CAPITAL SENIOR LIVING CORP
Form 8-K/A
October 10, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT

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

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

Capital Senior Living Corporation

(Exact name of registrant as specified in its charter)

Delaware	1-13445	75-2678809
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(IRS Employer Identification No.)

14160 Dallas Parkway Suite 300 Dallas Texas	75254
(Address of principal executive offices)	(Zip Code)

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

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

This amendment (the "Amendment") to the Current Report on Form 8-K, dated July 28, 2003, and filed on July 29, 2003 (the "Original Form 8-K") by Capital Senior Living Corporation (the "Company") is submitted to amend and restate Item 7 of the Original Form 8-K to provide financial data related to the purchase of the remaining interest in Triad Senior Living II, LP, Triad Senior Living III, LP, Triad Senior Living IV, LP and Triad Senior Living V, LP (the "Triad Entities") pursuant to the terms of Partnership Interest Purchase Agreements.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

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

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

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

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

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

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

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

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

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

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

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

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

(c) Exhibits.

10.1 Form of Partnership Interest Purchase Agreements, dated as of March 25, 2003, between Capital Senior Living Properties, Inc.

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

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

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

3

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

TRIAD SENIOR LIVING II, LP
BALANCE SHEETS

	June 30, 2003	December 31, 2002
	(Unaudited)	(Audited)
ASSETS		
PROPERTY HELD FOR INVESTMENT - AT COST		
Land	$ 2,591,286	$ 2,591,2
Buildings and improvements	32,147,546	32,144,7
Furniture and fixtures	1,202,370	1,199,2
Vehicles	25,385	25,3
	35,966,587	35,960,7
Accumulated depreciation	(2,418,068)	(1,952,0
Net property held for investment	33,548,519	34,008,6
OTHER ASSETS		
Cash	278,276	396,6
Accounts receivable - insurance	-	19,8
Accounts receivable - other	13,010	26,8
Interest receivable	1,131	4,5
Inventories	17,409	25,8
Prepaid expenses	-	157,6
Investment in available-for-sale securities	1,302,728	400,7
Investment in held-to-maturity securities	2,612,000	3,487,0
Deposits	3,386	3,3
Debt issue costs - net of accumulated amortization of $338,480 and $316,253 at June 30, 2003 and		

December 31, 2002, respectively	127,621	123,6
Total other assets	4,355,561	4,646,2
	$ 37,904,080	$ 38,654,8

LIABILITIES AND PARTNERS' DEFICIT

LIABILITIES		
Accounts payable - related party	$ 10,673	$ 20,1
Accounts payable	130,640	280,8
Accrued interest - related party	4,244,528	3,371,0
Accrued interest	83,966	36,3
Accrued interest - swap agreements	7,484,727	7,484,7
Accrued property taxes	241,264	127,9
Accrued expenses - related party	21,549	20,1
Accrued expenses	87,727	86,5
Security deposits	197,749	202,9
Deferred income	-	5,7
Notes payable - related party	21,977,727	21,018,2
Notes payable	26,002,485	26,322,6
Total liabilities	60,483,035	58,977,5
PARTNERS' DEFICIT		
Partners' deficit	(15,094,228)	(12,837,9
Accumulated other comprehensive loss	(7,484,727)	(7,484,7
	(22,578,955)	(20,322,6
	$ 37,904,080	$ 38,654,8

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

A-1

TRIAD SENIOR LIVING II, LP
STATEMENTS OF OPERATIONS

	Three Months Ended		
	June 30, 2003	June 30, 2002	Ju
	(Unaudited)	(Unaudited)	(U
REVENUES			
Rental income	$ 1,255,508	$ 792,281	$

Resident and healthcare income	15,156	12,802	
Total revenues	1,270,664	805,083	
COSTS AND EXPENSES	1,565,049	1,299,808	
OPERATING LOSS	(294,385)	(494,725)	
OTHER INCOME AND (EXPENSE)			
Interest and other income	251,460	22,259	
Interest expense	(938,039)	(883,631)	
Total other income and (expense)	(686,579)	(861,372)	
NET LOSS	$ (980,964)	$ (1,356,097)	$

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

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

General Partner	Limited Partners	Total	Accu O Compr L

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

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

TRIAD SENIOR LIVING II, LP
STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2003
(Unaudited) (Unaudited)	
Operating activities	
Net loss	$ (2,256,296)
Adjustment to reconcile net loss to net cash provided by operating activities:	
Amortization	22,227
Depreciation	465,973

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

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

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

BUSINESS ACTIVITY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Allocation of Profits and Losses

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

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

(i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Partner Liability

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

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

Investment in Debt and Marketable Equity Securities

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

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

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

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

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

2. TRANSACTIONS WITH AFFILIATED PARTIES

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

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

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

3. COMMITMENTS AND CONTINGENCIES

Litigation

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

4. CSLC PURCHASE OF PARTNERSHIP INTEREST

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

A-7

Report of Independent Certified Public Accountants

The Partners
Triad Senior Living II, L.P.

