ORIX CORP
Form 6-K
June 01, 2006
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 OF

THE SECURITIES EXCHANGE Act of 1934

For the month of June, 2006.

ORIX Corporation

(Translation of Registrant s Name into English)

Mita NN Bldg., 4-1-23 Shiba, Minato-Ku, Tokyo, JAPAN

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F x Form 40-F ¨

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes ¨ No x

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1.	Notice of the 43rd Annual General Meeting of Shareholders made public on June 1, 2006.	1

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SIGNATURES

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.

ORIX Corporation

Date: June 1, 2006

By /s/ Yukio Yanase
Yukio Yanase
Director
Deputy President
ORIX Corporation

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June 1, 2006

Yoshihiko Miyauchi

Director

Representative Executive Officer

ORIX CORPORATION

2-4-1, Hamamatsu-cho

Minato-ku, Tokyo

Japan

Notice of the 43rd Annual General Meeting of Shareholders ORIX CORPORATION

We cordially invite you to attend the 43rd Annual General Meeting of Shareholders of ORIX CORPORATION (the Company) to be held as set forth below.

Please note that this English language version of the Notice of the 43rd Annual General Meeting of Shareholders is only an extract and translation of the Japanese language original.

Date and Time:		10:00 a.m., June 20, 2006 (Tuesday)
Place:		Mita NN Hall Mita NN Building, 1st Basement Floor 4-1-23, Shiba Minato-ku, Tokyo Japan
Proposals	1:	Amendments to the Articles of Incorporation
	2:	Election of 11 Directors
	3.	Issuance of Stock Acquisition Rights as Stock Options

¥ In case any changes become necessary in relation to the items to be contained in the reference documents for the General Meeting of Shareholders and the business reports and financial reports (including consolidated financial reports), we will post the revised items on our website (http://www.orix.co.jp/grp/index_e.htm).

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Summary of Operating Results:

Results of Operations and Assets for the 43rd Fiscal Year on a consolidated basis in accordance with US GAAP (Generally Accepted Accounting Principles) (from April 1, 2005 to March 31, 2006)

	43rd Fiscal Year	42nd Fiscal Year
Operating revenue (Millions of yen)	947,824	928,703
Net income (Millions of yen)	166,388	91,496
Net income per share (yen)	1,883.89	1,087.82
Total assets (Millions of yen)	7,242,455	6,068,953
Shareholders equity (Millions of yen)	953,646	727,333

Notes:

1. Net income per share is calculated based on the average number of shares during the 43rd Fiscal Year. Any fractional amount of less than one*sen has been rounded up to one sen if it is one-half of one sen or more and been disregarded if it is less than one-half of one sen.

2. In accordance with the Financial Accounting Standards Board s Statement of Financial Accounting Standards Issue No. 144 (Accounting treatment for depreciation or disposal of long term assets), profit and loss relating to non-continuous businesses is independently indicated and the operating revenue for the past years pertinent to said businesses has been modified. Furthermore, because a method of indicating income and expenses relating to renewed lease as well as a method of indicating income and expenses relating to automobile maintenance services have been changed from the 43rd Fiscal Year, in order to conform to the indication for the 43rd Fiscal Year, the operating revenue for the past years has been modified. However, these modifications have no effect on the net income for the 43rd Fiscal Year.

3. Amounts other than those referenced in note 1 and ending in five hundred thousand or more are rounded up to the nearest million yen, and amounts ending in less than five hundred thousand are rounded down to the nearest million yen.

4. These amounts do not include consumption tax, etc.

* sen: Unit of Japanese currency, equivalent to one hundredth of one yen

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Proposal 1: Amendments to the Articles of Incorporation

1. Reason for Amendment

In conjunction with the Company Law (Law No. 86 of 2005), the Law Concerning Conformation Etc. of Related Laws in Conjunction with the Implementation of the Company Law (Law No. 87 of 2005) and the Company Law Implementation Regulations (Ministry of Justice Regulation No. 12 of 2006) etc. (hereinafter referred to as the Company Law Etc.) becoming effective on May 1, 2006, the whole Articles of Incorporation have been reconsidered.

