CAPITAL SENIOR LIVING CORP
Form 10-K
February 26, 2016
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2015

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	**75-2678809**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

14160 Dallas Parkway, Suite 300 **75254**

Dallas, Texas *(Zip Code)*

(Address of principal executive offices)

Registrant s telephone number, including area code:

(972) 770-5600

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $.01 par value per share	New York Stock Exchange
Preferred Stock Purchase Rights	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 þ

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 þ

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer ¨	Accelerated filer þ	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the 27,820,315 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 and directors) on December 31, 2015, based upon the adjusted closing price of the Registrant s Common Stock as reported by the New York Stock Exchange on June 30, 2015, was approximately $681.6 million. As of February 19, 2016, the Registrant had 29,412,484 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement pertaining to its 2016 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.

Table of Contents

CAPITAL SENIOR LIVING CORPORATION

TABLE OF CONTENTS

Table of Contents

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 living communities in the United States in terms of resident capacity. The Company and its predecessors have provided senior living services since 1990. As of December 31, 2015, the Company operated 121 senior living communities in 23 states with an aggregate capacity of approximately 15,400 residents, including 71 senior living communities which the Company owned and 50 senior living communities the Company leased. As of December 31, 2015, the Company also operated one home care agency. During 2015, approximately 95% of total revenues for the senior living 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 elderly, including independent living, assisted living, and home care services. 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 and assisted living and is bridged by home care through independent home care agencies or the Company s home care agency, sustains residents autonomy and independence based on their physical and mental abilities.

Website

The Company s Internet website www.capitalsenior.com contains an Investor Relations section, which provides links to the Company s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Section 16 filings 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 the elderly 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 (ADL s) although some residents may contract out 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 elderly residents with ADL s 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, or may offer higher levels of personal assistance for incontinent residents or residents with Alzheimer s disease or other cognitive or physical 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 report for Winter 2016, as of the fourth quarter of fiscal 2015, 19.9% of the age-restricted seniors housing supply in the

Table of Contents

United States were assisted living units, 22.7% were independent living units, 51.8% were nursing care units, and 5.6% 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 many senior living operators do not 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.

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 living communities are increasingly becoming the setting preferred by prospective residents and their families for the care of the elderly. 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 elderly 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. 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 (12.8 million) was 16 times larger than in 1900 and the 85 and over age group (5.7 million) was 40 times larger. The 85 and over population is projected to triple from 5.7 million in 2011 to 14.1 million 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 living 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

Table of Contents

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 living 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 elderly 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 two-thirds of the cost for comparable care in a nursing home.

Operating Strategy

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 is implementing its operating strategy principally through the following methods:

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 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. The Company also maintains a comprehensive quality assurance program designed to ensure the satisfaction of its residents and their family members. The Company conducts annual resident satisfaction surveys that allow residents at each community to express whether they are very satisfied, satisfied or dissatisfied with all major areas of a community, including, housekeeping, maintenance, activities and transportation, food service, security and management. In 2015 and 2014, the Company achieved 95% and 94%, respectively, overall approval ratings from the residents satisfaction surveys.

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 elderly population within a particular geographic market.

Table of Contents

Improve Occupancy Rates

The Company continually seeks to maintain and improve occupancy rates 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 on-site marketing programs focused on residents and family members; (iii) selecting communities in underserved markets; (iv) aggressively seeking referrals from professional community outreach sources, including area religious organizations, senior social service programs, civic and business networks, as well as the medical community; and (v) continually refurbishing and renovating its communities.

Improve Operating Efficiencies

The Company seeks to improve operating efficiencies at its communities by actively monitoring and managing operating costs. 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. The Company s growth strategy includes acquiring additional communities within our geographically concentrated regions to achieve further efficiencies.

Emphasize Employee Training 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. The Company hires an executive director for each of its communities and provides them with autonomy, responsibility and accountability. The Company s staffing of each community with an executive director allows it to hire more professional employees at these positions, while the Company s developed career path helps it to retain the professionals it hires. The Company believes its commitment to and emphasis on employee training and retention differentiates the Company from many of its competitors.

Senior Living Services

The Company provides senior living services to the elderly, including independent living and assisted living services, and also provides home care services at one of its communities. By offering a variety of services and encouraging the active participation of the resident and the resident s family and medical consultants, the Company is able to customize its service plan to meet the specific needs and desires of each resident. Additionally, the Company is actively working to expand service offerings through conversions of existing units to higher levels of care. As a result, the Company believes that it is able to maximize customer satisfaction and avoid the high cost of delivering unnecessary services to residents.

The Company s operating philosophy is to provide quality senior living communities and services to senior citizens and deliver a continuum of care for its residents as their needs change over time. This continuum of care, which integrates independent living and assisted living 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, 2015, the Company owned 34 communities and leased 19 communities that provide independent living services, which include communities that combine assisted living and other services, with an aggregate capacity for approximately 6,800 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 a fee ranging from $1,100 to $6,600 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.

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. As of December 31, 2015, the Company owned 57 communities and leased 41 communities that provide assisted living services, which include communities that combine independent living and other services, with an aggregate capacity for approximately 8,600 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 given 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 when 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 a fee ranging from $1,400 to $8,400 per month, in general, depending on the specific community, the level of personal care services, support service and supplemental serv-

Table of Contents

ices 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 30 days notice unless state law stipulates otherwise.

The Company maintains programs and special units at some of its assisted living 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. Whenever possible, residents assist with meals, laundry and housekeeping. Special units for residents with certain forms of dementia are located in a separate area of the community and have their 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 to other residents. Resident fees for these special units are dependent on the size of the unit, the design type and the level of services provided.

Home Care Services

As of December 31, 2015, the Company provided home care services to clients at one senior living community through the Company s home care agency and made home care services available to clients at a majority of its senior living 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 available to residents certain customized physician, dentistry, podiatry and other health-related rehabilitation and therapy services that may be offered by third-party providers.

Operating Communities

The table below sets forth certain information with respect to senior living communities operated by the Company as of December 31, 2015.

			Resident Capacity[1]				Commencement of
Community		Units	IL	AL	Total	Ownership	Operations[2]
Owned:							
Aspen Grove	Lamberville, MI	78		83	83	100%	03/14
Autumn Glen	Greencastle, IN	52		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
Country Charm	Greenwood, IN	90		166	166	100%	10/12
Country Charm Village	Indianapolis, IN	73		105	105	100%	10/12
Courtyards at Lake Granbury	Granbury, TX	81		112	112	100%	03/12
Good Tree Retirement and Memories	Stephenville, TX	60	20	75	95	100%	03/12
Gramercy Hill	Lincoln, NE	146	62	103	165	100%	10/98
Greenbriar Village	Indianapolis, IN	124		134	134	100%	08/15
Harbor Court	Rocky River, OH	122		144	144	100%	12/12
Heritage at the Plains at Parish Homestead	Oneonta, NY	108	97	53	150	100%	05/15
Independence Village of Peoria	Peoria, IL	158	166		166	100%	08/00
Keystone Woods Assisted Living	Anderson, IN	50		70	70	100%	07/11
Laurel Hurst Laurel Woods	Columbus, NC	102	70	60	130	100%	10/11
Marquis Place of Elkhorn	Elkhorn, NE	64		69	69	100%	03/13
Middletown	Middletown, OH	61		75	75	100%	09/13
Montclair	Springfield, MO	158	178		178	100%	12/12
North Pointe	Anderson, SC	70		70	70	100%	10/11

Table of Contents

Community		Units	Resident Capacity[1] IL	AL	Total	Ownership	Commencement of Operations[2]
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	Jeffersonville, IN	112		114	114	100%	03/12
Remington at Valley Ranch	Irving, TX	127	158		158	100%	04/12
Residence of Chardon	Chardon, OH	42		52	52	100%	10/12
Sugar Grove	Plainfield, IN	164	48	116	164	100%	12/13
Summit Place	Anderson, SC	91	19	89	108	100%	10/11
Summit Point Living	Macedonia, OH	163	126	98	224	100%	08/11
Towne Centre Retirement Community	Merrillville, IN	210	163	75	238	100%	03/91
Vintage Gardens	St. Joseph, MO	102	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 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 Deer Park	Deer Park, TX	120	144		144	100%	11/00
Waterford at Dillon Pointe	Spartanburg, SC	36		55	55	100%	12/13
Waterford at Edison Lakes	South Bend, IN	116	96	45	141	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	151	177		177	100%	06/00
Waterford at Hartford	Hartford, WI	39		53	53	100%	05/15
Waterford at Hidden Lake	Canton, GA	49		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	90		109	109	100%	08/14
Waterford at Pantego	Pantego, TX	119	143		143	100%	12/00
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 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
Wellington at Kokomo	Kokomo, IN	96		99	99	100%	07/11
Wellington at North Richland Hills	North Richland Hills, TX	119	139		139	100%	01/02