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

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

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

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

Lane Gorman Trubitt, L.L.P.

Dallas, Texas
February 14, 2003

B-1

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

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

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

PARTNERS' DEFICIT	
Partners' deficit	(12,837,9
Accumulated other comprehensive loss	(7,484,7
	(20,322,6
	$ 38,654,8

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

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

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

Total other income and (expense)	(3,406,439)	(3,123,849)
NET LOSS	$ (5,601,491)	$ (6,380,931)

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

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

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

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

B-5

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

	For the Year 2002
Cash flows from operating activities	
Net loss	$ (5,601,
Adjustments to reconcile net loss to net cash used in operating activities	
Amortization	39,
Depreciation	926,
Net change in operating assets and liabilities	
Accounts receivable - related party	16,
Accounts receivable - insurance	190,
Accounts receivable - other	(3,
Interest receivable	(3,
Inventories	(9,
Prepaid expenses	(113,
Accounts payable - related party	(71,
Accounts payable	(18,
Accrued interest - related party	1,534,
Accrued interest	(63,
Accrued property taxes	(200,
Accrued expenses - related party	4,
Accrued expenses	76,
Security deposits	28,
Deferred income	(3,
Net cash used in operating activities	(3,272,
Cash flows from investing activities	
Purchases of property held for investment	(186,
Purchases of available-for-sale securities	(386,
Proceeds from sale of available-for-sale securities	183,
Purchases of held-to-maturity securities	(2,280,
Proceeds from sale of held-to-maturity securities	2,411,
Deposits	
Net cash used in investing activities	(258,
Cash flows from financing activities	
Proceeds from notes payable - related party	4,291,
Payments on notes payable - related party	(146,
Proceeds from note payable	
Payments on notes payable	(551,
Debt issue costs	
Net cash provided by financing activities	3,594,

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

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

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

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

BUSINESS ACTIVITY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Allocation of Profits and Losses

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

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

(i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Partner Liability

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

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

Cash and Cash Equivalents

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

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

Inventories

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

Property Held For Investment

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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

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

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

Investment in Debt and Marketable Equity Securities

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

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

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

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

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

Amortization

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

Advertising Costs

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

Use of Estimates

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

2. TRANSACTIONS WITH AFFILIATED PARTIES

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

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

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

3. INVESTMENT IN SECURITIES

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

	Held-to-Maturity		
	Amortized Cost	Gross Unrealized Gains (Losses)	Fair Value
December 31, 2002			
Taxable bonds	$ 3,487,000	$ -	$ 3,487,000
December 31, 2001			
Taxable bonds	$ 3,618,000	$ -	$ 3,618,000

	Available-For-Sale		
	Amortized Cost	Gross Unrealized Gains (Losses)	Fair Value
December 31, 2002			
Mutual funds	$ 400,784	$ -	$ 400,784
December 31, 2001			
Mutual funds	$ 197,913	$ -	$ 197,913

4. NOTES PAYABLE

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

Borrowings at December 31, were as follows:

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

B-11

4. NOTES PAYABLE (CONTINUED)

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

Borrowings at December 31, were as follows:

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

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

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

Interest Rate Swap Agreements

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

4. NOTES PAYABLE (CONTINUED)

Interest Rate Swap Agreements (Continued)

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

Treasury Lock Swap Agreements

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

5. INCOME TAXES

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

6. COMMITMENTS AND CONTINGENCIES

Litigation

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

7. SUBSEQUENT EVENT (UNAUDITED)

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

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

TRIAD SENIOR LIVING III, LP
BALANCE SHEETS

	Ju

	(U
ASSETS	
PROPERTY HELD FOR INVESTMENT - AT COST	
Land	$
Buildings and improvements	5
Furniture and fixtures	

	6
Accumulated depreciation	(

Net property held for investment	5

OTHER ASSETS	
Cash	
Accounts receivable - insurance	
Accounts receivable - other	
Interest receivable	
Inventories	
Prepaid expenses	
Investment in held-to-maturity securities	
Deposits	
Debt issue costs - net of accumulated amortization of $416,236 and $409,202 at June 30, 2003 and December 31, 2002, respectively	

Total other assets	

	$6
	====

LIABILITIES AND PARTNERS' DEFICIT

LIABILITIES	
Accounts payable - related party	$
Accounts payable	
Accrued interest - related party	
Accrued interest	
Accrued property taxes The	
Accrued expenses - related party	
Accrued expenses	
Security deposits	
Deferred income	
Notes payable - related party	2
Notes payable	5

