferred income within current liabilities of the Company's Consolidated Balance Sheets at December 31, 2019 and 2018. Deferred fees paid by our residents recognized into revenue during fiscal 2019 and 2018 totaled approximately \$4.5 million and \$3.9 million, respectively, and were recognized as a component of resident revenue within the Company's Consolidated Statements of Operations and Comprehensive Loss. Revenue for certain ancillary services is recognized as services are provided, and includes fees for services such as medication management, daily living activities, beautician/barber, laundry, television, guest meals, pets, and parking which are generally billed monthly in arrears.

The Company's senior housing communities have residency agreements which generally require the resident to pay a community fee prior to moving into the community and are recorded initially by the Company as deferred revenue. At each of December 31, 2019 and 2018, the Company had contract liabilities for deferred community fees totaling approximately \$2.2 million and \$1.1 million, respectively, which are included as a component of deferred income within current liabilities of the Company's Consolidated Balance Sheets. The Company recognized community fees as a component of resident revenue within the Company's Consolidated Statements of Operations and Comprehensive Loss of approximately \$2.9 million and \$2.8 million, respectively, during the fiscal years ended December 31, 2019 and 2018.

Revenues from the Medicaid program accounted for approximately 5.9% of the Company's revenue in fiscal 2019, 5.4% of the Company's revenue in fiscal 2018, and 5.6% of the Company's revenue in fiscal 2017. During fiscal 2019, 2018, and 2017, 41, 40, and 41, respectively, of the Company's communities were providers of services under the Medicaid program. Accordingly, these communities were entitled to reimbursement under the foregoing program at established rates that were lower than private pay rates. Patient service revenue for Medicaid patients was recorded at the reimbursement rates as the rates were set prospectively by the applicable state upon the filing of an annual cost report. None of the Company's communities were providers of services under the Medicare program during fiscal 2019, 2018, or 2017.

Laws and regulations governing the Medicaid program are complex and subject to interpretation. The Company 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 Medicaid program.

Purchase Accounting

In determining the allocation of the purchase price of senior housing communities acquired to net tangible and identified intangible assets acquired and liabilities assumed, if any, the Company makes estimates of fair value using information obtained as a result of pre-acquisition due diligence, leasing activities and/or independent appraisals. The Company assigns the purchase price for senior living communities to assets acquired

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

and liabilities assumed based on their estimated fair values. The determination of fair value involves the use of significant judgments and estimates which is generally assessed as follows:

The Company allocates the fair values of buildings acquired on an as-if-vacant basis and depreciates the building values over the estimated remaining lives of the buildings, not to exceed 40 years. The Company determines the allocated values of other fixed assets, such as site improvements and furniture, fixtures and equipment, based upon the replacement cost and depreciates such values over the assets' estimated remaining useful lives as determined at the acquisition date. The Company determines the value of land by considering the sales prices of similar properties in recent transactions.

The fair value of acquired lease-related intangibles reflects the estimated fair value of existing resident in-place leases as represented by the cost to obtain residents and an estimated absorption period to reflect the value of the rent and recovery costs foregone during a reasonable lease-up period as if the property acquired was vacant. The Company amortizes any acquired resident in-place lease intangibles to depreciation and amortization expense over the estimated remaining useful life of the respective resident operating leases.

Credit Risk and Allowance for Doubtful Accounts

The Company's resident receivables are generally due within 30 days from the date billed. Accounts receivable are reported net of an allowance for doubtful accounts of \$8.6 million and \$6.8 million at December 31, 2019 and 2018, respectively, and represent the Company's estimate of the amount that ultimately will be collected. The adequacy of the Company's allowance for doubtful accounts is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, as well as a review of specific accounts, and adjustments are made to the allowance as necessary. Credit losses on resident receivables have historically been within management's estimates, and management believes that the allowance for doubtful accounts adequately provides for expected losses.

Lease Accounting

Effective January 1, 2019, the Company adopted the new lease standard provisions of ASC 842. Due to the adoption of ASC 842, the unamortized balances of lease acquisition costs and lease incentives were reclassified as a component of the respective operating lease right-of-use asset. Additionally, the unamortized balance of deferred gains associated with sale leaseback transactions totaling approximately \$10.0 million was written-off to retained deficit.

Management determines if a contract is or contains a lease at inception or modification of a contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control over the use of the identified asset means the lessee has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset.

Operating lease right-of-use assets and liabilities are recognized based on the present value of future minimum lease payments over the expected lease term on the lease commencement date. When the implicit lease rate is not determinable, management uses the Company's incremental borrowing rate based on the information available at the lease commencement date in determining the present value of future minimum lease payments. The expected lease terms include options to extend or terminate the lease when it is reasonably certain the Company will exercise such options. Lease expense for minimum lease payments is recognized on a straight-line basis over the expected lease terms.

Certain of the Company's lease arrangements have lease and non-lease components. The Company accounts for the lease components and non-lease components as a single lease component for all classes of underlying assets. Leases with an expected lease term of 12 months or less are not recorded on the balance sheet and the related lease expense is recognized on a straight-line basis over the expected lease term.

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

Self-Insurance Liability Accruals

The Company offers full-time employees an option to participate in its health and dental plans. The Company is self-insured up to certain limits and is insured if claims in excess of these limits are incurred. The cost of employee health and dental benefits, net of employee contributions, is shared between the corporate office and the senior housing communities based on the respective number of plan participants. Funds collected are used to pay the actual program costs, including estimated annual claims, third-party administrative fees, network provider fees, communication costs, and other related administrative costs incurred by the plans. Claims are paid as they are submitted to the Company's third-party administrator. The Company records a liability for outstanding claims and claims that have been incurred but not yet reported. This liability is based on the historical claim reporting lag and payment trends of health insurance claims. Management believes that the liability for outstanding losses and expenses is adequate to cover the ultimate cost of losses and expenses incurred at December 31, 2019; however, actual claims and expenses may differ. Any subsequent changes in estimates are recorded in the period in which they are determined.

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

Net Loss Per Share

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

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

	<u>Year Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net loss	\$(36,030)	\$(53,596)	\$(44,168)
Net loss allocated to unvested restricted shares	—	—	—
Undistributed net loss allocated to common shares	\$(36,030)	\$(53,596)	\$(44,168)
Weighted average shares outstanding — basic	30,263	29,812	29,453
Effects of dilutive securities:			
Employee equity compensation plans	—	—	—
Weighted average shares outstanding — diluted	<u>30,263</u>	<u>29,812</u>	<u>29,453</u>
Basic net loss per share	<u>\$ (1.19)</u>	<u>\$ (1.80)</u>	<u>\$ (1.50)</u>
Diluted net loss per share	<u>\$ (1.19)</u>	<u>\$ (1.80)</u>	<u>\$ (1.50)</u>

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

Awards of unvested restricted stock representing approximately 1.1 million, 1.3 million, and 0.9 million shares were outstanding for the fiscal years ended December 31, 2019, 2018, and 2017, respectively, and are antidilutive.

Treasury Stock

The Company accounts for treasury stock under the cost method and includes treasury stock as a component of shareholders' equity until it is canceled. There were no repurchases of the Company's common stock during fiscal 2019 or 2018.

Stock-Based Compensation

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

On May 8, 2007, the Company's stockholders approved the 2007 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation (as amended, the "2007 Plan") which provided for, among other things, the grant of restricted stock awards and stock options to purchase shares of the Company's common stock. The 2007 Plan authorized the Company to issue up to 4.6 million shares of common stock, and the Company had reserved shares of common stock for future issuance pursuant to awards under the 2007 Plan.

On May 14, 2019, the Company's stockholders approved the 2019 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation (the "2019 Plan"), which replaced the 2007 Plan. The 2019 Plan provides for, among other things, the grant of restricted stock awards, restricted stock units and stock options to purchase shares of the Company's common stock. The 2019 Plan authorizes the Company to issue up to 2,250,000 shares of common stock plus reserved shares not issued or subject to outstanding awards under the 2007 Plan, and the Company has reserved shares of common stock for future issuance pursuant to awards under the 2019 Plan. Effective March 26, 2019, the 2007 Plan was terminated and no additional awards will be granted under the 2007 Plan.

Segment Information

The Company evaluates the performance and allocates resources of its senior living facilities based on current operations and market assessments on a property-by-property basis. The Company does not have a concentration of operations geographically or by product or service as its management functions are integrated at the property level. The Company has determined that all of its operating units meet the criteria in Accounting Standards Codification ("ASC") Topic 280, *Segment Reporting*, to be aggregated into one reporting segment. As such, the Company operates in one segment.