Table of Contents

Community		Units	Resident Capacity[1] IL	AL	Total	Ownership	Commencement of Operations[2]
Whispering Pines Village	Columbiana, OH	68	24	88	112	100%	07/15
Whitcomb House	Milford, MA	68		87	87	100%	10/13
Woodlands of Columbus	Columbus, OH	116		117	117	100%	10/12
Woodlands of Hamilton	Hamilton, OH	87		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		130	130	100%	12/13
Wynnfield Crossing Assisted Living	Rochester, IN	59		79	79	100%	07/11
		7,172	3,836	5,247	9,083		
Leased:							
Ventas:							
Amberleigh	Buffalo, NY	267	387		387	N/A	01/92
Cottonwood Village	Cottonwood, AZ	163	131	58	189	N/A	03/91
Crown Pointe	Omaha, NE	135	85	80	165	N/A	08/00
Georgetowne Place	Fort Wayne, IN	159	242		242	N/A	10/05
Harrison at Eagle Valley[3]	Indianapolis, IN	124	138		138	N/A	03/91
Independence Village of East Lansing	East Lansing, MI	149	161		161	N/A	08/00
Independence Village of Olde Raleigh	Raleigh, NC	167	177		177	N/A	08/00
Rose Arbor	Maple Grove, MN	144	86	87	173	N/A	06/06
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
HCN:							
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	136		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	46		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	197	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	148	136	42	178	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	60		122	122	N/A	02/06
Waterford at Miracle Hills	Omaha, NE	63		70	70	N/A	03/06
Waterford at Roxbury Park	Omaha, NE	65		70	70	N/A	02/06
Waterford at Van Dorn	Lincoln, NE	69		84	84	N/A	02/06
Waterford at Woodbridge	Plattsmouth, NE	40		45	45	N/A	02/06

Table of Contents

Community		Units	Resident Capacity[1] IL	AL	Total	Ownership	Commencement of Operations[2]
HCP:							
Atrium of Carmichael	Sacramento, CA	151	155		155	N/A	01/92
Charlotte Square	Charlotte, NC	120		125	125	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	102		153	153	N/A	12/06
Meadow Lakes	North Richland Hills, TX	119	145		145	N/A	08/04
Myrtle Beach Estates	Myrtle Beach, SC	108		142	142	N/A	12/06
Tesson Heights	St. Louis, MO	184	134	72	206	N/A	10/98
Veranda Club	Boca Raton, FL	186	129	97	226	N/A	01/92
		5,206	2,956	3,377	6,333		
Total		12,378	6,792	8,624	15,416		

(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.

(3) The Company s home care agency is on-site at The Harrison at Eagle Valley community.

Management Contracts

The Company was party to a series of property management agreements (the SHPIII/CSL Management Agreements) with three joint ventures (collectively SHPIII/CSL) owned 90% by Senior Housing Partners III, L.P. (SHPIII), a fund managed by Prudential Investment Management, Inc. (Prudential Investment) and 10% by the Company, which collectively owned and operated three senior living communities. The SHPIII/CSL Management Agreements were for initial terms of ten years from the date the certificate of occupancy was issued and extended until various dates through January 2019. The SHPIII/CSL Management Agreements generally provided for management fees of 5% of gross revenue plus reimbursement for costs and expenses related to the communities. On June 30, 2014, the Company acquired 100% of the member interests in these joint ventures. For additional information refer to Note 4, Acquisitions , within the notes to consolidated financial statements.

Growth Strategies

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 the Company to expand its existing base of senior living operations. The Company believes that its current operations with geographic concentrations throughout the United States 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.

Table of Contents

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

Organic Growth

The Company intends to continue to focus on its occupancy, rents and operating margins of its stabilized 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 on-site marketing programs focused on residents and family members and utilizing technology to enhance Internet marketing; (iii) aggressively seeking referrals from professional community outreach sources, including area religious organizations, senior social service programs, civic and business networks, as well as the medical community; and (iv) continually refurbishing and renovating its communities.

Expansion and Conversions of Existing Communities

The Company intends to increase levels of care and capacity at certain of its existing communities through expansion and/or conversions of certain units. Increasing our levels of care and capacity is expected to increase revenue and operating income while meeting the needs of our residents who have an average age of 85 years.

Pursue Strategic Acquisitions

The Company intends to continue to pursue acquisitions of senior living communities. Through strategic acquisitions, joint venture investments, or facility leases, the Company seeks to acquire communities in existing geographically concentrated regions as a means to increase market share, augment existing clusters, strengthen its ability to provide a broad range of care, and create operating efficiencies. As the industry continues to consolidate, the Company believes that opportunities will arise to acquire other senior living companies. The Company believes that the current fragmented nature of the senior living industry, combined with the Company s financial resources, geographically concentrated regions, and extensive contacts within the industry, should provide it with the opportunity to evaluate a number of potential acquisition opportunities in the future. In reviewing acquisition opportunities, the Company will consider, among other things, geographic location, competitive climate, reputation and quality of management and communities, and the need for renovation or improvement of the communities.

Expand Referral Networks

The Company intends to continue to develop relationships with local and regional hospital systems, managed care organizations and other referral sources to attract new residents to the Company s communities. In certain circumstances these relationships may involve strategic alliances or joint ventures. The Company believes that such arrangements or alliances, which could range from joint marketing arrangements to priority transfer agreements, will enable it to be strategically positioned within the Company s markets if, as the Company believes, senior living programs become an integral part of the evolving health care delivery system.

Operations

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 national corporate office in Dallas, Texas. The Company also has a corporate office in New York, New York. The Company s corporate offices are 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 corporate offices.

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 and district managers who are accountable for the resident satisfaction and financial performance of the communities in their region.

Regional Management

The Company provides oversight and support to each of its senior living communities through experienced regional and district managers. A district manager will generally oversee the marketing and operations of three to seven communities clustered in a small geographic area. A regional manager will generally cover a larger geographic area consisting of eight to thirteen communities. In most cases, the district and regional managers will office out of the Company s senior living communities. Currently, there are district and regional managers based in the East, Central Plains, South Central, Dallas, Indiana, Midwest, Texas, Southwest, and West regions.

The executive director at each community reports to a regional or district manager. The regional and district managers report on the operations of each community directly to senior management at the Company s corporate office. The district and regional managers 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

An executive director manages the day-to-day operations at each senior living community, including oversight of the quality of care, delivery of resident services, and monitoring of financial performance. The executive director is also 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 living 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 living communities are part of a campus setting, which include independent living. 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 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. 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. Additionally, at each community the Company conducts annual resident satisfaction surveys to further monitor the satisfaction levels of both residents and their family members. These surveys are sent directly to a third party firm for tabulation, then to the Company s corporate headquarters for distribution to onsite staff. In fiscal 2015 and 2014, the Company achieved 95% and 94%, respectively, approval ratings from its residents. For any departmental area of service scoring below 90%, a corrective action plan is developed jointly by on-site, regional and corporate staff for immediate implementation.

Regular Community Inspections. Each community is inspected, on at least a quarterly basis, by regional and/or corporate staff. 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, record keeping and general compliance with all governmental regulations.

Sales and Marketing

Most communities are staffed by on-site sales directors and additional marketing/sales staff depending on the community size and occupancy status. The primary focus of the on-site marketing staff is to create awareness of the Company and its services among prospective residents and family members, professional referral sources and other key decision makers. These efforts incorporate an aggressive marketing plan to include monthly, quarterly and annual goals for leasing, new lead generation, prospect follow up, community outreach and resident and family referrals. Additionally, the marketing plan includes a calendar of promotional events and a comprehensive media program. On-site marketing departments perform a competing community assessment quarterly. Corporate and regional marketing directors monitor the on-site marketing departments effectiveness and productivity on a weekly basis. Routine detailed marketing department audits are performed on annual monthly basis or more frequently if deemed necessary. Corporate and regional personnel assist in the development of marketing strategies for each community to address the continuously changing resident profile and maintain a focus on building brand awareness and increasing Internet website traffic and leads. The marketing strategies developed utilize the implementation of application program interface systems with certain website and Internet referral partners and the production of creative media and necessary marketing collateral. The Company has also implemented numerous Internet web-based initiatives to attract prospects including certain e-mail and website triggers prompting interactive invitations with on-going follow-ups, as well as a nurturing program to actively engage prospects throughout the marketing/sales cycle. Ongoing sales training of on-site marketing/sales staff is implemented by corporate and regional marketing directors.