Total liabilities	8

PARTNERS' DEFICIT	(2
	$6

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

TRIAD SENIOR LIVING III, LP
STATEMENTS OF OPERATIONS

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

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

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

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

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

TRIAD SENIOR LIVING III, LP
STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2003
(Unaudited) (Unaudited)	
Operating activities	
Net loss	$ (2,994,744)
Adjustment to reconcile net loss to net cash provided by operating activities:	
Amortization	7,034
Depreciation	840,915
Net change in operating assets and liabilities	
Accounts receivable - insurance	8,910
Accounts receivable - other	117,185
Interest receivable	(22,254)
Inventories	(8,051)
Prepaid expense	307,041
Accounts payable - related party	(21,437)
Accounts payable	(112,232)
Accrued interest - related party	1,009,831
Accrued interest	(26,829)
Accrued property taxes	(331,546)
Accrued expenses - related party	3,932
Accrued expenses	21,981
Security deposits	28,004
Deferred income	(40,075)
Net cash used in operating activities	(1,212,335)
Investing activities	
Purchases of held--to-maturity securities	-
Property held for investment	(37,046)
Deposits	43,529
Net cash provided by (used in) investing activities	6,483
Financing activities	
Proceeds from notes payable - related party	1,126,200
Proceeds from notes payable	-
Net cash provided by financing activities	1,126,200
Decrease in cash and cash equivalents	(79,652)
Cash and cash equivalents at beginning of period	544,158
Cash and cash equivalents at end of period	464,506

Supplemental disclosures:

Cash paid during the year for:	
Interest	$ 893,077
Income taxes	$ -

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

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

BUSINESS ACTIVITY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Allocation of Profits and Losses

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

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

(i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then

(ii) Adjusted net income shall be allocated to the General and Limited Partners in the same proportion that cumulative adjusted net loss has been allocated to the

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Partner Liability

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

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

Investment in Debt Securities

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

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

2. TRANSACTIONS WITH AFFILIATED PARTIES

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

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

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

3. COMMITMENTS AND CONTINGENCIES

Litigation

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

4. CSLC PURCHASE OF PARTNERSHIP INTEREST

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

Report of Independent Certified Public Accountants

The Partners
Triad Senior Living III, L.P.

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

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

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

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

Lane Gorman Trubitt, L.L.P.

Dallas, Texas
February 14, 2003

D-1

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

	2002
ASSETS	
PROPERTY HELD FOR INVESTMENT - AT COST	
Land	$ 3,963,138
Buildings and improvements	57,322,457
Furniture and fixtures	2,427,576
	63,713,171
Accumulated depreciation	(3,592,443)

Net property held for investment	60,120,728
OTHER ASSETS	
Cash	544,158
Accounts receivable - insurance	11,740
Accounts receivable - other	117,185
Interest receivable	75,747
Inventories	42,534
Prepaid expenses	307,041
Investment in held-to-maturity securities	3,000,000
Escrow deposits	949,169
Debt issue costs - net of accumulated amortization of $409,202 and $744,238 at December 31, 2002 and 2001, respectively	11,650
Total other assets	5,059,224
	$ 65,179,952
LIABILITIES AND PARTNERS' DEFICIT	
LIABILITIES	
Accounts payable - related party	$ 57,393
Accounts payable	232,068
Accrued interest - related party	3,549,180
Accrued interest	190,585
Accrued property taxes	904,272
Accrued expenses - related party	35,684
Accrued expenses	166,009
Security deposits	247,508
Deferred income	40,075
Notes payable - related party	24,387,366
Notes payable	56,270,245
Total liabilities	86,080,385

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

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

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

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

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

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

Triad Senior Living III, L.P.

(A Texas Limited Partnership)
STATEMENTS OF PARTNERS' DEFICIT
Years Ended December 31, 2002 and 2001

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

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

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

2

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

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

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

BUSINESS ACTIVITY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Allocation of Profits and Losses

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

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

(i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Partner Liability

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

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

Cash and Cash Equivalents

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

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

Inventories

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

Property Held for Investment

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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

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

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

Investment in Debt Securities

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

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

Amortization

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

Advertising Costs

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

Use of Estimates

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

2. TRANSACTIONS WITH AFFILIATED PARTIES

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

2. TRANSACTIONS WITH AFFILIATED PARTIES (Continued)

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

Asset management fees of $51,996 and $42,000, payable to affiliates, were incurred and expensed for the years ended December 31, 2002 and 2001, respectively. Accounts payable to affiliates at December 31, 2002 and 2001 totaled $57,393 and $164,074, respectively. For 2002 and 2001, related party interest incurred was $1,932,591 and $1,201,103, respectively. Accrued interest payable to a related party was $3,549,180 and $1,616,589 at December 31, 2002 and 2001, respectively.

3. NOTES PAYABLE

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

Borrowings at December 31, were as follows:

Project Location	Maturity	C 2002
Columbia, SC	November 1, 2008	$ 3,
Deer Park, TX	November 1, 2008	3,
Jackson, MS	November 1, 2008	3,
Mansfield, OH	November 1, 2008	3,
Edison Lake, IN	November 1, 2008	3,
Pantego, TX	November 1, 2008	3,
Corporate	November 1, 2008	3,
		$ 24,

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

Borrowings at December 31, were as follows:

C

Project Location	Maturity	2002
Columbia, SC	January 1, 2004	$ 9,
Deer Park, TX	January 1, 2004	9,
Jackson, MS	January 1, 2004	9,
Mansfield, OH	January 1, 2004	9,
Edison Lake, IN	January 1, 2004	9,
Pantego, TX	January 1, 2004	9,
		$ 56,

