

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

CAPITAL SENIOR LIVING CORP
Form 8-K
August 05, 2004

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): August 4, 2004

Capital Senior Living Corporation
(Exact name of registrant as specified in its charter)

Delaware	1-13445	75-2678809
----- (State or other jurisdiction of incorporation)	----- (Commission File Number)	----- (IRS Employer Identification No.)
14160 Dallas Parkway Suite 300 Dallas, Texas		75254
----- (Address of principal executive offices)		----- (Zip Code)

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

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

Item 7. Financial Statements and Exhibits.

- (a) Not applicable.
- (b) Not applicable.
- (c) Exhibits.

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

99.1 Press Release dated August 4, 2004

Item 12. Results of Operations and Financial Condition.

On, August 4, 2004, the registrant announced its financial results for the quarter ended June 30, 2004 by issuing a press release. The full text of the press release issued in connection with the announcement is attached hereto as Exhibit No. 99.1. This information is being furnished under Item 12 (Results of Operations and Financial Condition) of Form 8-K. This information shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of

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

1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing. The press release contains and may implicate, forward-looking statements regarding the registrant and includes cautionary statements identifying important factors that could cause actual results to differ materially from those anticipated.

In the press release, the registrant's management utilized non-GAAP financial measures to describe the registrant's adjusted EBITDA, cash earnings and cash earnings per share. These non-GAAP financial measures are used by management to evaluate financial performance and resource allocation for its facilities and for the registrant as a whole. These measures are commonly used as an analytical indicator within the senior housing industry, and also serve as a measure of leverage capacity and debt service ability. The registrant has provided this information in order to enhance investors overall understanding of the registrant's financial performance and prospects. In addition, because the registrant has historically provided this type of information to the investment community, the registrant believes that including this information provides consistency in its financial reporting.

These non-GAAP financial measures should not be considered as measures of financial performance under generally accepted accounting principles, and items excluded from them are significant components in understanding and assessing financial performance. These measures should not be considered in isolation or as an alternative to net income, cash flows generated by operating, investing, or financing activities, earnings per share or other financial statement data presented in the consolidated financial statements as an indicator of financial performance or liquidity. Because these measures are not measurements determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, these measures as presented may not be comparable to other similarly titled measures of other companies.

SIGNATURE

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

Date: August 4, 2004

Capital Senior Living Corporation

By: /s/ Ralph A. Beattie
Name: Ralph A. Beattie
Title: Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

Exhibit No. -----	Description -----
99.1	Press Release dated August 4, 2004

[GRAPHIC OMITTED] Capital
Senior
Living
Corporation

For Immediate Release

Contact: Ralph A. Beattie
972/770-5600

CAPITAL SENIOR LIVING CORPORATION
REPORTS SECOND QUARTER 2004 EARNINGS

DALLAS - (BUSINESS WIRE) - August 4, 2004 - Capital Senior Living Corporation ("Capital") (NYSE:CSU), one of the country's largest operators of senior living communities, today announced operating results for the second quarter of fiscal 2004.

Company highlights for the second quarter include:

- o Revenues of \$23.0 million vs. \$14.3 million for the second quarter last year
- o Net loss of \$1.6 million, or a \$0.06 loss per share
- o Cash earnings (net income plus depreciation and amortization) of \$1.4 million, or \$0.05 per diluted share
- o Adjusted EBITDA (income from operations plus depreciation and amortization) of \$4.5 million
- o Triad communities leased to 89 percent versus 79 percent one year ago
- o Average occupancy rate on stabilized communities of 88 percent
- o Operating margins (before property taxes, insurance and management fees) of 45 percent in stabilized independent and assisted living communities
- o All community revenue increase of 7 percent from the prior year

For the second quarter of 2004, the Company reported revenues of \$23.0 million, compared to revenues of \$14.3 million in the second quarter of 2003, an increase of 61 percent. The 2004 revenues include 12 communities in Triads II through V that were acquired in the third quarter of 2003, as well as seven communities in Triad I that are consolidated due to the adoption on December 31, 2003 of FASB Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46").

The Company reported a second quarter 2004 loss of \$1.6 million, or \$0.06 per share, compared to income of \$3.1 million or \$0.15 per diluted share in the comparable period of 2003. The results for 2003 include gains of \$0.10 per share on the sales of two assets.