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, physical design, required services and resident characteristics. The Company believes that such regu-

Table of Contents

lation 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. 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.

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-to 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, 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 (ADA), 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 of certain protected and individually identifiable health information (PHI) 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 is subject to various federal, state and local environmental laws and regulations. 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 and 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

Table of Contents

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 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, and 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., Holiday Retirement Corp., 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) location; (ii) reputation for and commitment to a high quality of service; (iii) quality on-site staff and support service offerings (such as food services); (iv) fair price for services provided; and (v) 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 seniors tend to choose senior living 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, 2015, the Company employed 7,384 persons, of which 3,871 were full-time employees (92 of whom are located at the Company s corporate offices) and 3,513 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.

Table of Contents

Executive Officers and Other Key Employees of the Registrant

The following table sets forth certain information concerning each of the Company s executive officers and other key employees as of December 31, 2015:

Name	Age	Position(s) with the Company
Lawrence A. Cohen	62	Chief Executive Officer and Vice Chairman of the Board
Keith N. Johannessen	59	President and Chief Operating Officer
Carey P. Hendrickson	53	Senior Vice President and Chief Financial Officer
David R. Brickman	57	Senior Vice President, Secretary and General Counsel
David W. Beathard, Sr.	68	Senior Vice President Operations
Gregory P. Boemer.	48	Vice President Operations
Gary E. Fernandez	52	Vice President National Sales and Marketing
Joseph G. Solari	51	Vice President Corporate Development
Gloria Holland	48	Vice President Finance
Glen H. Campbell	71	Vice President Asset Management
Christopher H. Lane	44	Vice President Financial Reporting
Robert F. Hollister	60	Property Controller

Lawrence A. Cohen has served as one of our directors since November 1996 and as Vice Chairman of the Board since November 1996. He has served as our Chief Executive Officer since May 1999 and was our Chief Financial Officer from November 1996 to May 1999. From 1991 to 1996, Mr. Cohen served as President and Chief Executive Officer of Paine Webber Properties Incorporated. Mr. Cohen serves on the boards of various charitable organizations and is active in several industry associations. Mr. Cohen was a founding member and is Chairman of the American Seniors Housing Association and serves on the Operator Advisory Board of the National Investment Center for the Seniors Housing & Care Industry. He received an LL.M. in Taxation from New York University School of Law, a JD from St. John s University School of Law, and a BBA in Accounting from The George Washington University. Mr. Cohen has had positions with businesses involved in senior living for 31 years.

Keith N. Johannessen has been a director since 1999. Mr. Johannessen has served as our President since 1994 and Chief Operating Officer since 1999. He previously served as our Executive Vice President from May 1993 to February 1994. He has more than 37 years of operational experience in seniors housing. He began his senior housing career in 1978 with Life Care Services Corporation and then joined Oxford Retirement Services, Inc as Executive Vice President. Mr. Johannessen later served as Senior Manager in the health care practice of Ernst & Young LLP prior to joining the Company in 1993. He has served on the State of the Industry and Model Assisted Living Regulations Committees of the American Seniors Housing Association. Mr. Johannessen holds a Bachelor of Arts degree.

Carey P. Hendrickson joined the Company as Senior Vice President and Chief Financial Officer in May 2014. 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.

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 29 years.

David W. Beathard, Sr. is currently the Senior Vice President Operations of the Company. He served as Vice President Operations of the Company and its predecessors from August 1996 to June 2013. From 1992 to 1996, Mr. Beathard owned and operated a consulting firm, which provided operational, marketing, and feasibility consulting regarding senior housing facilities. Mr. Beathard has been active in the operational, sales and marketing, and construction oversight aspects of senior housing for 42 years.

Gregory P. Boemer joined the Company in October 2001 as a Regional Manager and has served as Vice President Operations since June 2013. Prior to joining the Company, Mr. Boemer was a Regional Manager for Alterra Healthcare. Mr. Boemer is a graduate of Texas A&M University and attended the University of North Texas with a focus in Gerontology. Mr. Boemer has been active in all aspects of senior housing for 19 years.

Gary E. Fernandez joined the Company in October 2001 as a Regional Sales and Marketing Director and served in such capacity until being promoted to his current position of Vice President National Sales and Marketing in January 2014. In addition to his role as Regional Sales and Marketing Director with the Company, he served as Director of Corporate Marketing and Media from 2002 to 2003. Prior to joining the Company, he served as National Sales and Marketing Director with Hearthstone Assisted Living from 1999 to 2001. He also served as Director of Advertising with Alterra Healthcare from 1997 to 1999. He is a graduate of the University of Wisconsin Milwaukee and has been active in the senior housing industry for 18 years.

Joseph G. Solari joined the Company as Vice President Corporate Development in September 2010. Mr. Solari has more than 18 years of experience originating, structuring, negotiating and executing the acquisition, sale and divestiture of healthcare real estate and real estate operating companies. Prior to joining the Company, from 2007 to 2009, Mr. Solari was Managing Director, Acquisitions for Ventas, Inc., where he was responsible for the firm s real estate investment activities in the seniors housing and skilled nursing industries. Prior to Ventas, Inc., from 1999 to 2007, Mr. Solari spent eight years in the healthcare investment banking group of Houlihan Lokey, where he was responsible for the origination and execution of merger and acquisition, private placement and financial restructuring engagements for the firm s healthcare clients, with particular focus on facility-based, healthcare services companies. Mr. Solari earned his Masters in Business Administration degree from Virginia Commonwealth University.

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 in 1989.

Glen H. Campbell has served as Vice President Asset Management of the Company since September 1997. From 1990 to 1997 Mr. Campbell served as Vice President of Development for Greenbrier Corporation, an assisted living development and management company. From 1985 to 1990 Mr. Campbell served as Director of Facility Management for Retirement Corporation of America. Mr. Campbell has been active in the design and development of retirement communities for 43 years.

Christopher H. Lane, a Certified Public Accountant, joined the Company in December 2008 and currently serves as Vice President Financial Reporting. Prior to joining the Company, Mr. Lane served as a Senior Manager in the financial services audit practice of KPMG LLP. Mr. Lane earned a Masters in Accounting from Texas Tech University and is a member of the American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants and Institute of Management Accountants.

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. Mr. Hollister is a member of the American Institute of Certified Public Accountants.

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, make our financial results poorer and/or decrease our financial strength, and may cause our stock price to decline.

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, 2015, we had mortgage and other indebtedness, excluding deferred loan costs, totaling approximately $777.1 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, 2015, we leased 50 communities with future lease obligations totaling approximately $570.3 million, with minimum lease obligations of $64.4 million in fiscal 2016. 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, with a consequent loss of income and asset value to us. 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.

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 les-

Table of Contents

sors, 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; 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.

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.

Increases in market interest rates 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 risk. Therefore, increases in prevailing interest rates could increase in the future our interest or lease payment obligations and could in the future have a material adverse effect on our business, financial condition, cash flows, and results of operations.

We cannot assure that we will be able to effectively manage our growth.

We intend to expand our operations, directly or indirectly, through the acquisition of existing senior living communities and/or the expansion of some of our existing senior living communities. The success of our growth strategy will depend, in large part, on our ability to implement these plans and to effectively operate these communities. If we are unable to manage our growth effectively, our business, financial condition, cash flows, and results of operations may be adversely affected.

We cannot assure that we will attempt to, or be able to, acquire additional senior living communities, or expand existing senior living communities.

The acquisition of existing communities or other businesses involves a number of risks. Existing communities available for acquisition frequently serve or target different markets than those presently served by us. We may also determine that renovations of acquired communities and changes in staff and operating management

Table of Contents

personnel are necessary to successfully integrate those communities or businesses into our existing operations. The costs incurred to reposition or renovate newly acquired communities may not be recovered by us. In undertaking acquisitions, we also may be adversely impacted by unforeseen liabilities attributable to the prior operators of those communities or businesses, against whom we may have little or no recourse. The success of our acquisition strategy will be determined by numerous factors, including our ability to identify suitable acquisition candidates; the competition for those acquisitions; the purchase price; the requirement to make operational or structural changes and improvements; the financial performance of the communities or businesses after acquisition; our ability to finance the acquisitions; and our ability to integrate effectively any acquired communities or businesses into our management, information, and operating systems. We cannot assure that our acquisition of senior living communities or other businesses will be completed at the rate currently expected, if at all, or if completed, that any acquired communities or businesses will be successfully integrated into our operations.