D-10

3. NOTES PAYABLE (CONTINUED)

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

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

4. INCOME TAXES

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

5. COMMITMENTS AND CONTINGENCIES

Litigation

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

6. SUBSEQUENT EVENT (UNAUDITED)

A subsidiary of CSLC (the "purchaser"), (see note 2) has recently made the election to exercise its option to purchase the partnership interests of Triad Partners III, Inc. (Triad III). Triad III and the purchaser entered into a Partnership Interest Purchase Agreement ("Purchase Agreement") on March 25, 2003 whereby Triad III will sell its general and limited partnership interests for an aggregate of approximately $932,000. Upon completion of this transaction, which the Partnership expects to take place by the end of the Partnership's second fiscal quarter of 2003, the purchaser will wholly own the Partnership. The purchase agreement is subject to customary terms and conditions.

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

TRIAD SENIOR LIVING IV, LP
BALANCE SHEETS

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

	$26,108,474

LIABILITIES AND PARTNERS' DEFICIT

LIABILITIES	
Accounts payable - related party	$ 25,113
Accounts payable	176,439
Accrued interest - related party	1,954,490
Accrued interest	-
Accrued property taxes	286,772
Accrued expenses - related party	16,308
Accrued expenses	65,521
Security deposits	103,001
Deferred income	-
Notes payable - related party	9,799,317
Notes payable	18,627,307
Total liabilities	31,054,268
PARTNERS' DEFICIT	(4,945,794)
	$26,108,474

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

TRIAD SENIOR LIVING IV, LP
STATEMENTS OF OPERATIONS

	Three Months Ended		
	June 30, 2003	June 30, 2002	Jun 2
	(Unaudited)	(Unaudited)	(Unau
REVENUES			
Rental income	$ 955,928	$ 148,071	$ 1,8
Resident and healthcare income	6,078	471	
Total revenues	962,006	148,542	1,8

COSTS AND EXPENSES	1,210,561	800,037	2,3
OPERATING LOSS	(248,555)	(651,495)	(5
OTHER INCOME AND (EXPENSE)			
Interest and other income	4,664	3,502	
Interest expense	(367,225)	(320,721)	(7
Total other income and (expense)	(362,561)	(317,219)	(7
NET LOSS	$ (611,116)	$ (968,714)	$ (1,2

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

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

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

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

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

E-3

TRIAD SENIOR LIVING IV, LP
STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2003	Six Months June 3 2002
	(Unaudited)	(Unaudi
Operating activities		
Net loss	$ (1,243,647)	$ (1,551
Adjustment to reconcile net loss to net cash provided by operating activities:		
Amortization	35,402	58
Depreciation	332,781	210
Net change in operating assets and liabilities		

Accounts receivable - related party	-	(39
Accounts receivable	6,389	11
Inventories	(557)	(11
Prepaid expenses	140,275	
Accounts payable - related party	8,060	(7
Accounts payable	(162,728)	(3,459
Accrued interest - related party	396,816	383
Accrued interest	(67,940)	
Accrued property taxes	26,985	88
Accrued expenses - related party	4,722	10
Accrued expenses	2,523	44
Security deposits	20,500	28
Deferred income	(13,045)	
Net cash provided by/(used in) operating activities	(513,464)	(4,233
Increase activities		
Construction in process	-	22,195
Property held for investment	(28,199)	(24,402
Deposits	551,494	(631
Net cash provided by/(used in) investing activities	523,295	(2,837
Financing activities		
Proceeds from notes payable - related party	470,452	1,661
Payments on notes payable - related party	(107,290)	
Proceeds from notes payable	160,845	5,500
Net cash provided by financing activities	524,007	7,162
Increase in cash and cash equivalents	533,838	91
Cash and cash equivalents at beginning of period	270,645	417
Cash and cash equivalents at end of period	$ 804,483	$ 509
Supplemental disclosures:		
Cash paid during the year for:		
Interest	$ -	$
Income taxes	$ -	$

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

E-4

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

BUSINESS ACTIVITY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Allocation of Profits and Losses

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

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

(i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Partner Liability

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

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

2. TRANSACTIONS WITH AFFILIATED PARTIES

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

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

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

3. COMMITMENTS AND CONTINGENCIES

Litigation

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

4. CSLC PURCHASE OF PARTNERSHIP INTEREST

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

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

Report of Independent Certified Public Accountants

The Partners
Triad Senior Living IV, L.P.

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

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

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

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

Lane Gorman Trubitt, L.L.P.