For the first half of 2004, the Company produced revenues of \$45.6 million, compared to revenues of \$28.8 million for the first six months of last year. The Company reported a net loss of \$3.6 million, or \$0.15 per share, compared to net income of \$4.3 million, or \$0.21 per diluted share for the same period of 2003, including gains of approximately \$0.10 per share from asset sales.

MORE

CAPITAL/Page 2

"We are pleased to report that the consolidation of the Triad communities has increased revenues by over 61 percent from the second quarter of last year," commented James A. Stroud, Chairman of the Company. "These 19 communities in the five Triad partnerships have experienced revenue growth of over 17 percent in the last twelve months."

OPERATING AND FINANCIAL RESULTS

For the second quarter of 2004, the Company reported revenues of \$23.0 million, compared to revenues of \$14.3 million in the second quarter of 2003, an increase of 61 percent. The 2004 revenues include 12 communities in Triads II through V that were acquired in the third quarter of 2003, as well as seven communities in Triad I that are consolidated due to the adoption on December 31, 2003 of FASB Interpretation No. 46 "Consolidation of Variable Interest Entities."

Adjusted EBITDA (defined as income from operations plus depreciation and amortization) for the second quarter of 2004 increased 29 percent to \$4.5 million, compared to \$3.5 million in the prior year period.

Interest expense net of interest income was nearly \$2.9 million higher in the second quarter of 2004 compared to the second quarter of 2003, as the Company consolidated the debt on 19 Triad communities.

The Company reported a pre-tax loss of \$2.0 million in the second quarter of 2004, compared to a pre-tax profit of \$4.9 million in the second quarter of last year. During the second quarter of last year, the Company realized pre-tax gains of approximately \$3.5 million due to the sales of two assets. Of the \$2.0 million pre-tax loss in the second quarter of this year, approximately \$0.9 million is attributable to the consolidation of Triad I under FIN 46 and \$1.1 million is attributable to other operations.

While the Company consolidates Triad I under Generally Accepted Accounting Principles ("GAAP"), it does not receive a tax benefit from these losses. Consequently, the Company received a tax benefit of only \$0.4 million on the reported pre-tax loss of \$2.0 million. This pre-tax loss is in line with the expectations of the Company. If the Triad I loss had received a tax benefit consistent with the other consolidated entities, the loss per share for the Company would have been reduced from \$0.06 to \$0.05 for the second quarter of 2004.

The net after-tax loss for the second quarter of 2004 was \$1.6 million, or \$0.06 per share, compared to net income of \$3.1 million, or \$0.15 per share, in the second quarter of 2003. The results for 2004 include the consolidation of 19 Triad communities that were consolidated subsequent to the second quarter of last year, while the results for 2003 include gains of \$0.10 per share on the sales of two assets.

MORE

CAPITAL/Page 3

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

Cash earnings (defined as net income from operations plus depreciation and amortization) were \$1.4 million, or \$0.05 per diluted share, in the second quarter of 2004, compared to cash earnings of \$4.4 million, or \$0.22 per diluted share, in the second quarter of the prior year. Cash earnings in the second quarter of 2003 included approximately \$2.1 million, or \$0.10 per diluted share, which resulted from the sales of two assets.

For the first half of 2004, the Company produced revenues of \$45.6 million, compared to revenues of \$28.8 million for the first six months of last year. The Company reported a net loss of \$3.6 million, or \$0.15 per diluted share, compared to net income of \$4.3 million, or \$0.21 per diluted share for the same period of 2003, including gains of approximately \$0.10 per share from asset sales.

Adjusted EBITDA for the first half of 2004 was \$8.6 million, an increase of 12 percent compared to the first half of 2003.

The Company's pre-tax loss of \$4.8 million in the first half of 2004 includes a loss attributable to Triad I of \$1.7 million and a loss attributable to all other operations of \$3.1 million. The provision for income taxes does not include a tax benefit from the Triad I loss.

The Company produced cash earnings of \$2.3 million, or \$0.09 per diluted share, in the first six months of 2004 compared to cash earnings of \$7.0 million, or \$0.35 per diluted share, in the comparable prior year period, including \$0.10 per diluted share from the sales of two assets.

The Company had total debt of \$260.9 million on June 30, 2004 at a blended average borrowing rate of 5.4 percent. Approximately \$139.7 million of debt is sensitive to changes in short-term rates, with the remainder either fixed or floating with interest rate floors above current levels.

This approximate 50/50 mix of fixed and floating interest rates helps the Company to reduce interest rate volatility while benefiting from the current low interest rate environment. In addition, the floating rate loans provide flexibility regarding opportunities for permanent financing as communities reach stabilization.