Our ability to successfully expand existing senior living communities will depend on a number of factors, including, but not limited to, our ability to acquire suitable sites at reasonable prices; our success in obtaining necessary zoning, licensing, and other required governmental permits and authorizations; and our ability to control construction costs and accurately project completion schedules. Additionally, we anticipate that the expansion of existing senior living communities may involve a substantial commitment of capital for a period of time of two years or more until the expansions are operating and producing revenue, the consequence of which could be an adverse impact on our liquidity.

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. 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. 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.

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

Approximately 95% of our total revenues from communities that we operated were attributable to private pay sources and approximately 5% of our revenues from these communities were attributable to reimbursements from Medicaid during fiscal 2015. 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 the elderly 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 living 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 living communities outpaces the demand for those communities in the markets in which we have senior living communities, those markets may become saturated. Regulation in the independent and assisted living industry is not substantial. Consequently, development of new senior living 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 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. The loss of some of our executive officers and the inability to attract and retain qualified management personnel 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. 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 recent 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.

Table of Contents

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 living 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 us.

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 living 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 us.

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.

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.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including medical records, financial transactions and maintenance of records, which may include personally identifiable information of residents and other customers and payroll data. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing confidential information, such as personally identifiable information relating to health and financial accounts. Although we have taken steps to protect the security of the data maintained in our information systems, it is possible that our security measures will not be able to prevent the systems improper functioning, or the improper disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information; however, no instances of these potential threats have been identified by the Company. The Company maintains cyber and data privacy-related insurance coverage which provides liability protection associated with network security, privacy and sensitive electronic-data, and privacy breach expenses. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect our business, financial condition, or results of operations.

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.

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 in directly, 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.

[Table of Contents](#)

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 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.

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 believes that its corporate office facilities are adequate to meet its requirements through at least fiscal 2016 and that suitable additional space will be available, as needed, to accommodate further physical expansion of corporate operations. The Company also leases executive office space in New York, New York pursuant to a two-year lease agreement.

As of December 31, 2015, the Company owned or leased and managed the senior living 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.

Table of Contents

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 . The following table sets forth, for the periods indicated, the high and low sales prices for the Company s common stock, as reported on the NYSE. At February 19, 2016, there were approximately 165 stockholders of record of the Company s common stock.

	2015		2014	
Year	**High**	**Low**	**High**	**Low**
First Quarter	$ 26.75	$ 22.52	$ 26.89	$ 21.52
Second Quarter	27.75	24.40	26.85	22.26
Third Quarter	24.97	19.20	25.84	20.33
Fourth Quarter	24.55	19.59	25.91	21.05

Dividends

It is the policy of the Company s Board of Directors to retain all future earnings to finance the operation and expansion of the Company s business. Accordingly, the Company did not declare or pay cash dividends on its common stock during fiscal 2015 or 2014 and does not anticipate declaring or paying cash dividends on the common stock in the foreseeable future. The payment of cash dividends in the future will be at the sole discretion of the Company s 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 the Board of Directors.

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, 2015:

Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights**	**Weighted-Average Exercise Price of the Outstanding Options, Warrants and Rights**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)**
Equity compensation plans approved by security holders	3,000	$ 10.97	1,901,886
Equity compensation plans not approved by security holders			
Total	3,000	$ 10.97	1,901,886

25

Table of Contents

Performance Graph

The following Performance Graph shows the cumulative total return for the five-year period ended December 31, 2015, in the value of $100 invested in: (1) the Company s common stock; (2) the Standard & Poor s Broad Market Index (the S&P 500); and (3) the common stock of the Peer Group (as defined below) of companies, whose returns represent the arithmetic average of such companies. The values with each investment as of the beginning of each year are based on share price appreciation and the reinvestment of any dividends on the respective ex-dividend dates.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Capital Senior Living Corporation, the S&P 500 Index, and a Peer Group

* $100 invested on 12/31/10 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

The preceding graph assumes $100 invested at the beginning of the measurement period, including reinvestment of any dividends, in the Company s common stock, the S&P 500, and the Peer Group and was plotted using the following data:

	Cumulative Total Returns					
	12/10	**12/11**	**12/12**	**12/13**	**12/14**	**12/15**
Capital Senior Living Corporation	100.00	118.51	278.96	358.06	371.79	311.34
S&P 500	100.00	102.11	118.45	156.82	178.29	180.75
Peer Group	100.00	77.77	114.29	122.87	160.43	82.00

The Company s Peer Group, which was selected in good faith on an industry basis, consists of Brookdale Senior Living, Inc. and Five Star Quality Care, Inc.

(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 Company did not repurchase any shares of its common stock pursuant to the Company s share repurchase program (as described below) during the year ended December 31, 2015. The information set forth in the table below reflects shares repurchased by the Company pursuant to this program prior to the year ended December 31, 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
Total at September 30, 2015	349,800	$ 2.67	349,800	$ 9,065,571
October 1 October 31, 2015				
November 1 November 30, 2015				
December 1 December 31, 2015				
Total at December 31, 2015	349,800	$ 2.67	349,800	$ 9,065,571

(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. All shares that have been purchased by the Company under this program were purchased in open-market transactions. On January 14, 2016, the Company announced that its board of directors has approved a continuation of the share repurchase program.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA.

The following table presents selected financial data of the Company which has been derived from the audited consolidated financial statements of the Company. The selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes thereto included in this Annual Report.

	At and for the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share and other data)				
Consolidated Statements of Operations and Comprehensive (Loss) Income Data:					
Total revenues	$ 412,177	$ 383,925	$ 350,362	$ 310,536	$ 263,502
Income from operations	18,835	13,900	11,250	13,655	17,911
Net (loss) income	(14,284)	(24,126)	(16,504)	(3,119)	3,025
Net (loss) income per share:					
Basic net (loss) income per share	$ (0.50)	$ (0.83)	$ (0.58)	$ (0.11)	$ 0.11
Diluted net (loss) income per share	$ (0.50)	$ (0.83)	$ (0.58)	$ (0.11)	$ 0.11
Balance Sheet Data:					
Cash and cash equivalents (excluding restricted cash)	$ 56,087	$ 39,209	$ 13,611	$ 18,737	$ 22,283
Working capital (deficit)(1)	26,726	13,113	(5,892)	(5,712)	20,786
Total assets(1)	1,019,033	891,370	745,549	636,942	462,326
Long-term debt, excluding current portion(1)	754,949	592,884	467,376	342,366	224,940
Shareholders equity	$ 135,746	$ 141,174	$ 157,950	$ 168,594	$ 169,141
Other Data:					
Communities (at end of period)					
Owned or leased	121	117	109	98	81
Joint ventures & managed			3	3	3
Total	121	117	112	101	84
Resident capacity:					
Owned or leased	15,416	15,149	13,939	12,973	11,150
Joint ventures & managed			674	674	674
Total	15,416	15,149	14,613	13,647	11,824

(1) Working capital, total assets, and long-term debt, excluding current portion, for fiscal 2015 excludes $8,532 in debt issuance costs, net of accumulated amortization, and fiscal 2014 was revised from amounts previously reported to reflect the impact of reclassifying $6,331 in debt issuance costs, net of accumulated amortization, from other assets to notes payable. This revision was due to the Company s adoption of ASU 2015-03, *Interest Imputation of Interest- Simplifying the Presentation of Debt Issuance Costs,* during the fourth quarter of fiscal 2015 which requires current and retrospective application to the Company s Consolidated Balance Sheets for all periods presented.

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 o thereon or comparable terminology. The Company cautions readers that forward-

looking statements, including, without limitation, those relating to the Company s future business prospects, revenues, working capital, liquidity, capital needs, interest costs, and income, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to several important factors herein identified. These factors include the Company s ability to find suitable acquisition properties at favorable terms, financing, licensing, business conditions, risks of downturn in economic conditions generally, satisfaction of closing conditions such as those pertaining to licensure, availability of insurance at commercially reasonable rates, and changes in accounting principles and interpretations, among others, and other risks and factors identified from time to time in 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, 2015, 2014, and 2013, 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 living 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 elderly, including independent living, assisted living, and home 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 and assisted living and is bridged by home care through independent home care agencies or the Company s home care agency, sustains residents autonomy and independence based on their physical and mental abilities.