Dallas, Texas
February 14, 2003

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

BALANCE SHEETS
December 31,

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

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

PARTNERS' DEFICIT	(3,70
	$ 26,61

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

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

	Years Ended December 31,	
	2002	2001
REVENUES		
Rental income	1,365,041	-
Resident and health care income	22,160	-
Other income	-	999
Total revenues	1,387,201	999
COSTS AND EXPENSES	3,608,410	194,908
OPERATING LOSS	(2,221,209)	(193,909)
OTHER INCOME AND (EXPENSE)		
Gain (loss) on sale of property	(25,726)	58,856
Interest and other income	13,466	-
Interest expense	(1,253,294)	(66,711)
Total other income and (expense)	(1,265,554)	(7,855)
NET LOSS	(3,486,763)	(201,764)

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

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

General Partner	Limited Partners	Total

Partners' deficit at January 1, 2001	$ (13,620)	$ -	$ (
Net loss	(201,764)	-	(2
Partners' deficit at December 31, 2001	(215,384)	-	(2
Net loss	(3,486,763)	-	(3,4
Partners' deficit at December 31, 2002	$ (3,702,147)	$ -	$ (3,7

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

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

	200
Cash flows from operating activities	
Net loss	$ (3,4
Adjustments to reconcile net loss to net cash provided by (used in) operating activities	
Amortization	1
Depreciation	5
(Gain) loss on sale of property	
Net change in operating assets and liabilities	
Accounts receivable - related party	
Accounts receivable	
Inventories	(
Prepaid expenses	(1
Accounts payable - related party	(
Accounts payable	(3,6
Accrued interest - related party	7
Accrued interest	

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

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

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

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

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

BUSINESS ACTIVITY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Allocation of Profits and Losses

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

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

(i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Partner Liability

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

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

Cash and Cash Equivalents

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

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

Inventories

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

Property Held for Investment

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Held for Investment (Continued)

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

Revenue Recognition

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

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

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

Amortization

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

Advertising Costs

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

Use of Estimates

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

2. TRANSACTIONS WITH AFFILIATED PARTIES

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

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

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

2. TRANSACTIONS WITH AFFILIATED PARTIES (CONTINUED)

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

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

3. NOTES PAYABLE

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

Borrowings at December 31, were as follows:

		Outstanding Balance	
Project Location	Maturity	2002	200
N. Richland Hills, Texas	December 30, 2008	$ 4,562,746	$ 3,
Richardson, Texas	December 30, 2008	3,885,479	3,
Gilbert, Arizona	December 30, 2003		1,
Corporate	December 30, 2008	987,930	
		$ 9,436,155	$ 8,

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

Borrowings at December 31, were as follows:

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

3. NOTES PAYABLE (CONTINUED)

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

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

4. INCOME TAXES

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

5. COMMITMENTS AND CONTINGENCIES

Litigation

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

6. SUBSEQUENT EVENT (UNAUDITED)

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

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

TRIAD SENIOR LIVING V, LP
BALANCE SHEETS

	June 30, 2003 (Unaudited)	December 31, 2002 (Audited)
ASSETS		
PROPERTY HELD FOR INVESTMENT - AT COST		
Land	$ 1,024,404	$ 1,024,404
Buildings and improvements	9,661,501	9,660,221
Furniture and fixtures	315,601	311,499
Vehicles	49,613	49,613
	11,051,119	11,045,737
Accumulated depreciation	(587,619)	(445,925

Net property held for investment	10,463,500	10,599,812
OTHER ASSETS		
Cash	65,360	116,047
Accounts receivable	3,643	1,044
Inventories	11,139	9,211
Prepaid expenses	-	41,665
Deposits	757,106	757,106
Debt issue costs - net of accumulated amortization of $153,310 and $148,310 at June 30, 2003 and December 31, 2002, respectively	25,000	30,000
Total other assets	862,248	955,073
	$ 11,325,748	$ 11,554,885

LIABILITIES AND PARTNERS' DEFICITY

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

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

G-1

TRIAD SENIOR LIVING V, LP
STATEMENTS OF OPERATIONS

Three Months Ended

	June 30, 2003	June 30, 2002	Ju
	(Unaudited)	(Unaudited)	(Una
REVENUES			
Rental income	$ 422,714	$ 273,640	$
Resident and healthcare income	3,313	1,921	
Total revenues	426,027	275,561	84
COSTS AND EXPENSES	432,207	416,466	84
OPERATING PROFIT/(LOSS)	(6,180)	(140,905)	
OTHER INCOME AND (EXPENSE)			
Interest and other income	-	500	
Interest expense	(210,621)	(211,617)	(41
Total other income and (expense)	(210,621)	(211,117)	(41
NET LOSS	$ (216,801)	$ (352,022)	$ (41

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

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

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

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

G-3

TRIAD SENIOR LIVING V, LP
STATEMENTS OF CASH FLOWS

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

Inventories	(1,928)
Prepaid expenses	41,665
Accounts payable - related party	(5,890)
Accounts payable	(5,707)
Accrued interest - related party	188,184
Accrued interest	(1,704)
Accrued expenses - related party	621
Accrued expenses	29,788
Security deposits	(1,350)
Deferred income	(27,416)
Net cash used in operating activities	(50,052)
Investing activities	
Property held for investment	(5,382)
Deposits	-
Net cash used in investing activities	(5,382)
Financing activities	
Proceeds from notes payable - related party	101,000
Proceeds from notes payable	-
Notes repayment	(96,253)
Debt issue costs	-
Net cash provided by financing activities	4,747
Decrease in cash and cash equivalents	(50,687)
Cash and cash equivalents at beginning of period	116,047
Cash and cash equivalents at end of period	65,360
Supplemental disclosures:	
Cash paid during the year for:	
Interest	$ 232,309
Income taxes	$ -