As of June 30, 2004, the Company had \$24.9 million of cash, cash equivalents and restricted cash, and \$154.0 million in shareholder's equity, equivalent to approximately \$5.98 per share.

"We continue to successfully implement our business plan," commented Lawrence A. Cohen, Chief Executive Officer. "We have further improved the occupancy levels in our Triad communities while increasing average rents. The stock offering which we completed in the first quarter of this year has enabled us to retire debt and has provided

MORE

CAPITAL/Page 4

the liquidity we need to complement our organic growth with prudent acquisitions and joint venture investments. The purchase agreement signed to acquire CGI Management is a significant step in positioning the Company for future growth."

CGI MANAGEMENT ACQUISITION

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

The Company announced on August 2, 2004 that it has signed a definitive purchase agreement with The Covenant Group of Texas, Inc. ("TCG") to acquire all of the outstanding stock of Covenant's wholly owned subsidiary, CGI Management, Inc. ("CGIM"), a Fort Worth, Texas based company which operates 16 senior independent and assisted living communities, including seven senior living communities owned by TCG. At the closing of Capital's purchase of CGIM's stock, Capital will receive the exclusive right and option through July 2009 to purchase the seven senior living communities owned by TCG. Capital will also receive the right of first refusal to acquire the seven communities owned by TCG for a period of 15 years.

In acquiring CGIM, Capital will assume management of 16 operating properties, with a resident capacity of 2,070, including the seven properties owned by TCG for which Capital will have options to purchase and rights of first refusal. CGIM employs approximately 500 personnel at the 16 properties.

Capital will pay approximately \$2.5 million in cash at closing, subject to various adjustments set forth in the purchase agreement, to acquire all of the outstanding stock of CGIM. Capital will also pay three installments of \$366,667 on the first, third and fifth anniversaries of the closing subject to reduction if the management fees earned from the nine third party owned communities with various terms are terminated and not replaced by substitute agreements during the period, and certain other adjustments. The management agreements on the TCG owned communities are for a 15-year term.

The stock purchase is expected to close in the third quarter of 2004, subject to receipt of required approvals and other closing conditions. Capital will use cash on hand to acquire CGIM.

The CGIM portfolio includes 16 properties located in four states (Texas, Oklahoma, Arkansas and Mississippi) with a resident capacity of 2,070. Approximately 79 percent of the portfolio is independent living and 21 percent is assisted living, with 95 percent of the revenues from private pay sources.

Capital estimates that the transaction will be accretive on a cash basis and GAAP basis. The Company anticipates annual management fee revenue of approximately \$1.6 million and annual incremental expenses of approximately \$0.6 million.

Capital and TCG will also form a strategic alliance to jointly pursue development and management opportunities for not for profit owners. TCG's leadership as a successful senior living developer for tax-exempt owners will be

MORE

CAPITAL/Page 5

complemented by Capital's proven track record as a national operator of senior living communities. The strategic alliance is expected to provide Capital with a platform for additional external growth through long-term management contracts.

2Q04 CONFERENCE CALL INFORMATION

The Company will host a conference call with senior management to discuss the Company's second quarter 2004 financial results. The call will be held on Thursday, August 5, 2004 at 11:00 am Eastern Time.

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

The call-in number is 913-981-5509. No confirmation number is required. A link to a simultaneous webcast of the teleconference will be available at www.capitalsenior.com through Windows Media Player or RealPlayer.

For the convenience of the Company's shareholders and the public, the conference call will be recorded and available for replay starting August 5, 2004 at 2:00 pm Eastern Time, until August 12, 2004 at 8:00 pm Eastern Time. To access the conference call replay, call 719-457-0820, confirmation code 514175. The conference call will also be made available for playback via the Company's corporate website, www.capitalsenior.com, and will be available until the next earnings release date.

ABOUT THE COMPANY

Capital Senior Living Corporation is one of the nation's largest operators of residential communities for senior adults. The Company's operating philosophy emphasizes a continuum of care, which integrates independent living, assisted living and home care services, to provide residents the opportunity to age in place.

The Company currently operates 42 senior living communities in 20 states with an aggregate capacity of approximately 6,900 residents, including 41 senior living communities which the Company owns or in which the Company has an ownership interest, and one community it manages for a third party. In the communities operated by the company, 86 percent of residents live independently and 14 percent of residents require assistance with activities of daily living.