As of December 31, 2015, the Company operated 121 senior living communities in 23 states with an aggregate capacity of approximately 15,400 residents, including 71 senior living communities which the Company owned and 50 senior living communities the Company leased. As of December 31, 2015, the Company also operated one home care agency.

Significant Financial and Operational Highlights

The Company primarily derives its revenue by providing senior living and healthcare services to the elderly and operating senior living communities under joint venture arrangements. When comparing fiscal 2015 to fiscal 2014, the Company generated total revenues of approximately $412.2 million compared to total revenues of approximately $383.9 million, respectively, representing an increase of approximately $28.3 million, or 7.4%. The increase in revenues primarily results from the senior living communities acquired by the Company during fiscal 2015 and a full year of activity for the senior living communities acquired by the Company during fiscal 2014 which was slightly offset by a decrease in revenues due to the five properties sold by the Company during fiscal 2015.

The weighted average financial occupancy rate for our consolidated communities for the fiscal years ended December 31, 2015 and 2014 was 88.3% and 87.1%, respectively. In addition to the increase we experienced in total consolidated occupancies, we also achieved an increase in average monthly rental rates of 6.5% at our consolidated communities when comparing fiscal 2015 to fiscal 2014. On a same-store basis, the weighted average financial occupancy rate for our consolidated communities for the fiscal year ended December 31, 2015 and 2014 was 88.0% and 87.5%, respectively. In addition to the increase we experienced in our same-store occupancies, we also achieved an increase in average monthly rental rates of 2.7% when comparing fiscal 2015 to fiscal 2014. The increase in occupancies and average monthly rental rates was primarily the result of our recent community acquisitions and the capital improvements we have prudently 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 17, 2015, the Company completed supplemental mortgage financing of approximately $7.6 million from Fannie Mae on three senior living communities at a fixed interest rate of 5.49% which is coterminous with existing mortgage debt maturing in November 2022. The supplemental mortgage loans are cross-collateralized and cross-defaulted with the original mortgage debt.

On November 24, 2015, the Company completed supplemental mortgage financing of approximately $3.2 million from Fannie Mae on one senior living community at a fixed interest rate of 5.46% which is coterminous with existing mortgage debt maturing in April 2023. The supplemental mortgage loan is cross-collateralized and cross-defaulted with the original mortgage debt.

On November 24, 2015, the Company completed supplemental mortgage financing of approximately $8.7 million from Fannie Mae on one senior living community at a fixed interest rate of 5.39% which is coterminous with existing mortgage debt maturing in January 2023. The supplemental mortgage loan is cross-collateralized and cross-defaulted with the original mortgage debt.

On November 12, 2015, the Company repaid mortgage loans totaling approximately $31.6 million from Fannie Mae associated with four of its senior living communities scheduled to mature in June 2017. The Company obtained approximately $52.8 million of new long-term fixed interest rate mortgage financing from Berkadia Commercial Mortgage LLC (Berkadia), who later sold the loans to Fannie Mae, at a fixed interest rate of 4.68% with a 10-year term and the principal amortized over a 30-year term. As a result of the early repayment of the existing mortgage debt, the Company accelerated the amortization of approximately $0.1 million in unamortized deferred financing costs and incurred a prepayment premium of approximately $1.7 million to Fannie Mae.

Effective October 30, 2015, the Company closed the acquisition of one senior living community located in Virginia Beach, Virginia, for $38.0 million (the Virginia Beach Transaction). The community consists of 111 assisted living units. The Company obtained financing from Protective Life Insurance Company (Protective Life) for $28.0 million of the acquisition price at a fixed interest rate of 4.25% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective September 30, 2015, the Company closed the acquisition of one senior living community located in Mahomet, Illinois, for $15.5 million Mahomet Transaction (the Mahomet Transaction). The community consists of 78 assisted living units. The Company obtained financing from Fannie Mae for approximately $11.1 million of the acquisition price at a fixed interest rate of 4.69% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

On September 30, 2015, the Company completed supplemental financing of approximately $5.0 million from Fannie Mae on an existing senior living community owned by the Company located in Macedonia, Ohio. The supplemental loan is coterminous with existing mortgage debt maturing in October 2021 with a 5.19% fixed interest rate and the principal amortized over a 30-year term. The supplemental loan is cross-collateralized and cross-defaulted with the original mortgage debt.

On September 24, 2015, the Company obtained approximately $8.4 million long-term fixed interest rate mortgage financing from Fannie Mae to replace interim variable interest rate financing obtained by the Company from Berkadia on September 30, 2013, in connection with the Company s previous acquisition of a senior living community located in Oakwood, Georgia. The new mortgage loan has a 10-year term with a 4.7% fixed interest rate and the principal amortized over a 30-year term.

Effective August 11, 2015, the Company closed the acquisition of one senior living community located in Indianapolis, Indiana, for $21.0 million (the Indianapolis Transaction). The community consists of 124 assisted living units. The Company obtained financing from Protective Life for $13.2 million of the acquisition price at a fixed interest rate of 4.25% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources. The note with Protective Life associated with the Indianapolis Transaction includes a loan commitment for up to $2.6 million of supplemental funding at the same terms and 4.25% fixed interest rate. The loan commitment is based on meeting certain funding requirements and is available through February 28, 2018.

Effective August 6, 2015, the Company closed a transaction to sell one of its senior living communities located in Wichita, Kansas, for approximately $14.8 million (the Sedgwick Sale Transaction). As a result of the sale, outstanding mortgage debt totaling approximately $6.8 million was assumed by the buyer. The Company recognized a gain on sale of approximately $6.4 million and received net proceeds, less the debt assumption, of approximately $8.0 million. For income tax purposes, the Company executed a like-kind exchange and acquired a replacement property shortly after the sale which resulted in the deferral of the gain without the Company incurring any current federal or state income tax liabilities. The Company contracted with a qualified intermediary for purposes of reaching its determination that the transaction satisfied all requirements of a like-kind exchange under applicable federal and state income tax laws.

Effective July 28, 2015, the Company closed the acquisition of one senior living community located in Columbiana, Ohio, for approximately $13.3 million (the Columbiana Transaction). The community consists of 68 assisted living units. The Company obtained financing from Protective Life for approximately $9.9 million of the acquisition price at a fixed interest rate of 4.25% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective May 29, 2015, the Company closed the acquisition of one senior living community located in Oneonta, New York, for $14.9 million (the Heritage Transaction). The community consists of 64 independent living units and 44 assisted living units. The Company obtained financing from Fannie Mae for approximately $11.2 million of the acquisition price at a fixed interest rate of 4.79% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective May 21, 2015, the Company closed the acquisition of two senior living communities located in Hartford and West bend, Wisconsin, for $12.0 million (the Emerald Transaction). The communities consist of 79 assisted living units. The Company obtained financing from Fannie Mae for approximately $9.2 million of the acquisition price at a fixed interest rate of 4.55% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective March 27, 2015, the Company closed the acquisition of one senior living community located in Baytown, Texas, for approximately $29.6 million (the Baytown Transaction). The community consists of 9 independent living cottages and 120 assisted living units. The Company obtained financing from Protective Life for approximately $21.4 million of the acquisition price at a fixed interest rate of 3.55% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

On March 5, 2015, the Company repaid an interim, interest only variable rate mortgage loan totaling approximately $21.6 million from Wells Fargo on one of its senior living communities located in Toledo, Ohio. The Company obtained approximately $21.8 million of mortgage debt from Fannie Mae to replace the Wells Fargo interim financing. This new mortgage loan has a 10-year term with a fixed interest rate of 3.84% and the principal amortized over 30-years.

On February 17, 2015, the Company obtained new permanent mortgage financing totaling approximately $23.2 million from Fannie Mae on one of its owned senior living communities located in Peoria, Illinois. The new financing replaced a mortgage loan previously scheduled to mature on September 1, 2015, which was defeased by the Company on January 21, 2015, in conjunction with the Four Property Sale Transaction, discussed below. This new mortgage loan has a 10-year term with a fixed interest rate of 3.85% and the principal amortized over 30 years. As a result of the Peoria financing, the Company repaid existing mortgage debt on two owned properties totaling approximately $14.1 million.