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

G-4

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

BUSINESS ACTIVITY

Triad Senior Living V, L.P., (the "Partnership") is a limited partnership organized under the laws of the State of Texas on December 1, 1999. The

Partnership was formed to acquire, develop, own and operate residential rental properties for retirement age occupants. The Partnership will continue until December 31, 2050, unless terminated earlier under certain provisions of the partnership agreement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Allocation of Profits and Losses

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

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

(i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Partner Liability

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

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

2. TRANSACTIONS WITH AFFILIATED PARTIES

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

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

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

3. COMMITMENTS AND CONTINGENCIES

Litigation

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

4. CSLC PURCHASE OF PARTNERSHIP INTEREST

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

Report of Independent Certified Public Accountants

The Partners
Triad Senior Living V, L.P.

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

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

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

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

Lane Gorman Trubitt, L.L.P.

Dallas, Texas
February 14, 2003

H-1

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

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

Total liabilities	14
PARTNERS' DEFICIT	(2
	$ 11

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

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

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

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

Triad Senior Living V, L.P.

(A Texas Limited Partnership)
STATEMENTS OF PARTNERS' DEFICIT
Years ended December 31, 2002 and 2001

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

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

H-4

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

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

Accounts payable	7,232
Accrued interest - related party	329,602
Accrued interest	39,757
Accrued expenses - related party	1,420
Accrued expenses	29,517
Security deposits	(72)
Deferred income	25,383
Net cash used in operating activities	(594,806)
Cash flows from investing activities	
Property held for investment	(26,440)
Deposits	(754,106)
Net cash used in investing activities	(780,546)
Cash flows from financing activities	
Proceeds from notes payable - related party	1,210,525
Payments on notes payable - related party	(50,000)
Proceeds from notes payable	361,410
Notes repayment	(109,933)
Debt issue costs	(40,000)
Capital contribution	50,000
Net cash provided by financing activities	1,422,002
Net increase (decrease) in cash	46,650
Cash at beginning of year	69,397
Cash at end of year	116,047

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

H-5

Supplemental disclosure of cash flow information	
Cash paid during the period for:	
Income taxes	$ -
Interest	$ 463,192
Non-cash investing and financing activities:	
Sale of property held for investment via reduction in a related party note payable	$ -

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

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

BUSINESS ACTIVITY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Allocation of Profits and Losses

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

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

(i) Adjusted net income shall be allocated to the General Partner until the aggregate adjusted net income allocated for the current and prior years equals the aggregate amount of adjusted net loss allocated to the General Partner for the current and prior years; and then

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Partner Liability

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

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

Cash and Cash Equivalents

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

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

Inventories

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

Property Held for Investment

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

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

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

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

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

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

(A Texas Limited Partnership)
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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

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

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

Amortization

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

Advertising Costs

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

Use of Estimates

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

2. TRANSACTIONS WITH AFFILIATED PARTIES

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

During 1998, a related party agreed to loan the Partnership up to

$10,000,000. See Footnote 3.

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

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

2. TRANSACTIONS WITH AFFILIATED PARTIES (CONTINUED)

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

3. NOTES PAYABLE

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

Borrowings at December 31, were as follows:

		Outstanding Balan	
Project Location	Maturity	2002	
Springfield, Missouri	December 30, 2008	$ 4,107,162	$
Corporate	December 30, 2008	503,778	
		$ 4,610,950	$

Under the terms of a master construction loan facility with a financial institution, dated July 28, 1999, the Partnership may borrow up to $27,000,000 to fund the costs of construction of senior living facilities. Project loans may not exceed the lessor of (1) 75% of the initial appraised value of the project, (2) 80% of the project costs, or (3) $10,000,000. Amounts borrowed and repaid may not be reborrowed. The commitment period is eighteen months from the closing of the project loan. Project loans have a term of forty-eight months. The facility has commitment, project submission, and construction administration fee requirements. Interest applicable to the borrowings is based on the LIBOR rate, plus 2.50, or at the Partnership's option, the financial institution's base rate plus .75%, and is payable monthly. During months 29 through 48, each loan is payable in monthly installments of principal and interest in amounts necessary to amortize the loan over a term of twenty-five years. As security for the debt, the financial institution has (1) first lien deeds of trust on the properties (2) assignment of leases, rents and licenses and (3) all equipment and furnishings. The facility contains various provisions and restrictive covenants. The Partnership has one project loan dated January 10, 2000, in the original amount of $9,332,736, due on January 10, 2004 with borrowings of $8,794,141 and $8,542,664 at December 31, 2002 and 2001, respectively.