Recently Issued Accounting Guidance

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*, which modifies certain disclosure requirements in Topic 820, such as the removal of the need to disclose the amount of and reason for transfers between Level 1 and Level 2 of the fair value hierarchy, and several changes related to Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. The Company does not expect the adoption of ASU 2018-13 to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments*. Current U.S. generally accepted accounting principles (GAAP) require an "incurred loss" methodology for recognizing credit losses that delays recognition until it is probable a loss has

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

been incurred. ASU 2016-13 replaces the current incurred loss methodology for credit losses and removes the thresholds that companies apply to measure credit losses on financial statements measured at amortized cost, such as loans, receivables, and held-to-maturity debt securities with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. For smaller reporting companies, ASU 2016-13 is effective for fiscal years and for interim periods within those fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new lease standard requires lessees to recognize on the balance sheet a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. Additionally, in July 2018, the FASB issued ASU 2018-11, *Leases, Targeted Improvements*, which provided entities with a transition method option to not restate comparative periods presented, but to recognize a cumulative effect adjustment to beginning retained earnings in the period of adoption. The Company adopted the new lease standard on January 1, 2019, on a prospective basis, forgoing comparative reporting using the modified retrospective adoption method, utilizing the simplified transition method available pursuant to the standard, which allowed the Company to continue to apply the legacy accounting guidance under ASC 840, including its disclosure requirements, in the comparative periods presented in the year of adoption. The Company elected to utilize certain practical expedients permitted under the transition guidance within the new standard, which allowed the Company to carryforward the historical lease classification, not separate the lease and non-lease components for all classes of underlying assets in which it is the lessee, not reassess initial direct costs for existing leases, and make an accounting policy election not to account for leases with an initial term of 12 months or less on the balance sheet. Adoption of the lease standards by the Company initially resulted in the recording of operating lease right-of-use assets of \$255.4 million and operating lease liabilities of \$289.5 million on the Company's Consolidated Balance Sheet as of January 1, 2019. The difference between amounts recorded for the operating lease right-of-use assets and operating lease liabilities is due to net reductions for the reclassification of certain deferred lease costs and lease incentives of \$16.3 million and impairment write-down adjustments of \$17.8 million recorded to retained deficit. The fair value of the right-of-use assets was estimated, using level 3 inputs as defined in the accounting standards codification, utilizing a discounted cash flow approach based upon historical and projected cash flows and market data, including management fees and a market supported lease coverage ratio. The estimated future cash flows were discounted at a rate that is consistent with a weighted average cost of capital from a market participant perspective. The adoption of the lease standard did not have a material impact on the consolidated cash flows of the Company and had no impact on the Company's covenant compliance under its current debt and lease agreements. See additional discussion at "Note 16 – Leases."

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

The adoption of ASC 842 resulted in the following adjustments to the Company's Consolidated Balance Sheet at January 1, 2019:

Assets	
Prepaid expenses and other	\$ (2,050)
Property and equipment, net	(15,569)
Operating lease right-of-use assets, net	255,386
Other assets, net	<u>(4,715)</u>
Total assets	<u>\$233,052</u>
Liabilities and Shareholder's Equity	
Deferred income	\$ (17,498)
Financing obligations	(35,956)
Operating lease liabilities	289,513
Other long-term liabilities	<u>(15,643)</u>
Total liabilities	<u>\$220,416</u>
Total shareholder's equity	<u>\$ 12,636</u>

Use of Estimates and Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements and related footnotes. Management bases its estimates and assumptions on historical experience, observance of industry trends and various other sources of information and factors, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially could result in materially different results under different assumptions and conditions. The Company believes revenue recognition, long-lived asset impairment, and self-insurance liability accruals are its most critical accounting policies and/or require management's most subjective judgments.

3. Impairment of Long-Lived Assets

During the year ended December 31, 2019, the Company recorded impairment charges of \$1.6 million and \$1.4 million related to fixed assets and lease ROU assets, respectively, due to a change in the useful life of its community located in Boca Raton, Florida, which transferred to a new operator subsequent to year-end (see Note 18, *Subsequent Events*, for discussion of the property's transition). Due to the change in useful life, the Company concluded the assets related to that property were not recoverable. For property and equipment where indicators of impairment were identified, tests of recoverability were performed and the Company has concluded its property and equipment is recoverable and does not warrant adjustment to the carrying value or remaining useful lives, except for the property noted above, as of December 31, 2019 and 2018.

4. Dispositions and Other Significant Transactions

On October 22, 2019, the Company entered into a lease amendment with Healthpeak, as lessors of certain of the Company's leased properties, which was later amended, to transition one Healthpeak property to new operators on or around January 15, 2020, and to sell the remaining eight as soon as possible, with expected sale dates

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

in or around the second quarter of 2020, to a buyer or buyers. Under the terms of the agreement, the Company will make a one-time payment of \$250,000 for the transitioned property as a prepayment against the remaining lease payments. For the eight properties to be sold, Healthpeak is required to arrange, negotiate, and close the sale of these properties. The Company is entitled to 50% of the proceeds in excess of a specified selling price for one of the properties, up to \$350,000. At December 31, 2019, none of the properties had been transitioned to a new operator or sold. Subsequent to year-end, the Company entered into an agreement with Healthpeak, providing for the early termination of its other Master Lease Agreement between it and Healthpeak. See discussion at Note 18- *Subsequent Events*.

Effective October 1, 2019, the Company sold two communities located in Springfield, Missouri and Peoria, Illinois, for \$64.8 million. The properties were sold in order to monetize assets deemed at peak performance and resulted in net proceeds to the Company of approximately \$14.8 million. The Company recognized a gain of \$38.8 million on the disposition of the two communities, which is included in gain (loss) on disposition of assets, net on the Company's Consolidated Statements of Operations and Comprehensive Loss. At September 30, 2019, these properties were deemed as assets held for sale resulting in \$24.4 million being reclassified to assets held for sale and \$44.4 million of corresponding mortgage debt being reclassified to the current portion of notes payable within the Company's Consolidated Balance Sheets. These communities comprised of 156 and 158 independent living units, respectively.

Effective May 1, 2019, the Company closed on the sale of one senior housing community located in Kokomo, Indiana, for a total purchase price of \$5.0 million and received approximately \$1.4 million in net proceeds after retiring outstanding mortgage debt of \$3.5 million and paying customary transaction and closing costs (the "Kokomo Sale Transaction"). The community was comprised of 96 assisted living units. The Company had reported these assets as held for sale at March 31, 2019 and recorded a remeasurement write-down of approximately \$2.3 million to adjust the carrying values of these assets to the sales price, less costs to sell, which was included in Gain (loss) on disposition of assets, net, on the Company's Consolidated Statements of Operations and Comprehensive Loss.

5. Property and Equipment

As of December 31, 2019 and 2018, net property and equipment and leasehold improvements, which include assets under financing leases, consists of the following (in thousands):

	<u>Asset Lives</u>	<u>December 31,</u>	
		<u>2019</u>	<u>2018</u>
Land		\$ 66,764	\$ 69,842
Land improvements	5 to 20 years	25,718	25,373
Buildings and building improvements	10 to 40 years	1,096,386	1,158,577
Furniture and equipment	5 to 10 years	65,828	66,202
Automobiles	5 to 7 years	5,947	6,344
Assets under financing leases and leasehold improvements	(1)	95,281	98,396
Construction in progress	NA	1,491	421
		<u>1,357,415</u>	<u>1,425,155</u>
Less accumulated depreciation and amortization		<u>(388,204)</u>	<u>(366,106)</u>
Property and equipment, net		<u>\$ 969,211</u>	<u>\$1,059,049</u>

(1) Leasehold improvements are amortized over the shorter of the useful life of the asset or the remaining lease term. Assets under financing leases and leasehold improvements include \$0.6 million of financing lease

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

right-of-use assets, net of accumulated amortization, as of December 31, 2019. Refer to Note 16, *Leases*, for further information on the Company's financing leases.

At December 31, 2019 and 2018, furniture and equipment included \$4.1 million and \$3.8 million of capitalized computer software development costs of which \$3.3 million and \$3.1 million, respectively, has been amortized and is included as a component of accumulated depreciation and amortization. At December 31, 2019 and 2018, property and equipment, net included \$2.0 million and \$0.8 million, respectively, of capital expenditures which had been incurred but not yet paid.

6. Other Assets

Other assets consist of the following (in thousands):

	December 31,	
	2019	2018
Deferred lease costs, net	\$ —	\$ 4,715
Security and other deposits	9,915	9,889
Other	758	1,881
	\$10,673	\$16,485

Prior to the adoption of ASC 842, lease acquisition and modification costs were classified as other assets and amortized over their respective lease terms. The unamortized portion of lease acquisition and modification costs were reclassified into operating right-of-use assets in conjunction with the Company's adoption of ASC 842 on January 1, 2019. See Note 2, *Summary of Significant Accounting Policies*, for further information on the Company's adoption of ASC 842.

7. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31,	
	2019	2018
Accrued salaries, bonuses and related expenses	\$14,733	\$11,996
Accrued property taxes	15,186	14,079
Accrued interest	3,617	3,066
Accrued health claims and workers compensation	5,281	4,845
Accrued professional fees	1,265	1,012
Other	6,145	6,882
	\$46,227	\$41,880

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

8. Notes Payable

Notes payable consists of the following (in thousands):