This release contains certain financial information not derived in accordance with generally accepted accounting principles (GAAP), including adjusted EBITDA, cash earnings, cash earnings per share and other items. The Company believes this information is useful to investors and other interested parties. Such information should not be considered as a substitute for any measures derived in accordance with GAAP, and may not be comparable to other similarly titled measures of other companies. Reconciliation of this information to the most comparable GAAP measures is included as an attachment to this release.

The forward-looking statements in this release are subject to certain risks and uncertainties that could cause results to differ materially, including, but not without limitation to, the Company's ability to find suitable acquisition

MORE

CAPITAL/Page 6

properties at favorable terms, financing, licensing, business conditions, risks of downturns 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 our reports filed with the Securities and Exchange Commission.

Contact Ralph A. Beattie, Chief Financial Officer, at 972-770-5600 or Matt Hayden, Hayden Communications, Inc. at 858-456-4533 for more information.

MORE

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

CAPITAL/Page 7

CAPITAL SENIOR LIVING CORPORATION

CONSOLIDATED BALANCE SHEETS

	June 30,	D
	2004	

	(in thous	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 18,719	\$
Restricted cash.....	6,183	
Accounts receivable, net.....	1,376	
Accounts receivable from affiliates.....	289	
Federal and state income taxes receivable.....	3,147	
Deferred taxes.....	356	
Property tax and insurance deposits.....	2,908	
Prepaid expenses and other.....	4,439	

Total current assets.....	37,417	
Property and equipment, net.....	375,231	
Deferred taxes.....	6,380	
Notes receivable from affiliates.....	5,216	
Investments in limited partnerships.....	1,834	
Assets held for sale.....	2,391	
Other assets, net.....	3,944	

Total assets.....	\$ 432,413	\$
	=====	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 1,544	\$
Accrued expenses.....	7,566	
Current portion of notes payable.....	9,004	
Customer deposits.....	1,952	

Total current liabilities.....	20,066	
Deferred income.....	25	
Deferred income from affiliates.....	116	
Other long-term liabilities.....	6,084	
Notes payable, net of current portion.....	251,884	
Minority interest in consolidated partnership.....	256	
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value:		
Authorized shares-- 15,000; no shares issued or outstanding.....		--
Common stock, \$.01 par value:		
Authorized shares -- 65,000		
Issued and outstanding shares-- 25,731 and 19,847 at		
June 30, 2004 and December 31, 2003, respectively.....		257
Additional paid-in capital.....	124,883	
Retained earnings.....	28,842	

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

Total shareholders' equity.....	153,982	

Total liabilities and shareholders' equity.....	\$ 432,413	\$
	=====	=====

MORE

CAPITAL/Page 8

CAPITAL SENIOR LIVING CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except earnings per share)

	Three Months Ended June 30,		Six
	2004	2003	200
	-----	-----	-----
Revenues:			
Resident and health care revenue.....	\$ 22,493	\$ 13,309	\$ 4
Unaffiliated management services revenue.....	41	--	
Affiliated management services revenue.....	483	892	
Affiliated development fees.....	--	69	
	-----	-----	-----
Total revenues.....	23,017	14,270	4
Expenses:			
Operating expenses.....	14,689	8,219	2
General and administrative expenses.....	3,802	2,551	
Depreciation and amortization.....	2,951	1,339	
	-----	-----	-----
Total expenses.....	21,442	12,109	4
Income from operations.....	1,575	2,161	
Other income (expense):			
Interest income.....	158	1,784	
Interest expense.....	(3,831)	(2,577)	(
Other income.....	73	3,511	
	-----	-----	-----
(Loss) income before income taxes and minority interest in consolidated partnership.....	(2,025)	4,879	(
Benefit (provision) for income taxes.....	422	(1,867)	
	-----	-----	-----
(Loss) income before minority interest in consolidated partnership.....	(1,603)	3,012	(
Minority interest in consolidated partnership.....	7	55	
	-----	-----	-----
Net (loss) income.....	\$ (1,596)	\$ 3,067	\$ (
	=====	=====	=====

Per share data:

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

Basic (loss) earnings per share.....	\$ (0.06)	\$ 0.16	\$
	=====	=====	=====
Diluted (loss) earnings per share.....	\$ (0.06)	\$ 0.15	\$
	=====	=====	=====
Weighted average shares outstanding--basic.....	25,668	19,747	2
	=====	=====	=====
Weighted average shares outstanding--diluted.....	25,668	19,897	2
	=====	=====	=====