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

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

4. INCOME TAXES

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

5. COMMITMENTS AND CONTINGENCIES

Litigation

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

6. SUBSEQUENT EVENT (UNAUDITED)

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

(b) Pro Forma Financial Information

INTRODUCTION TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The Pro Forma Consolidated Balance Sheet as of June 30, 2003 and the Pro Forma Consolidated Statements of Income for the six months ended June 30, 2003 and for the year ended December 31, 2002, represent the financial position and results of operations of Capital Senior Living Corporation ("Capital") for such periods after giving effect to the transactions described in the accompanying notes, relating to the purchase of the remaining partnership interest in the Triad Entities effective July 1, 2003 and the consolidation of Triad Senior Living I, LP ("Triad I") under the provisions of FASB Interpretation No. 46 as if they had occurred as of June 30, 2003 for the Pro Forma Consolidated Balance Sheet, and as of January 1, 2002 for the Pro Forma Consolidated Statements of Income.

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

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

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities" an interpretation of ARB No. 51, effective immediately for variable interest entities created after January 31, 2003 and effective for the first fiscal year or interim period beginning after June 15, 2003 for variable interest entities that existed prior to February 1, 2003. The Company will adopt the provisions of this interpretation in the third quarter of 2003 as a cumulative effect adjustment, and its adoption will result in the Company consolidating the financial statements of the Triad I, currently accounted for separately under the equity method of accounting.

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

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

	Capital June 30, 2003	Triad Entities June 30, 2003	Triad I June 30, 2003
ASSETS			
Current assets:			
Cash and cash equivalents	$ 6,268,000	$ 1,613,000	$ 1,433,000
Restricted cash & marketable securities	4,490,000	7,954,000	-
Accounts receivable, net	1,156,000	10,000	34,000
Accounts receivable from affiliates	424,000	-	212,000
Deferred taxes	462,000	-	-
Assets held for sale	1,739,000	-	-
Prepaid expenses and other	4,728,000	26,000	-
Total current assets	19,267,000	9,603,000	1,679,000
Property and equipment, net	144,150,000	127,751,000	54,770,000
Deferred taxes	6,842,000	-	-
Due from affiliates	456,000	-	-
Notes receivable from affiliates	92,886,000	-	-
Investments in limited partnerships	1,712,000	-	-
Assets held for sale	2,392,000	-	-
Other assets	4,568,000	1,199,000	1,750,000
Total assets	272,273,000	138,553,000	58,199,000

LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	1,533,000	410,000	575,000
Accrued expenses	4,132,000	13,563,000	3,333,000
Current portion of notes payable	10,408,000	861,000	907,000
Federal and State Income Taxes Payable	680,000		
Customer deposits	939,000	589,000	438,000
Total current liabilities	17,692,000	15,423,000	5,253,000
Deferred income from affiliates	916,000	-	-
Deferred income	-	-	-
Notes payable, net of current portion	130,649,000	170,740,000	59,947,000
Line of credit	-	-	-
Minority interest in consolidated partnerships	443,000	-	-
Other long-term liabilities		7,485,000	
Commitments and contingencies			
Shareholders' equity:			
Preferred stock, $.01 par value: Authorized share 15,000,000; no shares issued or outstanding	-	-	-
Common stock, $.01 par value: Authorized share 65,000,000; shares outstanding 19,746,901	197,000	-	-
Partners' deficit	-	(55,095,000)	(7,001,000)
Additional paid-in capital	92,014,000	-	-
Retained earnings	30,362,000	-	-
Total shareholders' equity	122,573,000	(55,095,000)	(7,001,000)
Total liabilities and shareholders' equity	272,273,000	138,553,000	58,199,000

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

PF-2

	Capital June 30, 2003	Triad Entities June 30, 2003	Triad I June 30, 2003	Adj
Revenues:				
Resident and healthcare revenue	$26,517,000	$ 9,702,000	$7,359,000	$
Unaffiliated management services revenue	295,000	-	-	
Affiliated management services revenue	1,802,000	-	-	(
Affiliated development fees	137,000	-	-	
Total revenues	28,751,000	9,702,000	7,359,000	(
Expenses:				

Operating expenses	15,843,000	7,920,000	5,010,000	(
General and administrative expenses	5,267,000	2,003,000	1,106,000	
Depreciation and amortization	2,686,000	1,781,000	839,000	
Total expenses	23,796,000	11,704,000	6,955,000	(
Income (loss) from operations	4,955,000	(2,002,000)	404,000	
Other income (expense)				
Interest expense	(5,170,000)	(5,195,000)	(2,022,000)	
Interest income	3,421,000	54,000	5,000	(
Equity in the earnings of affiliates	73,000	-	-	
Gain on sale of properties	3,491,000	238,000	-	
Income (loss) before income taxes and minority interest in Consolidated partnerships	6,770,000	(6,905,000)	(1,613,000)	
(Provision) benefit for income taxes	(2,612,000)	-	-	2
Income (loss) before minority interest in consolidated partnerships	4,158,000	(6,905,000)	(1,613,000)	2
Minority interest in consolidated partnerships	110,000	-	-	
Net income (loss)	$ 4,268,000	$ (6,905,000)	$(1,613,000)	$ 2
Net income (loss) per share:				
Basic	$ 0.22			
Diluted	$ 0.21			
Weighted average share - basic	19,747,000			
Weighted average share - diluted	19,897,000			