The proposed amendments that alter substantively the content of the Articles of Incorporation are the five (5) matters indicated below:

The other proposed amendments to the Articles of Incorporation are to conform (by addition, deletion and moving articles, and revising expressions and amending article references in accordance therewith) the provisions of the Articles of Incorporation with the systems, structure and expressions changed by the Company Law Etc. The basic intent of such amendments is to accurately reflect the structure of chapters, etc. and expressions of terminology used in the provisions of the Company Law Etc.

(1) Addition and Deletion of Purposes of Business

Amendments have been proposed to add and delete certain purposes of ORIX CORPORATION s business in light of the current status of business activities conducted by ORIX CORPORATION (herein after referred to as the Company) and its subsidiaries.

(Relating to Article 2 of the proposed amended Articles of Incorporation)

(2) Adoption of New Provisions concerning Rights of Shares Less of than One Unit

In conjunction with the Company Law Etc. allowing the rights of shares less than one Unit to be limited to the extent provided by the applicable laws and ordinances and the articles of incorporation, and for the purpose of encouraging the transition to a Unit share, it is intended that new provisions limiting the rights of shares less than one Unit, other than such rights relating to rights to self-interest, will be adopted into the Articles of Incorporation.

(Relating to Article 6 of the proposed amended Articles of Incorporation)

(3) Adoption of New Provisions Concerning Provision of the Reference Documents Etc. for the General Meeting of Shareholders through the Internet

In conjunction with the Company Law Etc. providing that the disclosure of the reference documents etc. for the General Meeting of Shareholders shall be deemed to have been made if disclosed through use of the internet, and for the purpose of providing such information in a manner that is convenient for the shareholders, it is intended that new provisions in relation thereto will be adopted into the Articles of Incorporation.

(Relating to Article 13 of the proposed amended Articles of Incorporation)

(4) Addition of Provisions Concerning General Meeting of Shareholder Resolution to Remove Directors

Under the old Commercial Code, the removal of a director required a special resolution by a General Meeting of Shareholders. The Company Law Etc. has made the voting requirement for removal of a director the same as the voting requirement to elect a director. The Articles of Incorporation provides that a resolution for the election of a director may be made at a General Meeting of Shareholders at which shareholders holding one third (1/3) or more of the relevant voting rights attend. In that regard, for the purpose of conforming the quorum requirement of General Meetings of Shareholders concerning removal of a director to the requirements concerning election of a director, the appropriate amendments are proposed to be made.

(Relating to Article 17 of the proposed amended Articles of Incorporation)

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(5) Adoption of New Provisions Concerning Abbreviation of Board of Directors Resolution

In conjunction with the Company Law Etc. providing that a company may deem that a resolution of the Board of Directors had been made without holding a meeting of the Board of Directors when all directors express their intentions to consent to a certain proposal in writing or electromagnetic record form, for the purpose of enabling the Company to make timely decisions, the appropriate new provisions are proposed to be adopted.

(Relating to Article 22 of the proposed amended Articles of Incorporation)

2. Contents of amendments

The contents of the amendments are as follows:

(Changes indicated by underlined text)

Current provisions of the Articles of Incorporation	Provisions of the Articles of Incorporation as proposed to be amended	Reasons for amendment
CHAPTER I. GENERAL PROVISIONS	CHAPTER I. GENERAL PROVISIONS	
Article 2 (Purpose)	Article 2 (Purpose)	
The purpose of the Company shall be to engage in the following businesses:	The purpose of the Company shall be to engage in the following businesses:	
(1) lease, purchase and sale (including purchase and sale on an installment basis), maintenance and management of movable property of all types	(1) lease, purchase and sale (including purchase and sale on an installment basis), maintenance and management of movable property of all types	This is to repeal the use of Chinese character in expression of and or its equivalent throughout the Articles of Incorporation.
(2) lease, purchase and sale, ground preparation, development, maintenance and management of real property	(2) lease, purchase and sale, ground preparation, development, maintenance and management of real property	
(3) lending of money, purchase and sale of claims of all types, payment on behalf of third parties, guarantee and assumption of obligations, and other financial business	(3) lending of money, purchase and sale of claims of all types, payment on behalf of third parties, guarantee and assumption of obligations, and other financial business	
(4) holding, investment in, management, purchase and sale of securities	(4) holding, investment in, management, purchase and sale of securities	This is to make deletion in light of the current status of business activities conducted by the Company. [1. Reasons for Amendment (1)]
(5) holding, management, purchase and sale of mortgage certificates	[Deleted]	