<u>Lender</u>	<u>Average Monthly Payment</u>	<u>Net Book Value Of Collateral(1)</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Notes Payable December 31,</u>	
					<u>2019</u>	<u>2018</u>
Fannie Mae	\$135	\$ 24,980	4.69	April 2022	\$ 22,592	\$ 23,127
Fannie Mae	11	3,992	4.97	April 2022	1,958	1,991
Fannie Mae	60	14,170	4.48	May 2022	10,214	10,462
Fannie Mae	20	14,170	4.85	May 2022	3,579	3,640
Fannie Mae	—	—	4.32	January 2023	—	15,194
Fannie Mae	—	—	5.39	January 2023	—	8,327
Fannie Mae	39	7,756	4.58	January 2023	6,656	6,808
Fannie Mae	17	7,756	5.49	January 2023	2,950	2,990
Fannie Mae	45	7,810	5.93	October 2023	6,972	7,092
Fannie Mae	67	12,408	5.50	November 2023	10,792	10,992
Fannie Mae	67	11,598	5.38	November 2023	10,837	11,042
Fannie Mae	282	49,090	5.56	January 2024	45,077	45,892
Fannie Mae	632	103,848	4.24	July 2024	116,183	118,715
Fannie Mae	120	24,074	4.48	July 2024	21,513	21,963
Fannie Mae	81	19,081	4.30	July 2024	14,836	15,156
Fannie Mae	91	61,630	4.98	July 2024	16,053	16,322
Fannie Mae	11	8,817	6.30	July 2024	1,777	1,796
Fannie Mae	134	25,548	4.59	September 2024	23,856	24,342
Fannie Mae	22	12,916	5.72	September 2024	3,584	3,634
Fannie Mae	54	9,810	4.70	September 2024	9,494	9,683
Fannie Mae	53	11,293	4.50	January 2025	9,538	9,731
Fannie Mae	95	6,552	4.46	January 2025	17,333	17,686
Fannie Mae	70	14,605	4.35	February 2025	12,912	13,179
Fannie Mae	—	—	3.85	March 2025	—	21,633
Fannie Mae	102	22,879	3.84	April 2025	19,883	20,324
Fannie Mae	31	22,879	5.53	April 2025	5,223	5,300
Fannie Mae	81	14,732	5.30	June 2025	13,077	13,335
Fannie Mae	58	12,021	4.69	October 2025	10,402	10,595
Fannie Mae	44	8,878	4.70	October 2025	7,862	8,008
Fannie Mae	273	37,074	4.68	December 2025	49,385	50,295
Fannie Mae	9	8,787	5.81	December 2025	1,407	1,426
Fannie Mae	98	22,990	4.10	October 2026	19,127	19,498
Fannie Mae	108	23,515	4.24	December 2026	20,853	21,243
Fannie Mae	655	148,134	5.13	January 2029	150,782	150,782
Fannie Mae	163	148,134	(3)	January 2029	50,261	50,261
Protective Life	96	23,558	3.55	April 2025	19,325	19,787
Protective Life	49	10,566	4.25	August 2025	9,157	9,350
Protective Life	78	16,938	4.25	September 2025	14,565	14,871

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

<u>Lender</u>	<u>Average Monthly Payment</u>	<u>Net Book Value Of Collateral(1)</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Notes Payable December 31,</u>	
					<u>2019</u>	<u>2018</u>
Protective Life	138	30,917	4.25	November 2025	25,940	26,478
Protective Life	57	12,901	4.50	February 2026	10,554	10,761
Protective Life	187	39,862	4.38	March 2026	32,099	32,920
Protective Life	70	14,620	4.13	October 2031	11,995	12,326
Berkadia	230	60,462	(4)	December 2021(4)	40,500	65,000
Berkadia	—	—	—	July 2020	—	3,500
Berkadia	96	16,953	(5)	October 2021	10,992	11,255
Fifth Third	125	33,852	(6)	December 2021	31,500	—
HUD	16	4,572	4.48	September 2045	2,875	2,933
Insurance Financing	—	—	3.64	May 2019	—	799
Insurance Financing	—	—	4.40	November 2019	—	763
Insurance Financing	240	—	4.40	May 2020	1,187	—
Insurance Financing	74	—	4.04	November 2020	730	—
Insurance Financing	173	—	4.40	October 2020	1,698	—
	<u>\$5,357</u>		<u>4.65%(2)</u>		<u>\$930,085</u>	<u>\$983,207</u>
Less deferred loan costs, net					<u>8,629</u>	<u>9,457</u>
					<u>\$921,456</u>	<u>\$973,750</u>
Less current portion					<u>15,819</u>	<u>14,342</u>
					<u>\$905,637</u>	<u>\$959,408</u>

- (1) 78 of the facilities owned by the Company are encumbered by mortgage debt and are provided as collateral under their respective loan agreements.
- (2) Weighted average interest rate on current fixed interest rate debt outstanding.
- (3) Variable interest rate of LIBOR plus 2.14%, which was 3.87% at December 31, 2019.
- (4) Variable interest rate of LIBOR plus 4.50%, which was 6.23% at December 31, 2019. Effective December 23, 2019, the Company repaid \$24.5 million of the loan and extended the maturity date with Berkadia to December 10, 2021.
- (5) Variable interest rate of LIBOR plus 5.00%, which was 6.73% at December 31, 2019.
- (6) Variable interest rate of LIBOR plus 3.25%, which was 4.98% at December 31, 2019.

The aggregate scheduled maturities of notes payable at December 31, 2019 are as follows (in thousands):

2020	\$ 17,793
2021	97,144
2022	53,293
2023	52,741
2024	240,493
Thereafter	<u>468,621</u>
	<u>\$930,085</u>

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

On December 23, 2019, the Company obtained \$31.5 million of mortgage debt from Fifth Third Bank on its Autumn Glen and Cottonwood Village senior housing communities. The new mortgage loan is interest only and has a two-year term and an initial variable interest rate of LIBOR plus 3.25%. The Company incurred approximately \$0.6 million in deferred financing costs related to this loan, which are being amortized over the term of the loan. On the same date, the Company amended and repaid \$24.5 million in principal of the interest-only mortgage loan with BBVA USA on its Cottonwood Village, Georgetowne Place, Harrison at Eagle Valley, and Rose Arbor. As a result of the amendment, BBVA released the Cottonwood Village assets from collateral of the mortgage and extended the maturity date from July 11, 2020 to December 10, 2021. The amended mortgage has an interest-only variable rate of LIBOR plus 4.5%.

On October 1, 2019, in conjunction with the sale of two of its senior housing communities, the Company repaid \$44.4 million of associated mortgage debt and \$4.4 million of prepayment penalties.

Effective June 28, 2019, the Company exercised its option to extend its interest-only variable interest rate mortgage loan with BBVA USA (formerly Compass Bank) on four of its senior housing communities (Cottonwood Village, Georgetowne Place, Harrison at Eagle Valley, and Rose Arbor). The maturity date was extended from May 11, 2020 to July 11, 2020.

On May 31, 2019, the Company renewed certain insurance policies and entered into two finance agreements totaling approximately \$2.6 million and \$2.7 million. The finance agreements each have a fixed interest rate of 4.4%, with the principal being repaid over an 11-month and 18-month term, respectively.

The Company issued standby letters of credit with Wells Fargo Bank (“Wells Fargo”), totaling approximately \$3.4 million, for the benefit of Hartford Financial Services (“Hartford”) associated with the administration of workers compensation which remain outstanding as of December 31, 2019.

The Company issued standby letters of credit with JPMorgan Chase Bank (“Chase”), totaling approximately \$6.5 million, for the benefit of Welltower, Inc. (“Welltower”), formerly Healthcare REIT, Inc. on certain leases between Welltower and the Company which remain outstanding as of December 31, 2019.

The Company issued standby letters of credit with Chase, totaling approximately \$2.9 million, for the benefit of Healthpeak Properties, Inc. (“Healthpeak”) on certain leases between Healthpeak and the Company which remain outstanding as of December 31, 2019.

On December 18, 2018, the Company repaid certain mortgage loans associated with 21 of its senior living communities totaling approximately \$170.6 million from Fannie Mae which were scheduled to mature on various dates beginning August 2021 through April 2026. The repayment of these mortgage loans facilitated the establishment of a Master Credit Facility (“MCF”) with Berkadia whereby the Company obtained approximately \$201.0 million of new mortgage financing. The MCF will allow the Company to make future advances, should the Company decide to do so, assuming certain borrowing conditions are satisfied. The MCF consists of two separate loans which are cross-defaulted and cross-collateralized. Approximately \$150.8 million of the new financing is long-term fixed interest rate debt at a fixed interest rate of 5.13% with a 10-year term and interest only for the first 36 months and the principal amortized over a 30-year term thereafter. Approximately \$50.3 million of the new financing is long-term variable interest rate debt at a variable interest rate of LIBOR plus 2.14% with a 10-year term and interest only for the first 36 months and a fixed monthly principal component of \$67,000 thereafter. The Company incurred approximately \$3.0 million in deferred financing costs related to the MCF, which are being amortized over 10 years. As a result of the early repayment of the Fannie Mae mortgage debt, the Company accelerated the amortization of approximately \$1.5 million in unamortized deferred financing costs and incurred prepayment premiums of approximately \$11.1 million. The MCF was subsequently assigned to Fannie Mae on December 28, 2018, and is reported as such in preceding notes payable summary table.

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

On December 18, 2018, the Company completed mortgage financing of \$3.5 million from Berkadia at a variable interest rate of LIBOR plus 3.75% on one community located in Kokomo, Indiana. The mortgage loan is interest-only and has an 18-month term maturing in July 2020. The Company incurred approximately \$91,000 in deferred financing costs related to this loan, which are being amortized over 18 months.

On December 1, 2018, the Company renewed certain insurance policies and entered into a finance agreement totaling approximately \$0.8 million. The finance agreement has a fixed interest rate of 4.40% with the principal being repaid over an 11-month term.

On November 30, 2018, the Company completed supplemental mortgage financing of approximately \$1.8 million from Fannie Mae at a fixed interest rate of 6.30% on one community located in Mesquite, Texas. The supplemental mortgage loan is coterminous, cross-collateralized and cross-defaulted with the original existing mortgage debt maturing in July 2024. The Company incurred approximately \$0.1 million in deferred financing costs related to this loan, which are being amortized over the remaining initial loan term.

Effective June 29, 2018, the Company extended its mortgage loan with Berkadia on one of its senior living communities located in Canton, Ohio. The maturity date was extended to October 10, 2021 with an initial variable interest rate of LIBOR plus 5.0% with principal amortized over 25 years.

Effective May 31, 2018, the Company renewed certain insurance policies and entered into a finance agreement totaling approximately \$1.7 million. The finance agreement has a fixed interest rate of 3.64% with the principal being repaid over an 11-month term.