Effective January 22, 2015, the Company closed a transaction to sell four of its senior living communities located in Oklahoma City, Oklahoma, Shreveport, Louisiana, Southfield, Michigan, and Winston-Salem, North Carolina, in a single transaction for approximately $36.5 million (the Four Property Sale Transaction). As a result of the sale, the outstanding mortgage debt on the Company s senior living communities located in Oklahoma City and Shreveport was repaid without incurring any prepayment penalties as these notes were short-term, bridge loan interim financing. However, the mortgage loan associated with the Company s senior living community located in Winston-Salem could not be prepaid under the existing loan agreement as it did not offer a prepayment provision. Therefore, the Company determined it would defease the mortgage loan by acquiring certain treasury securities to serve as collateral for the outstanding principal balance as of the date of the sale until the note matured on September 1, 2015. The Company contracted with a third party trust to assume the mortgage debt and assigned all of its rights to the treasury securities to serve as collateral until the balance remaining comes due. Based on this structure, the Company concluded it met the requirements to report the debt transaction as a legal defeasance which resulted in the Company removing the respective assets and liabilities from its Consolidated Balance Sheet during the first quarter of fiscal 2015 when the transaction closed. The Company previously reported these assets as held for sale at December 31, 2014, and recorded a remeasurement write-down of approximately $0.6 million to adjust the carrying values of the assets to the sales price, less costs to sell. As a result of the sale, the Company received net proceeds of approximately $35.7 million.

Effective January 13, 2015, the Company closed the acquisition of one senior living community located in Green Bay, Wisconsin, for approximately $18.3 million (the Green Bay Transaction). The community consists of 78 assisted living units. The Company obtained financing from Fannie Mae for approximately $14.1 million of the acquisition price at a fixed interest rate of 4.35% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Joint Venture Transactions and Management Contracts

During fiscal 2014, the Company managed three communities owned by joint ventures in which the Company had a minority interest. For communities owned by joint ventures, the Company typically received a management fee of 5% of gross revenues. The Company s joint venture management fees were based on a percentage of gross revenues. As a result, the cash flow and profitability of such contracts to the Company were more dependent on the revenues generated by such communities and less dependent on net cash flow than for owned or leased communities. On June 30, 2014, the Company closed the SHPIII/CSL Transaction, acquiring 100% of the member interests of SHPIII/CSL Miami, SHPIII/CSL Levis Commons, and SHPIII/CSL Richmond Heights. For additional information refer to Note 4, Acquisitions , within the notes to consolidated financial statements.

Facility Leases

The Company currently leases 50 senior living communities from certain real estate investment trusts (REITs). The lease terms are generally for 10-15 years with renewal options for 5-20 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.

As of December 31, 2015, the Company leased 11 senior living communities (collectively the Ventas Lease Agreements), from Ventas , Inc. (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. The initial lease rates under each of the Ventas Lease Agreements ranged from 6.75% to 8% and are subject to certain conditional escalation clauses which will be recognized when probable or incurred. The Company incurred $11.4 million in lease acquisition and modification costs related to the Ventas Lease Agreements. These deferred lease acquisition and modification costs are being amortized over the lease terms and are included in facility lease expense in the Company s Consolidated Statement of Operations and Comprehensive Loss. The Company accounts for nine of the Ventas Lease Agreements as an operating lease and two as a capital lease and financing obligation.

As of December 31, 2015, the Company leased 15 senior living communities (collectively the HCP Lease Agreements), from HCP, Inc. (HCP). During the fourth quarter of fiscal 2013, the Company executed an amendment to the master lease agreement with HCP to facilitate up to $3.3 million of leasehold improvements for one community within the HCP lease portfolio and extend the initial lease terms for nine communities until October 31, 2020, with two 10-year renewal extensions available at the Company s option. During the second quarter of fiscal 2015, the Company exercised its right to extend the lease term with HCP for the remaining six communities in the HCP lease portfolio until April 30, 2026, with one 10-year renewal extension available at the Company s option. The initial lease rates under the HCP Lease Agreements ranged from 7.25% to 8% and are subject to certain conditional escalation clauses, which will be recognized when probable or incurred. The Company incurred $1.6 million in lease acquisition and modification costs related to the HCP Lease Agreements. These deferred lease acquisition and modification costs are being amortized over the lease terms and are included

Table of Contents

in facility lease expense in the Company s Consolidated Statements of Operations and Comprehensive Loss. The Company accounts for each of the HCP Lease Agreements as an operating lease.

As of December 31, 2015, the Company leased 24 senior living communities (collectively the HCN Lease Agreements), from Welltower, Inc., formerly Health Care REIT, Inc. (HCN). The HCN Lease Agreements each have an initial term of 15 years, with one 15-year renewal extension available at the Company s option. The initial lease rates under the HCN Lease Agreements ranged from 7.25% to 8.5% and are subject to certain conditional escalation clauses, which will be recognized when probable or incurred. The initial terms on the HCN Lease Agreements expire on various dates through April 2026. The Company incurred $2.1 million in lease acquisition costs related to the HCN Lease Agreements. These deferred lease acquisition costs are being amortized over the lease terms and are included in facility lease expense in the Company s Consolidated Statements of Operations and Comprehensive Loss. The Company accounts for each of the HCN Lease Agreements as an operating lease.

The following table summarizes each of the Company s facility lease agreements as of December 31, 2015 (dollars in millions):

Landlord	Date of Lease	Number of Communities	Value of Transaction	Term	Initial Lease Rate(1)	Lease Acquisition Costs(2)	Deferred Gains / Lease Concessions(3)
Ventas	September 30, 2005	6	$ 84.6	(4) (Two five-year renewals)	8%	$ 9.5	$ 4.6
Ventas	October 18, 2005	1	19.5	(4) (Two five-year renewals)	8%	0.3	
Ventas	June 8, 2006	1	19.1	(4) (Two five-year renewals)	8%	0.6	
Ventas	January 31, 2008	1	5.0	(4) (Two five-year renewals)	7.75%	0.2	
Ventas	June 27, 2012	2	43.3	(4) (Two five-year renewals)	6.75%	0.8	
HCP	May 1, 2006	3	54.0	(5) (Two ten-year renewals)	8%	0.3	12.8
HCP	May 31, 2006	6	43.0	(6) (One ten-year renewal)	8%	0.2	0.6
HCP	December 1, 2006	4	51.0	(5) (Two ten-year renewals)	8%	0.7	
HCP	December 14, 2006	1	18.0	(5) (Two ten-year renewals)	7.75%	0.3	
HCP	April 11, 2007	1	8.0	(5) (Two ten-year renewals)	7.25%	0.1	
HCN	April 16, 2010	5	48.5	15 years (One 15-year renewal)	8.25%	0.6	0.8
HCN	May 1, 2010	3	36.0	15 years	8.25%	0.2	0.4

				(One 15-year renewal)			
HCN	September 10, 2010	12	104.6	15 years	8.50%	0.4	2.0
				(One 15-year renewal)			
HCN	April 8, 2011	4	141.0	15 years	7.25%	0.9	16.3
				(One 15-year renewal)			
Subtotal						15.1	37.5
Accumulated amortization through December 31, 2015						(7.4)	
Accumulated deferred gains / lease concessions recognized through December 31, 2015							(20.2)
Net lease acquisition costs / deferred gains / lease concessions as of December 31, 2015						$ 7.7	$ 17.3

33

Table of Contents

(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) Lease acquisition and modification costs are being amortized over the respective initial lease terms.

(3) Deferred gains of $34.9 million and lease concessions of $2.6 million are being recognized in the Company s Consolidated Statements of Operations and Comprehensive Loss as a reduction in facility lease expense over the respective initial lease terms. Lease concessions of $0.6 million relate to the transaction with HCP on May 31, 2006, and $2.0 million relate to the transaction with HCN on September 10, 2010.

(4) Effective June 17, 2015, the Company executed amendments to the master lease agreements with Ventas to facilitate up to $24.5 million of leasehold improvements for 10 of the leased communities and extend the lease terms through September 30, 2025, with two 5-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 HCP to facilitate up to $3.3 million of 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 HCP through April 30, 2026, with one 10-year renewal extension remaining available at the Company s option.

Facility lease expense in the Company s Consolidated Statements of Operations and Comprehensive Loss includes rent expense plus amortization expense relating to leasehold acquisition costs offset by the amortization of deferred gains and lease incentives. 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, 2015 and 2014.