(6) business of investment in and sale of commodities, and advisory service business relating to investment in commodities	(5) business of investment in and sale of commodities, and advisory service business relating to investment in commodities
(7) (9) [Omitted]	(6) (8) [No Change]

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(10) acting as an agent for collection of money and for calculation work of enterprises	(9) acting as an agent for collection of money and for calculation work of enterprises	
(11) manufacture, processing, repair and sale of furniture, interior goods, transport machinery and equipment, etc.	(10) manufacture, processing, repair and sale of furniture, interior goods, transport machinery and equipment, etc.	
(12) water transport, road transport of cargo, and warehousing	(11) water transport, road transport of cargo, and warehousing	
[New Provisions]	(12) transport business using cargo	This is to add the purpose of business conducted by subsidiaries of the Company. [1. Reasons for Amendment (1)]
(13) contracting for construction and civil engineering, and design and supervision thereof	(13) contracting for construction and civil engineering, and design and supervision thereof	
(14) planning, developing and contracting for lease and sale of intangible property rights such as copyrights, industrial property rights, etc.	(14) planning, developing and contracting for lease and sale of intangible property rights such as copyrights, industrial property rights, etc.	
(15) information services, telecommunications, advertising and publishing business	(15) information services, telecommunications, advertising and publishing business	
(16) management of facilities for sports, lodging, medical treatment and social education, etc., management of restaurants, and tour business	(16) management of facilities for sports, lodging, medical treatment and social education, etc., management of restaurants, and tour business	
(17) (19) [Omitted]	(17) (19) [No Change]	
(20) services relating to the collection, transportation and disposal of ordinary waste products and industrial waste products	(20) services relating to the collection, transportation and disposal of ordinary waste products and industrial waste products	

(21) generation of electric power and supply of electricity	(21) generation of electric power and supply of electricity	
(22) brokerage, agency, investigation and consulting services for business relating to any of the preceding items	(22) brokerage, agency, investigation and consulting services for business relating to any of the preceding items, and pension consulting service	This is to clarify the business activity in light of the current status of business activities conducted by the Company.
(23) non-life insurance agency business, insurance agency business under the Automobile Accident Compensation Security Law, and service related to soliciting life insurance	(23) non-life insurance agency business, insurance agency business under the Automobile Accident Compensation Security Law, and service related to soliciting life insurance	
(24) [Omitted]	(24) [No Change]	
(25) [Omitted]	(25) [No Change]	
(26) any and all businesses related to any of the preceding items	(26) any and all businesses incidental or related to any of the preceding items	This is to make the expression more appropriate.
Article 3 (Head Office)	Article 3 (Head Office)	
The head office of the Company shall be located in Minato-ku, Tokyo.	The head office of the Company shall be located in Minato-ku, Tokyo.	This is to conform to the description in the Company Law.
Article 4 (Method of Public Notice)	[Moved to Article 37 of Proposed Amended Articles of Incorporation]	
Public notices by the Company shall be published in the Nihon Keizai Shinbun , published in Tokyo and Osaka City.		

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Article 5 (Exceptional Rules Concerning Company with Committees) The Exceptional Rules Concerning Company with Committees provided in Chapter 2, Section 4 of the Law Regarding Exceptional Rules of Commercial Code Concerning Auditing, Etc. of Stock Corporations (hereinafter referred to as the "Law Regarding Exceptional Rules of Commercial Code") shall be applied to the Company.	[Deleted]	This is to make deletion in order to conform to the provisions of the Company Law.
CHAPTER II. SHARES	CHAPTER II. SHARES	
Article 6 (Total Number of Shares) The total number of shares authorized to be issued by the Company shall be 259,000,000. Provided, that in case any shares have been cancelled, the number of shares corresponding to those cancelled shares be deducted from the above total number of shares to be issued by the Company.	Article 4 (Total Number of Shares Authorized to be Issued) The total number of shares authorized to be issued by the Company shall be 259,000,000.	This is to conform to the description in the Company Law. The sentence starting from "Provided" is to be deleted because such provision has become unnecessary due to the Company Law.
Article 7 (Purchase of Own Stock) The Company may purchase own stock by resolution of the Board of Directors in accordance with Article 211-3, Paragraph 1, Item 2 of the Commercial Code of Japan.	[Deleted]	This is to make deletion in order to conform to the provisions of the Company Law. (Acquisition of own stock to be in accordance with Article 34 of the proposed amended Articles of Incorporation.)
Article 8 (Number of Shares that Constitute One Unit) Ten (10) shares of the Company shall constitute one (1) Unit of shares.	Article 5 (Number of Shares that Constitute One Unit) In relation to the shares issued by the Company, ten (10) shares of the Company shall constitute one (1) Unit with which a shareholder may exercise one (1) vote at a General Meeting of Shareholders.	This is to conform to the description in the Company Law.
Article 9 (Non-Issuance of Share Certificate Representing Less than One Unit) The Company shall not issue a share certificate pertaining to a number of shares constituting less	[Moved to Article 9 of Proposed Amended Articles of Incorporation]	