In connection with the Company's loan commitments described above, the Company incurred financing charges that were deferred and amortized over the life of the notes. At December 31, 2019 and 2018, the Company had gross deferred loan costs of \$14.3 million and \$14.1 million, respectively. Accumulated amortization was \$5.7 million and \$4.7 million at December 31, 2019 and 2018, respectively. Amortization expense is expected to be approximately \$1.6 million in each of the next five fiscal years. The Company was in compliance with all aspects of its outstanding indebtedness at December 31, 2019 and 2018.

9. Equity

Preferred Stock

The Company is authorized to issue preferred stock in series and to fix and state the voting powers and such designations, preferences and relative participating, optional or other special rights of the shares of each such series and the qualifications, limitations and restrictions thereof. Such action may be taken by the Board without stockholder approval. The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of preferred stock. No preferred stock was outstanding as of December 31, 2019 and 2018.

Share Repurchases

On January 22, 2009, the Company's board of directors approved a share repurchase program that authorized the Company to purchase up to \$10.0 million of the Company's common stock. Purchases may be made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or by any combination of such methods, in accordance with applicable insider trading and other securities laws and regulations. The size, scope and timing of any purchases will be based on business, market and other conditions and factors, including price, regulatory and contractual requirements or consents, and capital availability. The repurchase program does not obligate the Company to acquire any particular amount of common stock and the share repurchase authorization has no stated expiration date. Shares of stock repurchased under the program will be held as treasury shares. Pursuant to this authorization, during fiscal 2009, the Company purchased 349,800 shares at an average cost of \$2.67 per share for a total cost to the Company of approximately \$0.9 million. On January 14, 2016, the Company announced that its board of directors

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

approved a continuation of the share repurchase program. Pursuant to this authorization, during fiscal 2016, the Company purchased 144,315 shares of its common stock at an average cost of \$17.29 per share for a total cost to the Company of approximately \$2.5 million. All such purchases were made in open market transactions. There were no repurchases of the Company's common stock during fiscal 2019 or 2018.

10. Stock-Based Compensation

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

The Company's Amended 2007 Omnibus Stock and Incentive Plan (the "2007 Plan") provided for, among other things, the grant of restricted stock awards, restricted stock units and stock options to purchase shares of the Company's common stock. The 2007 Plan authorized the Company to issue up to 4,600,000 million shares of common stock and the Company had reserved shares of common stock for future issuance pursuant to awards under the 2007 Plan.

On May 14, 2019, the Company's stockholders approved the 2019 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation (the "2019 Plan"), which replaced the 2007 Plan. The 2019 Plan provides for, among other things, the grant of restricted stock awards, restricted stock units and stock options to purchase shares of the Company's common stock. The 2019 Plan authorizes the Company to issue up to 2,250,000 shares of common stock plus reserved shares not issued or subject to outstanding awards under the 2007 Plan, and the Company has reserved shares of common stock for future issuance pursuant to awards under the 2019 Plan. Effective March 26, 2019, the 2007 Plan was terminated and no additional awards will be granted under the 2007 Plan.

Stock Options

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

The fair value of stock options was estimated using the Black-Scholes option pricing model. The Black-Scholes model requires the input of certain assumptions including expected volatility, expected dividend yield, expected life of the option and the risk-free interest rate. The expected volatility used by the Company is based primarily on an analysis of historical prices of the Company's common stock. The expected term of options granted is based primarily on historical exercise patterns on the Company's outstanding stock options. The risk-free rate is based on zero-coupon U.S. Treasury yields in effect at the date of grant with the same period as the expected option life. The Company does not expect to pay dividends on its common stock and therefore has used a dividend yield of zero in determining the fair value of its awards. The option forfeiture rate assumption used by the Company is based primarily on the Company's historical option forfeiture patterns. The fair value of stock options was estimated using a Black-Scholes option pricing model with the following weighted-average assumptions:

	<u>Year ended December 31, 2019</u>
Expected volatility	37.0%
Expected dividend yield	0.0%
Expected term in years	6.0
Risk free rate	2.55%
Expected forfeiture rate	0.0%

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

The options outstanding at December 31, 2019 had no intrinsic value, a weighted-average remaining contractual life of 9.0 years, and a weighted-average exercise price of \$7.46. None of the options outstanding at December 31, 2019 were exercisable. No stock options were outstanding at December 31, 2018 and 2017, as all outstanding options had fully vested and have been exercised or forfeited.

A summary of the Company's stock option transactions for the years ended December 31, 2019, 2018, and 2017 is as follows:

	<u>Outstanding Beginning of Year</u>	<u>Granted</u>	<u>Exercised</u>	<u>Forfeited</u>	<u>Outstanding End of Year</u>	<u>Options Exercisable</u>
December 31, 2019						
Shares	—	147,239	—	—	147,239	—
Weighted average price	\$—	\$ 7.46	\$—	—	\$ 7.46	\$—
December 31, 2018						
Shares	—	—	—	—	—	—
Weighted average price	\$—	—	\$—	—	\$ —	\$—
December 31, 2017						
Shares	—	—	—	—	—	—
Weighted average price	\$—	—	\$—	—	\$ —	\$—

At December 31, 2019, there was approximately \$0.3 million of total unrecognized compensation expense related to unvested stock option awards, which is expected to be recognized over a weighted average period of 2.0 years. The fair value of the stock options is amortized as compensation expense over the vesting periods of the options. The Company recorded stock-based compensation expense related to stock options of approximately \$0.1 million in 2019. No expense was recorded related to stock options in 2018 or 2017.

Restricted Stock

The Company may grant restricted stock awards and units to employees, officers, and directors in order to attract, retain, and provide incentives for such individuals and to more closely align stockholder and employee interests. For restricted stock awards and units without performance and market-based vesting conditions, the Company records compensation expense for the entire award on a straight-line basis over the requisite service period, which is generally a period of one to four years, unless the award is subject to certain accelerated vesting requirements. Restricted stock awards are considered outstanding at the time of grant since the holders thereof are entitled to dividends, upon vesting, and voting rights. For restricted stock awards with performance and market-based vesting conditions, total compensation expense is recognized over the requisite service period once the performance target is deemed probable of achievement. Performance goals are evaluated periodically and if such goals are not ultimately met or it is not probable the goals will be achieved, no compensation expense is recognized and any previously recognized compensation expense is reversed. If the achievement of a market condition varies from initial estimates on the date of grant, compensation expense will not be adjusted to reflect the difference since the grant date fair value of the performance award gave consideration to the probability of market condition achievement.

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

The Company recognizes compensation expense of a restricted stock award over its respective vesting or performance period based on the fair value of the award on the grant date, net of actual forfeitures. A summary of the Company's restricted common stock awards activity and related information for the years ended December 31, 2019, 2018, and 2017 is presented below:

	<u>Outstanding Beginning of Year</u>	<u>Issued</u>	<u>Vested</u>	<u>Forfeited</u>	<u>Outstanding End of Year</u>
December 31, 2019					
Shares	1,345,159	662,154	(424,556)	(493,411)	1,089,346
December 31, 2018					
Shares	964,484	830,794	(386,900)	(63,219)	1,345,159
December 31, 2017					
Shares	829,766	565,745	(355,400)	(75,627)	964,484

The restricted stock outstanding at December 31, 2019, 2018, and 2017, had an aggregate intrinsic value of \$3.4 million, \$9.1 million, and \$13.0 million, respectively.

During fiscal 2019, the Company awarded 662,154 shares of restricted common stock to certain employees and directors of the Company, of which 325,415 shares were subject to performance and market-based vesting conditions. The average market value of the common stock on the date of grant was \$4.50. These awards of restricted shares vest over a one to four-year period, unless the award is subject to certain accelerated vesting requirements, and had an intrinsic value of \$3.0 million on the date of grant. Additionally, during fiscal 2019, the Company awarded 59,841 restricted stock units to certain directors of the Company with average market value of \$3.76 on the date of grant. These awards of restricted units vest over a one-year period and had an intrinsic value of approximately \$0.2 million on the date of grant.

Stock Based Compensation

The Company uses the Monte-Carlo simulation model to determine the fair value of performance awards which include market-based vesting conditions. The Monte-Carlo simulation model uses the same input assumptions as the Black-Scholes model; however, it also further incorporates into the fair-value determination the possibility that the market condition may not be satisfied. Compensation costs related to awards with a market-based condition are recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided. During fiscal 2019, in accordance with the Company's long-term incentive compensation plan, the Company granted 325,415 shares of restricted common stock with performance and market-based vesting conditions to certain employees of the Company. These performance awards are subject to a market-based condition that may increase or decrease the number of shares vested if the Company's 2021 Total Stockholder Return ("TSR") exceeds or falls below certain achievement level parameters when ranked against the Company's designated Peer Group. These restricted performance shares vest over a three-year period based on the Company's Earnings before Interest, Taxes, Depreciation, Amortization, and Rent ("EBITDAR") financial performance target set by the Company's compensation committee for the fiscal year ending December 31, 2021. The number of shares of restricted common stock ultimately issued will be prorated between performance level targets achieved.

The Company recognized \$2.5 million, \$8.4 million, and \$7.7 million in stock-based compensation expense during fiscal 2019, 2018, and 2017, respectively, which primarily is associated with employees whose corresponding salaries and wages are included in general and administrative expenses within the Company's Consolidated Statements of Operations and Comprehensive Loss. Unrecognized stock-based compensation expense

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

is \$3.7 million at December 31, 2019. The Company expects stock-based compensation expense to be recognized over a one to three-year period for performance restricted stock awards and a one to four-year period for nonperformance-based restricted stock awards and units.