Debt Transactions

On December 17, 2015, the Company completed supplemental mortgage financing of approximately $7.6 million from Fannie Mae on three senior living communities located in Columbus, Ohio, Chardon, Ohio, and Greenwood, Indiana, at a fixed interest rate of 5.49% which is coterminous with existing mortgage debt maturing in November 2022. The supplemental mortgage loans are cross-collateralized and cross-defaulted with the original mortgage debt. The Company incurred approximately $0.2 million in deferred financing costs related to these loans, which are being amortized over the remaining initial loan terms.

On November 24, 2015, the Company completed supplemental mortgage financing of approximately $3.2 million from Fannie Mae on one senior living community located in Elkhorn, Nebraska, at a fixed interest rate of 5.46% which is coterminous with existing mortgage debt maturing in April 2023. The supplemental mortgage loan is cross-collateralized and cross-defaulted with the original mortgage debt. 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.

On November 24, 2015, the Company completed supplemental mortgage financing of approximately $8.7 million from Fannie Mae on one senior living community located in Springfield, Missouri, at a fixed interest rate of 5.39% which is coterminous with existing mortgage debt maturing in January 2023. The supplemental mortgage loan is cross-collateralized and cross-defaulted with the original mortgage debt. 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.

On November 12, 2015, the Company repaid mortgage loans totaling approximately $31.6 million from Fannie Mae associated with four of its senior living communities located in Columbia, South Carolina, Deer Park and Pantego, Texas, and South Bend, Indiana, scheduled to mature in June 2017. The Company obtained approximately $52.8 million of new long-term fixed interest rate mortgage financing from Berkadia, who later sold the loans to Fannie Mae, at a fixed interest rate of 4.68% with a 10-year term and the principal amortized over a 30-year term. The Company incurred approximately $0.6 million in deferred financing costs related to the new mortgage loans, which are being amortized over 10 years. As a result of the early repayment of the existing mortgage debt, the Company accelerated the amortization of approximately $0.1 million in unamortized deferred financing costs and incurred a prepayment premium of approximately $1.7 million to Fannie Mae.

On October 30, 2015, in conjunction with the Virginia Beach Transaction, the Company obtained $28.0 million of mortgage debt from Protective Life. The new mortgage loan has a 10-year term with a 4.25% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.4 million in deferred financing costs related to this loan, which are being amortized over 10 years.

On September 30, 2015, in conjunction with the Mahomet Transaction, the Company obtained approximately $11.1 million of mortgage debt from Fannie Mae. The new mortgage loan has a 10-year term with a 4.69% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.2 million in deferred financing costs related to this loan, which are being amortized over 10 years.

On September 30, 2015, the Company completed supplemental financing of approximately $5.0 million from Fannie Mae on an existing senior living community owned by the Company located in Macedonia, Ohio. The supplemental loan is coterminous with existing mortgage debt maturing in October 2021with a 5.19% fixed interest rate and the principal amortized over a 30-year term. The supplemental loan is cross-collateralized and cross-defaulted with the original mortgage debt. 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.

On September 24, 2015, the Company obtained approximately $8.4 million long-term fixed interest rate mortgage financing from Fannie Mae to replace interim variable interest rate financing obtained by the Company from Berkadia on September 30, 2013, in connection with the Company s previous acquisition of a senior living community located in Oakwood, Georgia. The new mortgage loan has a 10-year term with a 4.7% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.2 million in deferred financing costs related to this loan, which are being amortized over 10 years.

On August 11, 2015, in conjunction with the Indianapolis Transaction, the Company obtained approximately $13.2 million of mortgage debt from Protective Life. The new mortgage loan has a 10-year term with a 4.25% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.2 million in deferred financing costs related to this loan, which are being amortized over 10 years. The note with Protective Life associated with the Indianapolis Transaction includes a loan commitment for up to approximately $2.6 million of supplemental funding for the same term and 4.25% fixed interest rate. The loan commitment is based on meeting certain funding requirements and is available through February 28, 2018.

On August 6, 2015, outstanding mortgage debt totaling approximately $6.8 million was assumed by the buyer in conjunction with the Sedgwick Sale Transaction. As a result of the buyer s assumption of the existing mortgage debt, the Company accelerated the amortization of approximately $0.1 million in unamortized deferred financing costs. For additional information refer to Note 5, Dispositions , within the notes to consolidated financial statements.

On July 28, 2015, in conjunction with the Columbiana Transaction, the Company obtained approximately $9.9 million of mortgage debt from Protective Life. The new mortgage loan has a 10-year term with a 4.25% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.2 million in deferred financing costs related to this loan, which are being amortized over 10 years.

On May 31, 2015, 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 1.73% with the principal being repaid over an 11-month term.

On May 29, 2015, in conjunction with the Heritage Transaction, the Company obtained approximately $11.2 million of mortgage debt from Fannie Mae. The new mortgage loan has a 10-year term with a 4.79% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.2 million in deferred financing costs related to this loan, which are being amortized over 10 years.

On May 21, 2015, in conjunction with the Emerald Transaction, the Company obtained approximately $9.2 million of mortgage debt from Fannie Mae. The new mortgage loan has a 10-year term with a 4.55% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.2 million in deferred financing costs related to this loan, which are being amortized over 10 years.

On March 27, 2015, in conjunction with the Baytown Transaction, the Company obtained approximately $21.4 million of mortgage debt from Protective Life. The new mortgage loan has a 10-year term with a 3.55% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.2 million in deferred financing costs related to this loan, which are being amortized over 10 years.

On March 5, 2015, the Company repaid an interim, interest only variable rate mortgage loan totaling approximately $21.6 million from Wells Fargo on one of its senior living communities located in Toledo, Ohio. The Company obtained approximately $21.8 million of mortgage debt from Fannie Mae to replace the Wells Fargo interim financing. This new mortgage loan has a 10-year term with a fixed interest rate of 3.84% and the principal amortized over 30-years. The Company incurred approximately $0.2 million in deferred financing costs related to this loan, which are being amortized over the loan term. As a result of the refinance, the Company received approximately $0.2 million in cash proceeds. Due to the early repayment, the Company accelerated the amortization of approximately $79,000 in unamortized deferred financing costs and incurred additional prepayment fees totaling approximately $55,000.

On February 17, 2015, the Company obtained new permanent mortgage financing totaling approximately $23.2 million from Fannie Mae on one of its owned senior living communities located in Peoria, Illinois. The new financing replaced a mortgage loan previously scheduled to mature on September 1, 2015, which was defeased by the Company on January 22, 2015, in conjunction with the Four Property Sale Transaction. This new mortgage loan has a 10-year term with a fixed interest rate of 3.85% and the principal amortized over 30 years. The Company incurred approximately $0.2 million in deferred financing costs related to this loan, which are being amortized over the loan term. As a result of the Peoria financing, the Company repaid existing mortgage debt on two owned properties totaling approximately $14.1 million. Due to the early repayment, the Company accelerated the amortization of approximately $0.2 million in unamortized deferred financing costs and incurred additional prepayment fees totaling approximately $0.5 million.

On January 22, 2015, outstanding mortgage debt totaling approximately $13.7 million was defeased in conjunction with the Four Property Sale Transaction. The mortgage loan associated with the Company s senior living community located in Winston-Salem, North Carolina, carried an outstanding balance of approximately $5.7 million and could not be prepaid under the existing loan agreement as it did not offer a prepayment provision. Additionally, this mortgage loan was cross-collateralized with another mortgage loan on one of the Company s senior living communities located in Peoria, Illinois, which carried an outstanding mortgage balance of approximately $8.0 million and also did not offer a prepayment provision. Therefore, the Company determined it would defease the Winston-Salem and Peoria mortgage loans by acquiring certain treasury securities to serve as collateral for the outstanding principal balance as of the date of the sale until the note matured on September 1, 2015. The Company contracted with a third party trust to assume the mortgage debt and assigned all of its rights to the treasury securities to serve as collateral until the balance remaining came due. Based on this structure, the Company concluded it met the requirements to report the debt transaction as a legal defeasance which resulted in the Company removing the respective assets and liabilities from its Consolidated Balance Sheet during the first quarter of fiscal 2015 when the transaction closed. Due to the defeasance, the Company accelerated the amortization of approximately $18,000 in unamortized deferred financing costs. For additional information refer to Note 5, Dispositions , within the notes to consolidated financial statements.

On January 13, 2015, in conjunction with the Green Bay Transaction, the Company obtained approximately $14.1 million of mortgage debt from Fannie Mae. The new mortgage loan has a 10-year term with a 4.35% fixed interest rate and the principal amortized over a 30-year term. The Company incurred approximately $0.1 million in deferred financing costs related to this loan, which are being amortized over 10 years.