than one (1) Unit.

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[New Provisions]	Article 6 (Rights of Shares Less than One Unit) A shareholder of the Company (including a Substantial Shareholder; hereinafter the same) may not, in relation to the shares that it holds that are less than one (1) Unit, exercise shareholders rights in relation thereto other than the rights set forth below: (1) The rights set forth in each item of Article 189 Paragraph 2 of the Company Law; (2) The right to make demands pursuant to the provisions of Article 166 Paragraph 1 of the Company Law; (3) The right to subscribe to Offering Shares and Offering Stock Acquisition Rights on a pro rata basis based upon the number of shares held by a shareholder; and (4) The right to make the demands provided under the immediately following article.	This is to limit the rights of shares less than one Unit, other than such rights relating to rights to self-interest, in conjunction with the Company Law Etc. allowing the rights of shares less than one Unit to be limited to the extent provided by the applicable laws and ordinances and the articles of incorporation, and for the purpose of encouraging the transition to a Unit share. [1. Reasons for Amendment (2)]
Article 10 (Purchase Additional Shares Less Than One Unit) A shareholder who holds shares less than one (1) Unit (including Substantial Shareholders; hereinafter the same) may demand, in accordance with the provisions of the Share Handling Regulations, that the Company sell to it the number of additional shares necessary to make the number of shares of less than one (1) Unit held by such shareholder, equal to one (1) Unit.	Article 7 (Demand for Sales by a Shareholder of Shares Less Than One Unit) A shareholder of the Company may demand, in accordance with the provisions of the Share Etc. Handling Regulations, that the Company sell to it the number of additional shares necessary to make the number of shares of less than one (1) Unit held by such shareholder, equal to one (1) Unit.	This is to conform to the description in the Company Law.

Article 11 (Share Handling Regulations)	[Moved to Article 9 of Proposed Amended Articles of Incorporation]	
The procedures and other matters relating to shares of the Company shall be in accordance with the Share Handling Regulations.		
Article 12 (Transfer Agent)	Article 8 (Administrator of the Register of Shareholders)	This is to organize and amend the provisions of the Articles of Incorporation in conformity with those of the Company Law.
The Company shall have a transfer agent with respect to its shares.	The Company shall have an Administrator of the Register of Shareholders.	
	[Deleted]	
ii) The Company shall make public notices of the names and places of business of its transfer agents.		

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iii) The Register of Shareholders, the Register of Substantial Shareholders and Register of Lost Share Certificates of the Company shall be kept at the place of business of the transfer agent. Registration for the change of shareholders, the purchase and additional purchase of shares constituting less than one (1) Unit, and other matters concerning shares, shall be handled by the transfer agent and shall not be handled by the Company.

ii) The Administrator of the Register of Shareholders shall, on behalf of the Company, create and keep the Register of Shareholders (including Register of Substantial Shareholders; hereinafter the same), Register of Lost Share Certificates and Register of Stock Acquisition Rights and otherwise perform matters concerning the Register of Shareholders, Register of Lost Share Certificates and Register of Stock Acquisition Rights. The Company shall not perform such matters.

[Moved from Articles 9 and 11 of Current Articles of Incorporation]

Article 9 (Issuance of Share Certificate and Shares Etc. Handling Regulations)

This is to organize the provisions relating to issuance of share certificate etc. and to amend for conformity with the provisions in the Company Law.

The Company shall issue share certificates pertaining to shares.

ii) Notwithstanding the provisions of the preceding paragraph, the Company shall not issue share certificate pertaining to shares constituting less than 1 (one) Unit, provided, however, that this shall not apply to the extent Shares Etc. Handling Regulations provide otherwise.

iii) The handling of shares and procedures for exercise of shareholders rights of the Company shall be in accordance with the Shares Etc. Handling Regulations as well as the applicable laws and ordinances and this Articles of Incorporation.