11. Income Taxes

The (benefit) provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	\$(71)	\$ (152)	\$ 6
State	443	474	550
Deferred:			
Federal	76	(2,093)	1,940
State	—	—	—
(Benefit) Provision for income taxes	<u>\$448</u>	<u>\$(1,771)</u>	<u>\$2,496</u>

The (benefit) provision for income taxes differed from the amounts of income tax (benefit) provision determined by applying the U.S. federal statutory income tax rate to income before (benefit) provision for income taxes as a result of the following (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Tax benefit at federal statutory rates	\$(7,472)	\$(11,627)	\$(14,168)
State income tax benefit, net of federal effects	(548)	(665)	(648)
Change in deferred tax asset valuation allowance	7,478	9,543	7,857
Tax reform impact on deferred income taxes	—	—	13,959
Share based compensation ASU 2016-09 adoption	—	—	(5,326)
Other	<u>990</u>	<u>978</u>	<u>822</u>
(Benefit) Provision for income taxes	<u>\$ 448</u>	<u>\$ (1,771)</u>	<u>\$ 2,496</u>

The effective tax rate for fiscal 2019 differs from the statutory tax rate primarily due to state income taxes, changes in the deferred tax asset valuation allowance, and other permanent tax differences. The Company is impacted by the Texas Margin Tax (“TMT”), which effectively imposes tax on modified gross revenues for communities within the State of Texas and accounts for the majority of the Company’s current state tax expense. The valuation allowance recorded as of Fiscal 2019 was \$50.7 million, which had increased from the prior year by \$4.4 million. Of the \$4.4 million adjustment to the valuation allowance during fiscal 2019, a \$3.0 million decrease in the valuation allowance was the result of retained earnings impact related to the adoption of ASC 842 and a \$7.4 million increase to the valuation allowance was current year activity. The fiscal 2019 other permanent tax differences include \$0.7 million of stock compensation shortfalls and \$0.4 million of Section 162(m) compensation limitation.

The effective tax rate for fiscal 2018 differs from the statutory tax rate primarily due to state income taxes, changes in the deferred tax asset valuation allowance, and other permanent tax differences. The fiscal 2018 other

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

permanent tax differences include \$0.5 million of stock compensation shortfalls and \$0.3 million of Section 162(m) compensation limitation.

The effective tax rate for fiscal 2017 differs from the statutory tax rate primarily due to state income taxes, changes in the deferred tax asset valuation allowance, tax reform impact on deferred income taxes, adoption of ASU 2016-09, and other permanent tax differences. The fiscal 2017 other permanent tax differences include \$0.7 million of stock compensation shortfalls and \$0.2 million of Section 162(m) compensation limitation.

A summary of the Company's deferred tax assets and liabilities, are as follows (in thousands):

	December 31,	
	2019	2018
Deferred tax assets:		
Deferred gains on sale/leaseback transactions	\$ —	\$ 2,440
Lease liabilities	62,166	—
Net operating loss carryforward	34,284	33,252
Compensation costs	2,134	3,087
Depreciation and amortization	3,525	5,323
Other	2,991	2,330
Total deferred tax assets	105,100	46,432
Deferred tax asset valuation allowance	(50,699)	(46,280)
Total deferred tax assets, net	54,401	152
Deferred tax liabilities:		
Depreciation and amortization	—	—
Operating lease right-of-use assets	(54,325)	—
Total deferred tax liabilities	\$ (54,325)	\$ —
Deferred taxes, net	\$ 76	\$ 152

Income taxes are computed using the asset and liability method and current income taxes are recorded based on amounts refundable or payable. Deferred income taxes are recorded based on the estimated future tax effects of loss carryforwards and temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which we expect those carryforwards and temporary differences to be recovered or settled. Management regularly evaluates the future realization of deferred tax assets and provides a valuation allowance, if considered necessary, based on such evaluation. As part of the evaluation, management has evaluated taxable income in carryback years, future reversals of taxable temporary differences, feasible tax planning strategies, and future expectations of income. Based upon this evaluation, a valuation allowance has been recorded to reduce the Company's net deferred tax assets to the amount that is more likely than not to be realized. A significant component of objective evidence evaluated was the cumulative losses before income taxes incurred by the Company over the past several fiscal years. Such objective evidence severely limits the ability to consider other subjective evidence such as the Company's ability to generate sufficient taxable income in future periods to fully recover the deferred tax assets. However, in the event that we were to determine that it would be more likely than not that the Company would realize the benefit of deferred tax assets in the future in excess of their net recorded amounts, adjustments to deferred tax assets would increase net income in the period we made such a determination. The benefits of the net deferred tax assets might not be realized if actual results differ from expectations. The valuation allowance recorded as of

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

Fiscal 2019 was \$50.7 million, which had increased from the prior year by \$4.4 million. Of the \$4.4 million adjustment to the valuation allowance during fiscal 2019, a \$3.0 million decrease in the valuation allowance was the result of retained earnings impact related to the adoption of ASC 842 and a \$7.4 million increase to the valuation allowance was current year activity.

At December 31, 2017, the Company completed an analysis determining its best estimate for provisional tax adjustments based on the revised tax legislation associated with the Tax Cuts and Jobs Act (“TCJA”), which was enacted on December 22, 2017. Additionally, the Securities and Exchange Commission issued Staff Accounting Bulletin 118 (“SAB 118”), to address the accounting and reporting of the Act. SAB 118 allowed companies to take a reasonable period, which should not extend beyond one year from enactment of the TCJA, to measure and recognize the effects of the new tax law. Based upon the Company’s analysis of the TCJA and consideration of SAB 118, the Company remeasured its deferred income taxes on a provisional basis as of December 31, 2017, which resulted in a net \$14.0 million reduction in the Company’s deferred tax assets and liabilities. The remeasurement consisted of a \$15.9 million reduction to the Company’s deferred tax assets for the change in the corporate statutory tax rate from 34% to 21% and a \$0.3 million reduction to the Company’s deferred tax asset valuation allowance for the repeal of the corporate Alternative Minimum Tax (“AMT”), partially offset by a \$2.2 million increase to the Company’s deferred tax asset valuation allowance for maximum deduction limits for future net operating loss (“NOL”) carryforwards to 80% of taxable income for losses arising in tax years beginning after December 31, 2017.

The Company completed its assessment of the TCJA under SAB 118 as of December 31, 2018, resulting in a net \$2.2 million reduction to the Company’s deferred tax asset valuation allowance. The \$2.2 million reduction was primarily related to guidance released in December 2018 for companies electing real property trade or business under Section 163(j)(7)(B) of the Internal Revenue Code to opt out of the interest expense limitation. This guidance requires residential rental property to be depreciated under the Alternative Depreciation System (“ADS”), including assets placed in service prior to 2018.

As of December 31, 2019, the Company has federal and state NOL carryforwards of \$160.5 million and \$135.0 million and related deferred tax assets of \$33.7 million and \$7.2 million, respectively, and a federal AMT credit carryforward of \$0.1 million. The federal and state NOL carryforwards in the income tax returns filed included unrecognized tax benefits. The deferred tax assets recognized for those NOLs are presented net of the unrecognized benefits. If not used, the federal NOL generated prior to fiscal 2018 will expire during fiscal 2033 to 2037 and non-conforming state NOL’s will expire during fiscal 2020 to 2039. Federal NOL’s generated in fiscal 2018 and beyond currently have no expiration due to changes to tax laws enacted with the TCJA. Some state jurisdictions conform to the unlimited net operating loss carryforward provisions as modified by the TCJA. However, some jurisdictions do not conform to the above-mentioned provisions.

Utilization of the net operating loss carryforwards might be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”). These ownership changes may limit the amount of NOL carryforwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an “ownership change” as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders or public groups.

Since the Company’s formation, the Company has raised capital through the issuance of capital stock on several occasions which, combined with the purchasing stockholders’ subsequent disposition of those shares, may have resulted in such an ownership change, or could result in an ownership change in the future upon subsequent disposition. As no utilization of the NOL carryforwards are being or are projected to be utilized in the near future, the Company has not currently completed a study to assess whether an ownership change has occurred. As the Company maintains a valuation allowance in all jurisdictions where the NOL carryovers are

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

present, any potential Section 382 limitation would also be impacted by the valuation allowance. Any carryforwards that will expire prior to utilization as a result of a Section 382 limitations will be removed from deferred tax assets with a corresponding reduction of the valuation allowance

A summary of the Company’s unrecognized tax benefits activity and related information for the years ended December 31, 2019, 2018, and 2017 is presented below (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance, January 1	\$4,644	\$3,416	\$3,786
Gross increases – tax positions in prior period	2,468	1,228	—
Gross decreases – tax positions in prior period	—	—	(370)
Gross increases – tax positions in current period	—	—	—
Settlements	—	—	—
Lapse of statute of limitations	(323)	—	—
Ending balance, December 31	<u>\$6,789</u>	<u>\$4,644</u>	<u>\$3,416</u>

The Company evaluates uncertain tax positions through consideration of accounting and reporting guidance on criteria, measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial-statement comparability among different companies. The Company is required to recognize a tax benefit in its financial statements for an uncertain tax position only if management’s assessment is that its position is “more likely than not” (i.e., a greater than 50 percent likelihood) to be upheld on audit based only on the technical merits of the tax position. The Company’s policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as income tax expense. As of December 31, 2019, the Company has unrecognized tax benefits of \$6.8 million for an uncertain tax position associated with a change in accounting method. The unrecognized tax benefits as of December 31, 2019 are timing-related uncertainties that if recognized would not impact the effective tax rate of the Company. Unrecognized tax benefit changes in the next 12 months will be a reduction of \$1.7 million. The Company files income tax returns in the U.S. federal jurisdiction and U.S. state jurisdictions. As of December 31, 2019, the Company is generally no longer subject to U.S. federal and state income tax examinations for tax years prior to 2016.