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

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

	Capital December 31, 2002	Triad Entities December 31, 2002	Triad I December 31, 2002	Adjustmen
Revenues:				
Resident and healthcare revenue	$57,574,000	$13,032,000	$14,045,000	$ -
Rental and lease income	37,000	-	-	-
Unaffiliated management services revenue	1,069,000	-	-	-
Affiliated management services revenue	2,062,000	-	-	(2,062,0

Affiliated development fees	740,000	-	-	(740,0
Total revenues	61,482,000	13,032,000	14,045,000	(2,802,000
Expenses:				
Operating expenses	32,851,000	14,285,000	10,097,000	(2,090,000
General and administrative expenses	11,824,000	3,732,000	2,127,000	-
Depreciation and amortization	5,846,000	3,430,000	1,666,000	-
Total expenses	50,521,000	21,447,000	13,890,000	(2,090,000
Income (loss) from operations	10,961,000	(8,415,000)	155,000	(712,000
Other income (expense)				
Interest expense	(10,749,000)	(10,252,000)	(2,995,000)	5,076,000
Interest income	5,968,000	170,000	15,000	(5,076,000
Equity in the earnings of affiliates	69,000	-	-	-
Gain on sale of properties	1,876,000	(26,000)	-	-
Income (loss) before income taxes and minority interest in consolidated partnerships	8,125,000	(18,523,000)	(2,825,000)	(712,000
(Provision) benefit for income taxes	(3,015,000)	-	-	7,502,000
Income (loss) before minority interest in consolidated partnerships	5,110,000	(18,523,000)	(2,825,000)	6,790,000
Minority interest in consolidated partnerships	(428,000)	-	-	-
Net income (loss)	$ 4,682,000	$(18,523,000)	$(2,825,000)	$ 6,790,000
Net income (loss) per share:				
Basic	$ 0.24			
Diluted	$ 0.24			
Weighted average share - basic	19,726,000			
Weighted average share - diluted	19,917,000			

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

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

Note 1. Basis of Presentation.

The purchase of the remaining partnership interest in the Triad Entities by Capital and the consolidation and Triad I under the provisions of FAS 46 are being accounted for as a purchase business combination as follows:

	Triad Entities	Triad I
Purchase price:		
Cash paid for partnership interest	1,293,000	--
Note payable	402,000	--
Cash paid for acquisition costs	197,000	--
Bank debt assumed	109,598,000	48,024,000
Capital debt and accrued interest	73,674,000	15,001,000
Other liabilities assumed	10,377,000	2,174,000
Deferred income eliminated	(627,000)	(211,000)
Triad note reserves eliminated	(471,000)	(70,000)
Purchase price	194,443,000	64,918,000
Assets acquired:		
Cash	1,613,000	1,433,000
Other assets	9,189,000	1,996,000
Property and equipment	183,641,000	61,489,000
	194,443,000	64,918,000

Note 2. Pro Forma Adjustments.

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

Pro Forma Balance Sheet
As of June 30, 2003

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

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

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

A. Deferred income	838,000	
B. Property and equipment		838,000

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

A. Notes receivable	541,000	
B. Property and equipment		541,000

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

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

A. Accounts payable	471,000	
B. Accrued expenses	197,000	
C. Due to/from affiliates		456,000
D. Accounts receivable		212,000

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

A. Accrued interest	13,842,000	
B. Notes payable	74,833,000	
C. Notes receivable		88,675,000

6. To record the step up in basis on the assets of the Triad I.

A. Property and equipment	7,001,000	
B. Partners' deficit		7,001,000

Pro Forma Statement of Income

For the Six Months Ended June 30, 2003

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

Affiliated management services revenue	1,802,000	

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

Operating expenses		1,802,000

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

Affiliated development fees	137,000	

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

Operating expenses		14,000

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

Interest income	2,978,000	

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

Interest expense		2,978,000

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

Provision for income taxes		2,741,000

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

Pro Forma Statement of Income
For the Year Ended December 31, 2003

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

Affiliated management services revenue	2,062,000	

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

Operating expenses		2,062,000

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

Affiliated development fees	740,000	

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

Operating expenses		28,000

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

Interest income	5,076,000	

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

Interest expense		5,076,000

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

Provision for income taxes		7,502,000

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: October 10, 2003 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
10.1	Form of Partnership Interest Purchase Agreements, dated as of March 25, 2003, between Capital Senior Living Properties, Inc. and the Triad Entities, regarding the exercise of the registrant's options to purchase the partnership interests in the Triad Entities owned by non-registrant parties (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed by the registrant with the Securities and Exchange Commission on July 29, 2003)
99.1	Press Release dated July 29, 2003 (incorporated by reference to Exhibit 99.1 to the registrant's Current Report on Form 8-K, filed by the registrant with the Securities and Exchange Commission on July 29, 2003)