[Moved to Article 12 of Proposed Amended Articles of Incorporation]

Article 13 (Record Date)

Those shareholders of the Company who are permitted to exercise their rights at an annual General Meeting of Shareholders concerning each fiscal year shall be those shareholders registered as having voting rights on the Register of Shareholders and the Register of Substantial

Shareholders as of the end of the same fiscal year.

ii) Notwithstanding the provisions of the preceding paragraph, the Company may choose a date other than the date specified in the preceding paragraph as the date as of which shareholders shall be registered as having voting rights on the Register of Shareholders or the Register of Substantial Shareholders in order to be able to exercise their rights at the annual General Meeting of Shareholders corresponding to such fiscal year. In such a case, two (2) weeks prior public notice shall be given as to the chosen date.

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iii) In addition to the cases provided for in the preceding two paragraphs, whenever necessary, the Company may temporarily fix a record date, by giving two (2) weeks prior public notice.		
[New Provisions]	CHAPTER III. Organizations	
[New Provisions]	Sub-Chapter 1 Organizations	
[New Provisions (to include Articles 29 and 41 of the current Articles of Incorporation)]	ARTICLE 10. (Organizations)	This is to clearly state the provisions relating to the organizations of the Company based on the provisions in the Company Law.
	The Company shall have the following organizations:	
	(1) General Meeting of Shareholders;	
	(2) Directors;	
	(3) Board of Directors;	
	(4) Nominating Committee, Audit Committee and Compensation Committee;	
	(5) Executive officers and representative executive officers; and	
	(6) Accounting auditor	
CHAPTER III. GENERAL MEETING OF SHAREHOLDERS	Sub-Chapter 2. GENERAL MEETING OF SHAREHOLDERS	
Article 14 (Holding of General Meeting of Shareholders)	Article 11 (Holding of General Meeting of Shareholders)	This is to organize the provisions in conformity with the expressions in the Company Law.
An annual General Meeting of Shareholders shall be held in June of each year and an extraordinary General Meeting of Shareholders shall be held	An annual General Meeting of Shareholders shall be convened within a certain term following the end of each fiscal year and held	

whenever necessary.	in June of each year, and an extraordinary General Meeting of Shareholders shall be held at any time whenever necessary.	
ii) Notices convening an annual General Meeting of Shareholders or an extraordinary general meeting of shareholders shall be dispatched at least two (2) weeks prior to the date set for such meetings.	[Deleted]	This is to make deletion because the provisions have little necessity to be provided in the Articles of Incorporation. (The notice of convocation to be dispatched in accordance with the applicable laws and ordinances.)
[Moved from Article 13 of Current Articles of Incorporation]	Article 12 (Record Date for Exercise of Voting Rights)	This is to organize the provisions in conformity with the provisions in the Company Law.
	Those shareholders of the Company who are permitted to exercise their voting rights at an annual General Meeting of Shareholders to be convened after the completion of each fiscal year shall be those shareholders registered or recorded as having voting rights on the Register of Shareholders as of the end of the same fiscal year.	

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	ii) Notwithstanding the provisions of the preceding paragraph, the Company may choose a date other than the date specified in the preceding paragraph as the date as of which shareholders shall be registered or recorded as having voting rights on the Register of Shareholders in order to be able to exercise their voting rights at the annual General Meeting of Shareholders. In such a case, two (2) weeks prior public notice shall be given as to the chosen date.	
Article 15 (Convocation of General Meeting of Shareholders)	Article 13 (Authorized Person to Convene a General Meeting of Shareholders and Chairman Thereat)	This is to organize and amend the provisions in conformity with the provisions in the Company Law. (The provision concerning a chairman of General Meetings of Shareholders has been moved from Article 16 of Current Articles of Incorporation.)
General Meetings of Shareholders shall be convened by a representative executive officer pursuant to a resolution of the Board of Directors meeting.	General Meetings of Shareholders shall be convened by a director determined in advance by a resolution of the Board of Directors meeting. Furthermore, the director designated in advance by a resolution of the Board of Directors meeting shall act as a chairman.	
	[Deleted]	
ii) If there is more than one representative executive officer, the representative executive officer designated by resolution of the Board of Directors meeting shall convene General Meetings of Shareholders.	ii) If the person determined in accordance with the preceding paragraph is unable to act, another director shall convene the General Meeting of Shareholders or act as a chairman, in accordance with the order so designated in advance by a resolution of the Board of Directors meeting.	
iii) If the person determined in accordance with the preceding two paragraphs is unable to act, one of the other executive officers shall convene General Meetings of Shareholders in accordance with the order so designated in advance by resolution of the Board of Directors meeting.		
[New Provision]	iii) The Company may deem that at the time of convocation of a General Meeting of Shareholders, information concerning the matters that should be contained or provided for in the reference documents for the General Meeting of Shareholders, business reports, financial statements and consolidated financial statements, audit reports and accounting audit reports, were provided to the shareholders by disclosing such information through use of the internet in accordance with applicable laws and ordinances.	This is provided in conjunction with the Company Law Etc. providing that the disclosure of the reference documents etc. for the General Meeting of Shareholders shall be deemed to have been made if disclosed through use of the internet and for the purpose of providing information in a manner that is convenient for the shareholders.