12. Employee Benefit Plans

The Company has a 401(k) salary deferral plan (the “Plan”) in which certain employees of the Company meeting minimum service and age requirements are eligible to participate. Contributions to the Plan are in the form of employee salary deferrals, which are subject to employer matching contributions of 50% of up to 4% of the employee’s annual salary. The Company’s contributions are funded semi-monthly to the Plan administrator. Matching contributions of \$0.5 million were contributed to the Plan in each of fiscal 2019, 2018 and 2017. The Company incurred administrative expenses related to the Plan of \$24,000, \$25,000, and \$21,300 in fiscal 2019, 2018, and 2017, respectively.

13. Contingencies

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

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

The Company had two of its senior housing communities located in southeast Texas impacted by Hurricane Harvey during the third quarter of fiscal 2017. We maintain insurance coverage on these communities which includes damage caused by flooding. The insurance claim for this incident required a deductible of \$100,000 that was expensed as a component of operating expenses in the Company’s Consolidated Statement of Operations and Comprehensive Loss in the third quarter of fiscal 2017. Physical repairs have been completed to restore the communities to their condition prior to the incident and these communities reopened and began accepting residents in July 2018. We have incurred approximately \$6.2 million in clean-up and physical repair costs, almost all of which have been recovered through insurance proceeds. At December 31, 2019 and 2018, the Company expected to receive an additional \$0.3 million and \$2.4 million, respectively, in insurance proceeds from our respective carrier, which was included in prepaid expenses and other on the Company’s Consolidated Balance Sheets. In addition to the repairs of physical damage to the buildings, the Company’s insurance coverage includes loss of business income (“Business Interruption”). Business Interruption includes reimbursement for lost revenue as well as incremental expenses incurred as a result of the hurricane. The Company received payments from our insurance underwriters during fiscal 2019 and 2018 totaling approximately \$2.5 million and \$5.1 million related to Business Interruption, respectively, which have been included as a reduction to operating expenses in the Company’s Consolidated Statement of Operations and Comprehensive Loss for each respective year. Business interruption payments ceased in accordance with our insurance policy in July 2019.

In July 2018, the Company received notifications from the Internal Revenue Service (“IRS”) pursuant to the Affordable Care Act (“ACA”) that the Company may be liable for an Employer Shared Responsibility Payment (“ESRP”) in the amount of approximately \$2.1 million for the year ended December 31, 2015. The ESRP is applicable to employers that had 50 or more full-time equivalent employees, did not offer minimum essential coverage (“MEC”) to at least 70% of full-time employees and their dependents, or did offer MEC to at least 70% of full-time employees and their dependents which did not meet the affordable or minimum value criteria and had one or more full-time employees certified as being allowed the premium tax credit (“PTC”). The IRS determines the amount of the proposed ESRP from information returns completed by employers and from income tax returns completed by employees. Based upon the Company’s review of the notifications provided by the IRS, the Company initially concluded it would be liable for approximately \$0.2 million of the ESRP assessments which was accrued within certain employee benefit reserves. The Company formally responded to the notifications from the IRS and received favorable decisions revising the ESRP to \$83,200 during the fourth quarter of fiscal 2018. The Company believes it has appropriate reserves as of December 31, 2019 and 2018.

14. Fair Value of Financial Instruments

The carrying amounts and fair values of financial instruments at December 31, 2019 and 2018 are as follows (in thousands):

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 23,975	\$ 23,975	\$ 31,309	\$ 31,309
Restricted cash	13,088	13,088	13,011	13,011
Notes payable, excluding deferred loan costs	930,085	899,326	983,207	945,318

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

Cash and cash equivalents and Restricted cash: The carrying amounts reported in the balance sheet for cash and cash equivalents and restricted cash equal fair value, which represent Level 1 inputs as defined in the accounting standards codification.

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

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

Assets Held for Sale

During the first quarter of fiscal 2019, the Company classified one senior living community as held for sale and determined a remeasurement write-down of approximately \$2.3 million was required to adjust the carrying value to its fair value, net of cost of disposal. The senior living community was sold during the second quarter of fiscal 2019 for its carrying value. During the third quarter of fiscal 2019, the Company classified two senior living communities as held for sale which required no remeasurement to adjust the carrying value to its fair value.

The Company determines, using Level 2 inputs as defined in the accounting standards codification, the fair value, net of costs of disposal, of an asset on the date the asset is categorized as held for sale, and the asset is recorded at the lower of its fair value, net of cost of disposal, or carrying value on that date. The Company periodically reevaluates assets held for sale to determine if the assets are still recorded at the lower of fair value, net of cost of disposal, or carrying value. The fair values are generally determined based on market rates, industry trends and recent comparable sales transactions.

Operating Lease Right-Of-Use Assets

The Company's adoption of ASC 842 on January 1, 2019, resulted in the recognition of operating lease right-of-use assets which were determined not fully recoverable and required impairment write-down adjustments of approximately \$17.8 million recorded directly to retained deficit. The fair value of the right-of-use assets was estimated, using level 3 inputs as defined in the accounting standards codification, utilizing a discounted cash flow approach based upon historical and projected cash flows and market data, including management fees and a market supported lease coverage ratio. The estimated future cash flows were discounted at a rate that is consistent with a weighted average cost of capital from a market participant perspective.

The estimated fair value of these assets and liabilities could be affected by market changes and this effect could be material.

15. Allowance for Doubtful Accounts

The components of the allowance for doubtful accounts are as follows (in thousands):

	December 31,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 6,793	\$ 4,881	\$ 4,253
Provision for bad debts, net of recoveries	3,765	2,990	1,748
Write-offs and other	<u>(1,915)</u>	<u>(1,078)</u>	<u>(1,120)</u>
Balance at end of year	<u>\$ 8,643</u>	<u>\$ 6,793</u>	<u>\$ 4,881</u>

Accounts receivable are reported net of an allowance for doubtful accounts to represent the Company's estimate of inherent losses at the balance sheet date. The increase in the allowance for doubtful accounts is primarily due to an increase in Medicaid receivables, which is due to an increase in the number of residents for which Medicaid is the payor. The Company's bad debt expense for Medicaid is higher than that for private pay residents.

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

16. Leases

The Company has operating leases for various real estate (primarily senior housing communities) and equipment as well as financing leases for certain vehicles. As of December 31, 2019, the Company leased 46 senior housing communities from certain real estate investment trusts (“REITs”). Under these facility lease agreements, the Company is responsible for all operating costs, maintenance and repairs, insurance and property taxes. Additionally, facility leases may include contingent rent increases when certain operational performance thresholds are surpassed, at which time the right-of-use assets and lease liability will be remeasured.

Ventas

As of December 31, 2019, the Company leased seven senior housing communities (collectively the “Ventas Lease Agreements”) from Ventas. Effective January 31, 2017, the Company acquired from Ventas the underlying real estate associated with four of its operating leases for a total acquisition price of \$85.0 million (the “Four Property Lease Transaction”). The Company obtained interim, interest-only, bridge financing from Commercial Mortgage LLC (“Berkadia”) for \$65.0 million of the acquisition price with an initial variable interest rate of LIBOR plus 4.0% and a 36-month term, with an option to extend six months, and the balance of the acquisition price paid was from the Company’s existing cash resources. Additionally, the Company agreed to continue paying \$2.3 million of the annual rents associated with the four communities acquired over the remaining lease term of the remaining seven leased communities. At December 31, 2019 and 2018, the lease termination obligation was \$11.4 million and \$12.9 million, respectively. Prior to the Four Property Lease Transaction, the Company previously leased 11 senior housing communities from Ventas.

During the second quarter of fiscal 2015, the Company executed amendments to the master lease agreements with Ventas to facilitate up to \$24.5 million of leasehold improvements for 10 communities within the Ventas lease portfolio and extend the lease terms until September 30, 2025, with two five-year renewal extensions available at the Company’s option. During the second quarter of fiscal 2016, the Company executed amendments to the master lease agreements with Ventas to increase the funds budgeted for leasehold improvements (the “Special Project Funds”) from \$24.5 million to \$28.5 million and extend the date for completion of the leasehold improvements to June 30, 2017. During the second quarter of fiscal 2017, the Company executed amendments to the master lease agreements with Ventas to decrease the Special Project Funds for leasehold improvements from \$28.5 million to approximately \$17.0 million due to the Four Property Lease Transaction and extend the date for completion of the leasehold improvements to June 30, 2018. During the second quarter of fiscal 2019, the Company executed amendments to the master lease agreements with Ventas to increase the Special Project Funds for leasehold improvements from approximately \$17.0 million to approximately \$20.0 million and extend the date for completion of the leasehold improvements to June 30, 2021. The initial lease rates under each of the Ventas Lease Agreements ranged from 6.75% to 8% and are subject to contingent rent escalation clauses. When a contingency is resolved and an escalation occurs, the amount is included within lease payments and reflected in the ROU asset and lease liability. Subsequent to year-end, the Company entered into an agreement with Ventas, providing for the early termination of its Master Lease Agreement between it and Ventas covering seven communities. See discussion at Note 18- *Subsequent Events*.