Recent Events

Effective February 16, 2016, the Company closed the acquisition of two senior living communities located in Pensacola, Florida, for approximately $48.0 million. The communities consist of 179 assisted living units. The Company obtained financing from Protective Life for $35.0 million of the acquisition price at a fixed rate of

4.38% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

Effective January 26, 2016, the Company closed the acquisition of three senior living communities located in Colby, Park Falls, and Wisconsin Rapids, Wisconsin, for approximately $16.8 million. The communities consist of 138 assisted living units. The Company obtained financing from Protective Life for $11.3 million of the acquisition price at a fixed rate of 4.50% with a 10-year term with the balance of the acquisition price paid from the Company s existing cash resources.

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 critical accounting policies require management s most difficult, subjective and complex judgments.

Revenue Recognition

Resident and health care revenue is recognized at estimated net realizable amounts, based on historical experiences, due from residents in the period to which the rental and other services are provided. Additionally, substantially all community fees received from residents are non-refundable 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% of the Company s revenue fiscal 2015 and 4% of the Company s revenue in each of fiscal 2014 and 2013. During fiscal 2015, 2014, and 2013, 34, 30, and 29, 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 2015 or 2014.

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.

Management services revenue was recognized when earned and related to the Company providing certain management and administrative support services under management contracts, which were terminated when the Company acquired 100% of the member interests in its unconsolidated joint ventures on June 30, 2014.

Community reimbursement revenue is comprised of reimbursable expenses from the non-consolidated communities that the Company operated under long-term management agreements, which were terminated when the Company acquired 100% of the member interests in its unconsolidated joint ventures on June 30, 2014.

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, 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.

Investments in Unconsolidated Joint Ventures

The Company accounted for its investments in unconsolidated joint ventures under the equity method of accounting. The Company had not consolidated these joint venture interests because the Company had concluded that the other member of each joint venture had substantive kick-out rights or substantive participating rights. Under the equity method of accounting, the Company recorded its investments in the unconsolidated joint ventures at cost and adjusted such investments for its share of the earnings and losses of the joint ventures. On June 30, 2014, the Company acquired 100% of the member interests in these joint ventures. For additional information refer to Note 4, Acquisitions within the notes to consolidated financial statements.

Off-Balance Sheet Arrangements

The Company had no material off-balance sheet arrangements at December 31, 2015.

Lease Accounting

The Company determines whether to account for its leases as operating, capital or financing leases depending on the underlying terms of each lease agreement. This determination of classification requires significant judgment relating to certain information, including the estimated fair value and remaining economic life of the community, the Company s cost of funds, minimum lease payments and other lease terms. The lease rates under the Company s lease agreements are subject to certain conditional escalation clauses which are recognized when probable or incurred and are based on changes in the consumer price index or certain operational performance measures. As of December 31, 2015 and 2014, the Company leased 50 communities, 48 of which the Company classified as operating leases and two of which the Company classified as capital lease and financing obligations. The Company incurs lease acquisition costs and amortizes these costs over the term of the respective lease agreement. Certain leases entered into by the Company qualified as sale/leaseback transactions, and as such, any related gains have been deferred and are being amortized over the respective lease term. No new communities were leased by the Company during fiscal 2015 or 2014.

Facility lease expense in the Company s Consolidated Statements of Operations and Comprehensive loss includes rent expense plus amortization expense relating to leasehold acquisition costs offset by the amortization of deferred gains and lease incentives.

Employee Health and Dental Benefits, Workers Compensation, and Insurance Reserves

The Company offers certain 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 living 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, 2015; 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.

Long-Lived Assets

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. 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. In that event, a loss is recognized based on the amount the carrying value exceeds the fair market value, generally based on discounted cash flows, of the long-lived asset. The Company does not believe there are any indicators of impairment that would require an adjustment to the carrying value of the property and equipment or their remaining useful lives as of December 31, 2015 and 2014.

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 re-evaluates 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. The actual sales price of these assets could differ significantly from the Company s estimates.

During the fourth quarter of fiscal 2014, the Company classified four senior living communities as held for sale and determined the assets had an aggregate fair value, net of cost of disposal, that exceeded the carrying values and a remeasurement write-down of approximately $0.6 million was recorded. The four senior living communities were sold during the first quarter of fiscal 2015 in a single transaction for its carrying value. There were no senior living communities classified as held for sale by the Company at December 31, 2015.

Income Taxes

Income taxes are computed using the asset and liability method and current income taxes are recorded based on amounts refundable or payable in the current year. 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 2015 and 2014 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 Texas Margin Tax (TMT), which effectively imposes tax on modified gross revenues for communities within the State of Texas. During fiscal 2015, the Company consolidated 37 Texas communities and during 2014, the Company consolidated 36 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 2012.

Recently Issued Accounting Guidance

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. ASU 2016-02 will be effective beginning in 2019. Early adoption of ASU 2016-02 as of its issuance is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We are currently evaluating the impact of adopting the new leases standard on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes Balance Sheet Reclassification of Deferred Taxes (Topic 740)*. ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this update. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted and the amendments may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company early adopted ASU 2015-17 in the fourth quarter of 2015 on a prospective basis and included the current portion of deferred tax assets within the non-current portion of deferred tax liabilities within the Company s consolidated balance sheet. The Company did not adjust its prior period consolidated financial statements as a result of the adoption of ASU 2015-17.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 eliminates the requirement for an acquirer in a business combination to account for the measurement-period adjustment retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. ASU 2015-16 is applied prospectively and is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the impact the adoption of ASU 2015-16 will have on the Company s consolidated financial statements and disclosures.

In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest- Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30)*. The amendments in ASU No. 2015-03 requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. ASU 2015-03 requires retrospective application and will be effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. The Company early adopted the provisions of ASU 2015-03 as of October 1, 2015, and incorporated the provisions of this update to its consolidated financial statements upon adoption. As a result of adoption of ASU 2015-03, at December 31, 2015, and 2014, approximately $8.5 million and $6.3 million, respectively, of debt issuance costs, net of accumulated amortization, were reclassified within the Company s Consolidated Balance Sheets from other assets to notes payable. The adoption of ASU 2015-03 did not have an impact on the Company s financial condition or results of operations.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. ASU 2014-09 is effective for annual periods beginning after December 15, 2017. The Company is currently evaluating the impact the adoption of ASU 2014-09 will have on the Company s consolidated financial statements and disclosures.

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,					
	2015		2014		2013	
	$	%	$	%	$	%
Revenues:						
Resident and healthcare revenue	$ 412,177	100.0%	$ 380,400	99.1%	$ 343,478	98.1%
Affiliated management services revenue			415	0.1	797	0.2
Community reimbursement income			3,110	0.8	6,087	1.7
Total revenues	412,177	100.0	383,925	100.0	350,362	100.0
Expenses:						
Operating expenses (exclusive of facility lease expense and depreciation and amortization shown below)	248,736	60.3	230,495	60.0	207,744	59.3
General and administrative expenses	20,351	4.9	19,622	5.1	20,238	5.8
Facility lease expense	61,213	14.9	59,332	15.5	56,986	16.3
Provision for bad debts	1,192	0.3	717	0.2	497	0.2
Stock-based compensation	8,833	2.1	7,262	1.9	4,322	1.2
Depreciation and amortization	53,017	12.9	49,487	12.9	43,238	12.3
Community reimbursement expense			3,110	0.8	6,087	1.7
Total expenses	393,342	95.4	370,025	96.4	339,112	96.8
Income from operations	18,835	4.6	13,900	3.6	11,250	3.2
Other income (expense):						
Interest income	53	0.0	52	0.0	151	0.2
Interest expense	(35,732)	(8.7)	(31,261)	(8.2)	(23,767)	(6.8)
Write-off of deferred loan costs and prepayment premium	(2,766)	(0.7)	(7,968)	(2.1)		
Joint venture equity investment valuation gain			1,519	0.4		
Gain on disposition of assets, net	6,225	1.5	784	0.2	1,454	0.4
Equity in earnings of unconsolidated joint ventures, net			105	0.0	133	0.1
Write-down of assets held for sale			(561)	(0.2)		
Other income	1	0.0	23	0.0	34	0.0
Loss before provision for income taxes	(13,384)	(3.3)	(23,407)	(6.1)	(10,745)	(3.1)