MORE

CAPITAL/Page 9

CAPITAL SENIOR LIVING CORPORATION
RECONCILIATION OF NON GAAP ITEMS
(in thousands, except per share amounts)

	Three Months Ended June 30,		Six
	2004	2003	2004
	(Unaudited)	(Unaudited)	(Unaudited)
Cash earnings reconciliation:			
Net (loss) income.....	\$ (1,596)	\$ 3,067	\$ (
Depreciation and amortization.....	2,951	1,339	
	-----	-----	-----
Cash earnings.....	\$ 1,355	\$ 4,406	\$
	=====	=====	=====
Cash earnings per diluted share reconciliation:			
Net (loss) income per diluted share.....	\$ (0.06)	\$ 0.15	\$
Depreciation and amortization per diluted share	0.11	0.07	
	-----	-----	-----
Cash earnings per diluted share.....	\$ 0.05	\$ 0.22	\$
	=====	=====	=====
Adjusted EBITDA reconciliation:			
Income from operations.....	\$ 1,575	\$ 2,161	\$
Depreciation and amortization.....	2,951	1,339	
	-----	-----	-----
Adjusted EBITDA.....	\$ 4,526	\$ 3,500	\$
	=====	=====	=====
Reconciliation of gain on asset sales:			
Gain on sale of assets		\$ 3,491	

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

Provision for income taxes	1,396

Net gain on sale of assets.....	\$ 2,095
Net gain per diluted share.....	\$ 0.10
	=====
Cash earnings per diluted share.....	\$ 0.10
	=====

Reconciliation of net loss per share if Triad I loss had received a tax benefit:

Net loss reported	\$ 1,596
Income tax benefit reported	422

Loss before income taxes.....	\$ 2,018
Provision for income taxes.....	767

Net loss.....	\$ 1,251
Adjusted net loss.....	\$ (0.05)
	=====

Reconciliation of shareholders' equity per outstanding share:

Shareholders' equity.....	\$ 153,982
Common shares outstanding at June 30, 2004	25,731

Shareholders' equity per diluted share	\$ 5.98
	=====

MORE

CAPITAL/Page 10
Capital Senior Living Corporation
Supplemental Information

	Communities	
	Q2 04	Q2 03
	-----	-----
Portfolio Data		
I. Property Ownership / Management		
Consolidated properties	31	14
Joint Venture properties (equity method)	10	28
Third party property managed	1	-
	-----	-----
Total	42	42
Independent living		
Assisted living		
Skilled nursing		
Total		
II. Percentage of Operating Portfolio		

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

Consolidated properties	73.8%	33.3%
Joint venture properties (Equity Method)	23.8%	66.7%
Third Party property managed	2.4%	0.0%
	100.0%	100.0%

Independent living
Assisted living
Skilled nursing

Total

Selected Operating Results

I. Consolidated Properties

Number of properties	31	14
Resident capacity	4,831	2,621
Financial Occupancy	85.2%	84.7%
Revenue (in millions)	22.4	13.2
Average monthly rent	2,050	2,128
Operating margin (before taxes, Insurance and management fees)	38%	39%

II. Triad Properties

Number of properties	19	19
Resident capacity	2,548	2,548
Financial Occupancy	85.5%	75.5%
Revenue (in millions)	10.2	8.7
Average monthly rent	1,791	1,709
Operating margin (before taxes, Insurance and management fees)	35%	28%

III. Total Portfolio

Number of properties	42	42
Resident capacity	6,854	6,854
Financial Occupancy	83.2%	79.7%
Revenue (in millions)	32.2	30.2
Average monthly rent	2,160	2,062
Operating margin (before taxes, Insurance and management fees)	40%	38%

IV. General and Administrative Expenses (in thousands)

Corporate	2,074	1,681
Property	1,728	871
Total	3,802	2,552

Note: Q2 2003 Corporate expenses reflect a credit of \$250 for a tax study which was not undertaken.

V. Consolidated Debt Information (in thousands, except for interest rates)

Excludes insurance premium financing		
Fixed rate debt	68,483	51,384
Variable rate debt with a floor	50,928	49,785
Variable rate debt, with a cap	35,111	36,191
Variable rate debt, no cap or floor	104,610	-
	259,132	137,360
Total debt	259,132	137,360
Fixed rate debt - weighted average rate	7.8%	8.1%
Variable rate debt - weighted average rate	4.6%	5.5%
Total debt - weighted rate	5.4%	6.4%

#####