Article 16 (Chairman of General Meeting of Shareholders)	[Moved to Article 13 of the Proposed Amended Articles of Incorporation]	[1. Reasons for Amendment (3)]
A representative executive officer shall act as chairman of the General Meetings of Shareholders.		
ii) The provisions of the second and third paragraphs of the preceding Article shall apply, mutatis mutandis, in the case of the preceding paragraph.		
Article 17 (Method of Resolution)	Article 14 (Resolution of General Meeting of Shareholders)	
Unless otherwise provided under applicable laws or ordinances or by the Company s Articles of Incorporation, resolutions of the General Meetings of Shareholders shall be adopted by a majority of votes of shareholders present at the meetings.	Unless otherwise provided under applicable laws or ordinances or by the Company s Articles of Incorporation, resolutions of the General Meetings of Shareholders shall be adopted by a majority of votes of the shareholders present at the meetings who are permitted to exercise their voting rights.	
ii) The special resolution provided in Article 343 of the Commercial Code of Japan shall be adopted by two-thirds or more of the votes of the shareholders present at a meeting at which shareholders who hold more than one-third of the voting rights held by all of the shareholders of the Company are present.	ii) The special resolution provided in Article 309 Paragraph 2 of the Company Law shall be adopted by twothirds or more of the votes of the shareholders present at a meeting at which shareholders who hold more than one-third of the voting rights held by all of the shareholders of the Company who are permitted to exercise their voting rights at the general meeting of shareholders are present.	
Article 18 (Vote by Proxy)	Article 15 (Vote by Proxy)	This is to conform to the description in the Company Law.
[Omitted]	[No Change]	
Article 19 (Minutes of General Meeting of Shareholders)	[Deleted]	
The minutes of the General Meetings of Shareholders shall contain the summary of the proceedings and the results thereof; shall be signed, or bear the names and seals of, the		

chairman of the meeting, and of the directors and executive officers present; and the original thereof shall be kept at the head office for ten (10) years from the date of the resolution, and certified copies thereof shall be kept at the branches for five (5) years therefrom.