Healthpeak

As of December 31, 2019, the Company leased 15 senior housing communities (collectively the “Healthpeak Lease Agreements”) from Healthpeak Properties, Inc., formerly HCP, Inc. (“Healthpeak”). During the fourth quarter of fiscal 2013, the Company executed an amendment to the master lease agreement with Healthpeak to facilitate up to \$3.3 million of leasehold improvements for one community within the Healthpeak lease portfolio and extend the initial lease terms for nine communities until October 31, 2020. During the second quarter of fiscal 2015, the Company exercised its right to extend the lease term with Healthpeak for the remaining six communities in the Healthpeak lease portfolio until April 30, 2026. The initial lease rates under the

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

Healthpeak Lease Agreements ranged from 7.25% to 8% and are subject to certain conditional escalation clauses. When a contingency is resolved and an escalation occurs, the amount is included within lease payments and reflected in the ROU asset and lease liability. On October 22, 2019, the Company executed an amendment to the master lease agreement with Healthpeak, which was later amended, to transition one of the Healthpeak communities to a new operator on or around January 15, 2020, and to sell the remaining eight as soon as possible to one or more buyers. The Company was obligated to pay a \$0.3 million termination fee on the transition of the one community to a new operator. Subsequent to year-end, the Company entered into an agreement with Healthpeak providing for the early termination of the master lease agreement with Healthpeak. See discussion Note 18-*Subsequent Events*.

Welltower

As of December 31, 2019, the Company leased 24 senior housing communities (collectively the “Welltower Lease Agreements”) from Welltower. The Welltower Lease Agreements each have an initial term of 15 years. The initial lease rates under the Welltower Lease Agreements ranged from 7.25% to 8.5% and are subject to certain conditional escalation clauses. When a contingency is resolved and an escalation occurs, the amount is included within lease payments and reflected in the ROU asset and lease liability. The initial terms on the Welltower Lease Agreements expire on various dates through from April 2025 through April 2026. Subsequent to year-end, the Company entered into an agreement with Welltower, providing for the early termination of three Master Lease Agreement between it and Welltower covering 24 communities. See discussion at Note 18-*Subsequent Events*.

The Company determines if a contract is or contains a lease at inception or modification of a contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control over the use of the identified asset means the lessee has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset. The Company, as lessee, makes a determination with respect to each of its community and equipment leases as to whether each should be accounted for as an operating lease or financing lease. The classification criteria is based on estimates regarding the fair value of the leased asset, minimum lease payments, effective cost of funds, economic life of the asset, and certain other terms in each lease agreement.

Operating lease right-of-use assets and liabilities are recognized based on the present value of future minimum lease payments over the expected lease term on the lease commencement date. When the implicit lease rate is not determinable, the Company’s incremental borrowing rate based on the information available at the lease commencement date is used in determining the present value of future minimum lease payments. As of December 31, 2019, the weighted average discount rate and average remaining lease terms of the Company’s operating leases was 7.8% and 5.6 years, respectively. The expected lease terms include options to extend or terminate the lease when it is reasonably certain the Company will exercise such options. Lease expense for minimum lease payments is recognized on a straight-line basis over the expected lease terms.

Financing lease right-of-use assets are recognized within property, plant and equipment and leasehold improvements, net on the Company’s consolidated balance sheets. The Company recognizes interest expense on the financing lease liabilities utilizing the effective interest method. As of December 31, 2019, the weighted average discount rate and average remaining lease term of the Company’s financing leases was 7.1% and 3.9 years, respectively. The right-of-use asset is generally amortized to depreciation and amortization expense on a straight-line basis over the lease term.

Certain of the Company’s lease arrangements have lease and non-lease components. The Company accounts for the lease components and non-lease components as a single lease component for all classes of underlying assets. Leases with an expected lease term of 12 months or less are not recorded on the balance sheet and the related lease expense is recognized on a straight-line basis over the expected lease term.

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

Most of the Company's lease agreements include one or more options to renew, with renewal terms that can extend the lease term for an additional one to 20 years at the Company's option. The recoverability of assets and depreciable life of leasehold improvements are limited by expected lease terms. There are various financial covenants and other restrictions in the Company's lease agreements. The Company's lease agreements do not contain any material residual value guarantees. The Company was in compliance with all of its lease covenants at December 31, 2018 and lease covenants with regard to its Healthpeak leases at December 31, 2019. With regard to its Master Lease Agreements with Ventas and Welltower, the Company was not in compliance with certain financial covenants as of December 31, 2019. Subsequent to year-end, the Company entered into forbearance agreements with Ventas and Welltower with respect to such defaults. See footnote 18, "Subsequent Events."

A summary of operating and financing lease expense (including the respective presentation on the consolidated statement of operations) and cash flows from leasing transactions for the year ended December 31, 2019 is as follows:

<u>Operating Leases (in thousands)</u>	<u>Year Ended December 31, 2019</u>
Facility lease expense	\$57,022
General and administrative expenses	812
Operating expenses, including variable lease expense of \$6,142	6,466
Total operating lease costs	\$64,300
Operating lease expense adjustment	5,243
Operating cash flows from operating leases	<u>\$69,543</u>
<u>Financing Leases (in thousands)</u>	<u>Year Ended December 31, 2019</u>
Depreciation and amortization	\$11
Interest expense: financing lease obligations	<u>3</u>
Total financing lease costs	<u>\$14</u>
Operating cash flows from financing leases	11
Financing cash flows from financing leases	<u>3</u>
Total cash flows from financing leases	<u>\$14</u>

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

The aggregate amounts of future minimum lease payments recognized on the consolidated balance sheet as of December 31, 2019 are as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Operating Leases</u>	<u>Financing Leases</u>
2020	\$ 63,549	\$ 148
2021	51,401	148
2022	51,321	148
2023	51,274	138
2024	51,245	—
Thereafter	<u>44,762</u>	<u>—</u>
Total	\$313,552	\$ 582
Less: Amount representing interest (present value discount)	<u>(59,107)</u>	<u>(72)</u>
Present value of lease liabilities	\$254,445	\$ 510
Less: Current portion of lease liabilities	<u>(45,871)</u>	<u>(117)</u>
Lease liabilities, net of current portion	<u>\$208,574</u>	<u>\$ 393</u>

The aggregate amounts of future minimum operating lease payments not recognized on the consolidated balance sheet under ASC 840 as of December 31, 2018 are as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2019	\$ 66,455
2020	63,929
2021	52,093
2022	52,062
2023	52,026
Thereafter	<u>97,165</u>
Total lease payments	<u>\$383,730</u>

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

17. Quarterly Financial Information (Unaudited)

The following table presents certain unaudited quarterly financial information for each of the four quarters ended December 31, 2019 and 2018. This information has been prepared on the same basis as the audited consolidated financial statements of the Company and include, in the opinion of the Company's management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the quarterly results when read in conjunction with the audited consolidated financial statements of the Company.

	2019 Calendar Quarters			
	First	Second	Third	Fourth (1)
	(In thousands, except per share amounts)			
Total revenues	\$114,176	\$113,126	\$111,110	108,688
Income (Loss) from operations	1,970	203	(8,105)	(8,757)
Net income (loss) and comprehensive income				
(loss)	(12,984)	(12,534)	(20,731)	10,219
Net income (loss) per share, basic	\$ (0.43)	\$ (0.41)	\$ (0.68)	\$ 0.34
Net income (loss) per share, diluted	\$ (0.43)	\$ (0.41)	\$ (0.68)	\$ 0.34
Weighted average shares outstanding, basic	30,102	30,279	30,324	30,342
Weighted average shares outstanding, fully diluted	30,102	30,279	30,324	30,412

(1) The fourth quarter of calendar 2019 was impacted by a \$38.8 million gain the Company recognized due to the sale of two communities located in Springfield, Missouri and Peoria, Illinois on October 1, 2019.

	2018 Calendar Quarters			
	First	Second	Third	Fourth (1)
	(In thousands, except per share amounts)			
Total revenues	\$114,643	\$114,627	\$115,650	\$115,098
Income (Loss) from operations	5,386	3,643	1,696	(3,122)
Net loss and comprehensive loss	(7,156)	(9,060)	(11,089)	(26,291)
Net loss per share, basic	\$ (0.24)	\$ (0.30)	\$ (0.37)	\$ (0.88)
Net loss per share, diluted	\$ (0.24)	\$ (0.30)	\$ (0.37)	\$ (0.88)
Weighted average shares outstanding, basic	29,627	29,831	29,877	29,908
Weighted average shares outstanding, fully diluted	29,627	29,831	29,877	29,908

(1) The fourth quarter of calendar 2018 was impacted by \$4.2 million of additional general and administrative expenses for separation and placement costs primarily associated with the retirement and replacement of the Company's CEO and \$12.6 million for write-off of deferred loan costs and prepayment premiums from the early repayment of certain mortgage debt on the Company's owned properties due to the opportunity to establish an MCF with Berkadia and extend scheduled maturities.

18. Subsequent Events

Disposition of Boca Raton, Florida Community

Effective January 15, 2020, the Company's leased senior living community located in Boca Raton, Florida transitioned to a new operator. In conjunction with the transition, the Company paid Healthpeak a one-time \$0.3 million payment as a prepayment against the remaining lease payments and was relieved of any additional

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

obligation to Healthpeak with regard to that property. The transition was the first transaction under the Company's October 22, 2019 agreement with Healthpeak.

Early Termination of Master Lease Agreements

Welltower

On March 15, 2020, the Company entered into an agreement with Welltower, providing for the early termination of three Master Lease Agreements between it and Welltower covering 24 communities. Pursuant to such agreement, among other things, from February 1, 2020 through December 31, 2020, the Company agreed to pay Welltower rent of approximately \$2.2 million per month for such communities as compared to approximately \$2.8 million per month that would otherwise have been due and payable under the Master Lease Agreements. The Company will not be required to comply with certain financial covenants of the Master Lease Agreements during the forbearance period. In conjunction with the agreement, the Company agreed to release \$6.5 million in security deposits held by Welltower. In addition, the agreement with Welltower provides for the conversion of the lease agreements covering the communities into property management agreements with the Company on December 31, 2020, if such communities have not been transitioned to a successor operator.

Ventas

On March 10, 2020, the Company entered into an agreement with Ventas, providing for the early termination of a Master Lease Agreement between it and Ventas covering seven communities. Pursuant to such agreement, among other things, from February 1, 2020 through December 31, 2020, the Company agreed to pay Ventas rent of approximately \$1.0 million per month for such communities as compared to approximately \$1.3 million per month that would otherwise have been due and payable under the Master Lease Agreements. The Company will not be required to comply with certain financial covenants of the Master Lease Agreements during the forbearance period. In conjunction with the agreement, the Company agreed to release \$3.9 million in security deposits held by Ventas. In addition, the agreement with Ventas provides for the conversion of the lease agreements covering the communities into property management agreements with the Company on December 31, 2020 if Ventas has not transitioned such communities to a successor operator.

Healthpeak

On March 1, 2020, the Company entered into an agreement with Healthpeak, effective February 1, 2020, providing for the early termination of a Master Lease Agreement between it and Healthpeak, previously scheduled to mature in April 2026. The Master Lease Agreement was converted into a management agreement under a RIDEA structure pursuant to which the Company agreed to manage the six communities that were subject to such lease agreement until such communities are sold by Healthpeak. In conjunction with the agreement, the Company agreed to release approximately \$1.9 million of security deposits held by Healthpeak.

The Company expects that these agreements will result in lease modifications under ASC 842, which will significantly reduce the Company's operating lease right-of-use assets, net and its operating lease liabilities. Additionally, the Company expects the lease modifications to advance the timing of recognition within the Company's Consolidated Statements of Operations and Comprehensive Loss for certain assets and liabilities including \$43.7 million of leasehold improvements and \$11.4 million of lease related financing obligations as of December 31, 2019 as the modified leases are now expected to terminate by December 31, 2020.

Coronavirus

Since its discovery in December 2019, a new strain of coronavirus, which causes the viral disease known as COVID-19, has spread from China to many other countries, including the United States. The outbreak has been

CAPITAL SENIOR LIVING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

declared to be a pandemic by the World Health Organization, and the Health and Human Services Secretary has declared a public health emergency in the United States in response to the outbreak. Additionally, the Centers for Disease Control and Prevention has stated that older adults are at a higher risk for serious illness from the coronavirus. As a result of the outbreak, which effectively began impacting the United States in early March, the Company has taken necessary precautions to prevent and/or minimize spread of the virus at its communities. After the COVID-19 outbreak, the Company began experiencing a decrease in the number of in-person potential resident tours; however, the Company has created virtual tours, and prospective residents are able to see pictures of the community and resident rooms online. While leads and in-person tours have slowed, new residents do continue to move in, although at a lower rate than in recent months. Move outs have also slowed as compared to recent months. The Company expects to recognize increases in labor costs due to the need for premium labor to supplement staffing, and increases in medical supplies. In response, the Company has reduced spending on non-essential supplies, travel costs and all other discretionary items, and has ceased all non-essential capital expenditure projects. The Company is monitoring the potential impact on its revenues and expenses. The extent to which the coronavirus impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of the coronavirus and the actions taken to contain the coronavirus or treat its impact, among others.

Disposition of Merrillville, Indiana Community

Effective March 31, 2020, the Company sold one community located in Merrillville, Indiana for a total purchase price of \$7.0 million and received approximately \$6.9 million in net proceeds after paying customary closing costs. The community was unencumbered. The community was comprised of 171 assisted living units and 42 memory care units.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Capital Senior Living Corporation

Opinion on Internal Control Over Financial Reporting

We have audited Capital Senior Living Corporation's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Capital Senior Living Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated March 31, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Dallas, Texas
March 31, 2020

CAPITAL SENIOR LIVING CORPORATION
NON-GAAP RECONCILIATIONS
(In thousands)

The Company utilizes certain financial valuation and performance measures that are not calculated in accordance with U.S. generally accepted accounting principles (“GAAP”). Non-GAAP financial valuation and performance measures may have material limitations in that they do not reflect all of the costs associated with our results of operations as determined in accordance with GAAP. As a result, these non-GAAP financial measures should not be considered a substitute for, nor superior to, financial results and measures determined or calculated in accordance with GAAP. Adjusted EBITDAR is a financial valuation measure commonly used by our management, research analysts and investors to value companies in the senior living industry. Because Adjusted EBITDAR excludes interest expense and rent expense, it allows our management, research analysts and investors to compare the enterprise values of different companies without regard to differences in capital structures and leasing arrangements. The Company believes that adjusted CFO is useful as a financial performance measure in identifying trends in day-to-day operations because it excludes the costs associated with acquisitions and conversions and other items that do not ordinarily reflect the ongoing operating results of our primary business. Adjusted CFO provides indicators to management of progress in achieving both consolidated and individual business unit operating performance and is used by research analysts and investors to evaluate the performance of companies in the senior living industry. The Company strongly urges you to review the following reconciliation of net loss to adjusted EBITDAR and the reconciliation of net loss to adjusted CFO, along with the Company’s consolidated balance sheets, statements of operations and comprehensive loss, and statements of cash flows included within the Company’s Annual Reports on Form 10-K.

	<u>Twelve months ended December 31, 2019</u>
Adjusted EBITDAR	
Net loss	(36,030)
Depreciation and amortization expense	64,190
Stock-based compensation expense	2,509
Facility lease expense	57,022
Provision for bad debts	3,765
Interest income	(221)
Interest expense	49,802
Write-off of deferred loan costs and prepayment premiums	4,746
Long-lived asset impairment	3,004
Write down of asset held for sale	—
Gain on disposition of assets, net	(36,528)
Other expense (income)	(7)
Provision for income taxes	448
Casualty losses	2,868
Transaction and conversion costs	2,657
Employee placement and separation costs	3,073
Employee benefit reserve adjustment	(100)
Communities excluded due to repositioning/lease-up	163
Adjusted EBITDAR	<u>\$121,361</u>
Adjusted CFO	
Net loss	(36,030)
Non-cash charges, net	39,516
Operating lease payment adjustment to normalize lease commitment	(910)
Recurring capital expenditures	(4,581)
Casualty losses	2,868
Transaction and conversion costs	2,674
Employee placement and separation costs	3,073
Employee benefit reserve adjustments	(100)
Communities excluded due to repositioning/lease-up	1,623
Adjusted CFO	<u>\$ 8,133</u>

Company Management

KIMBERLY S. LODY
*President, Chief Executive Officer
and Director*

CAREY P. HENDRICKSON
*Executive Vice President
and Chief Financial Officer*

BRANDON M. RIBAR
*Executive Vice President
and Chief Operating Officer*

MICHAEL C. FRYAR
*Senior Vice President
and Chief Revenue Officer*

DAVID R. BRICKMAN
*Senior Vice President, General
Counsel and Secretary*

JEREMY D. FALKE
*Senior Vice President,
Human Resources*

CAROLE J. BURNELL
Vice President, Operations

JEFFREY P. CELLUCCI
Vice President, Operations

ROBERT F. HOLLISTER
Property Controller

TIFFANY L. DUTTON
*Vice President, Accounting
and Financial Reporting*

LARA N. ELDRIDGE
Vice President, Clinical Operations

Board of Directors

MICHAEL W. REID
*Chairman of the Board
Capital Senior Living Corporation
Managing Partner
HSP Real Estate Group
New York, New York*

KIMBERLY S. LODY
*President, Chief Executive Officer
and Director
Capital Senior Living Corporation
Dallas, Texas*

PHILIP A. BROOKS ^{2, 3}
*Managing Partner
Select Living, LLC
Richmond, Virginia*

ED A. GRIER ^{1, 2}
*Dean, School of Business
Virginia Commonwealth University
Richmond, Virginia*

E. RODNEY HORNBAKE, M.D. ³
*Part-Time Physician and
Independent Medical Consultant
East Haddam, Connecticut*

JILL M. KRUEGER ^{1, 2}
*President and CEO
Symbria, Inc.
Warrenville, Illinois*

ROSS B. LEVIN ^{2, 3}
*Director of Research
Arbiter Partners Capital
Management, LLC
New York, New York*

STEVEN T. PLOCHOCKI ^{1, 3}
*Former President, Chief Executive Officer
and Director
Quality Systems, Inc.
Gainesville, Virginia*

¹ Member of the Board's Compensation Committee
² Member of the Board's Audit Committee
³ Member of the Board's Nominating and Corporate
Governance Committee

Shareholder Information

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

**TRANSFER AGENT AND
REGISTRAR**
*Computershare Trust Company, N.A.
P.O. Box 505000
Louisville, KY 40233-5000*

or
*462 South 4th Street, Ste 1600
Louisville, KY 40202
(866) 267-2831
TDD for hearing impaired: (800) 231-5469
Foreign shareowners: (201) 680-6578
TDD foreign shareowners: (201) 680-6610
www.computershare.com/investor*

AUDITORS
*Ernst & Young LLP
2323 Victory Avenue, Suite 2000
Dallas, Texas 75219
(214) 969-8000*

Corporate Information

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

CORPORATE WEB SITE
www.capitalsenior.com

Form 10-K

*A copy of Capital Senior Living
Corporation's 2019 annual report to
the SEC on Form 10-K is included herein
and is available without charge upon written
request to the Investor Relations Department
at corporate headquarters. It can also be
found on the Company's web site,
www.capitalsenior.com.*

Annual Shareholders Meeting

*December 9, 2020 at 9:00 am, Central Time
Company's Corporate Office
Third Floor Conference Room
14160 Dallas Parkway, Ste. 300
Dallas, Texas 75254*



14160 Dallas Parkway, Suite 300
Dallas, Texas 75254
972.770.5600 Fax: 972.770.5666

www.capitalsenior.com