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Current	Proposed	Reason
		This is to make deletion because the provisions have little necessity to be provided in the Articles of Incorporation. (The minutes to be prepared and kept in accordance with the applicable laws and ordinances.)
CHAPTER IV DIRECTORS AND BOARD OF DIRECTORS	Sub-Chapter 3. DIRECTORS	This is to provide Directors and Board of Directors in different Sub-chapters.
Article 20 (Number of Directors)	Article 16 (Number of Directors)	This is to conform to the description in the Company Law.
There shall be no less than three (3) directors of the Company.	There shall be no less than three (3) directors of the Company.	
Article 21 (Election)	Article 17 (Election and Removal of Directors)	Under the old Commercial Code, the removal of a director required a special resolution by a General Meeting of Shareholders. The Company Law Etc. has made the voting requirement for removal of a director the same as the voting requirement to elect a director. The Articles of Incorporation provides that a resolution for the election of a director may be made at a General Meeting of Shareholders at which shareholders holding one third (1/3) or more of the relevant voting rights attend. In that regard, this is to conform to the quorum requirement of General Meetings of Shareholders concerning removal of a director to the requirements concerning election of a director
Directors shall be elected at a General Meeting of Shareholders.	Directors shall be elected and removed by a resolution of the General Meeting of Shareholders.	
ii) In case of the above election(s), shareholders representing not less than one third (1/3) of the number of voting rights of all shareholders shall attend such meeting.	ii) The resolution of the General Meeting of Shareholders for election and removal of directors in the preceding paragraph shall be adopted by a majority of the votes of the shareholders present at a meeting at which shareholders who hold one-third or more of the voting rights held by all of the shareholders of the Company who are permitted to exercise their voting rights at the general meeting of shareholders are present.	[1. Reasons for Amendment (4)]
iii) In case of election(s) of directors, cumulative voting shall not be used.	iii) In case of election(s) of directors, cumulative voting shall not be used.	
Article 22 (Term of Office)	Article 18 (Term of Office of Directors)	This is to conform to the expression of the Company Law and to organize the provisions.
Directors terms of office shall expire upon the conclusion of the annual General Meeting of Shareholders for the last fiscal year ending within one (1) year after a director assumes office.	Directors terms of office shall expire upon the conclusion of the annual General Meeting of Shareholders for the last fiscal year ending within one (1) year after election of director.	
ii) The terms of office of directors elected as replacement directors or due to the increase of directors shall expire when the terms of office of the other directors should expire.	ii) The terms of office of directors elected as directors, to replace a director that left the office prior to expiration of such director s term of office, or due to the increase of directors, shall be until the terms of office of the other directors expire.	

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[Moved from CHAPTER IV of Current Articles of Incorporation]	Sub-Chapter 4. Board of Directors	This is to provide Directors and Board of Directors in different Sub-chapters.
Article 23 (Person who Convenes Meetings and Chairman)	Article 19 (Person who Convenes Meetings of the Board of Directors and Chairman)	This is to conform to the expression of the Company Law and to organize the provisions.
Unless otherwise provided under applicable laws or ordinances, meetings of the Board of Directors shall be convened by the director designated by the Board of Directors, which director shall act as the chairman of the Board of Directors meetings.	Unless otherwise provided under applicable laws or ordinances, meetings of the Board of Directors shall be convened by the director designated in advance by a resolution of the Board of Directors meeting. Furthermore, the director designated in advance by a resolution of the Board of Directors meeting shall act as a chairman.	
ii) If the person determined in accordance with the preceding paragraph is unable to act, the other directors shall convene the Board of Directors meetings and act as chairman, in accordance with the order they are so designated, by resolution of the Board of Directors meeting.	ii) If the person determined in accordance with provisions of the preceding paragraph is unable to act, another director shall convene the Board of Directors meeting or act as a chairman, in accordance with the order they are so designated in advance by a resolution of the Board of Directors meeting.	
Article 24 (Notice for Convocation of Meetings)	Article 20 (Procedure for Convocation of Meetings of the Board of Directors)	This is to organize the provisions in conformity with the provisions of the Company Law.
Notices for convening Board of Directors meetings shall be dispatched to each director at least three (3) days prior to the date set for such meeting. Provided, however, that in case of emergency, the above period may be shortened.	The person convening the Board of Directors meetings shall, on or prior to the third (3rd) day preceding the date of such Board of Directors meetings, send notice thereof to each director, provided, however, that in case of emergency, such period may be shortened.	
[New Provisions]	ii) Notwithstanding the provisions of the preceding paragraph, if there is a unanimous consent of the directors, the Board of Directors may hold a Board of Directors meeting without taking the procedure for convocation of meeting.	

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Article 25 (Method of Resolution) Resolutions of the Board of Directors meetings shall be adopted by a majority of the directors present at meetings attended by a majority of the directors.	Article 21 (Resolution of Board of Directors Meeting) Resolutions of the Board of Directors shall be adopted by a majority of the directors meetings present at meetings attended by a majority of the directors that may participate in making resolutions thereat.	This is to conform to the description in the Company Law.
Article 26 (Minutes of Meeting) The minutes of the meetings of the Board of Directors shall contain the summary of the proceedings and the results thereof; shall be signed, or bear the names and seals of, the chairman of the meeting and2pt">*Midwest I Transactions*		

Midwest I is owned approximately 89% by GE Healthcare Financial Services (GE Healthcare) and 11% by the Company. Midwest I owns five communities and the Company manages the five communities under long-term management agreements. The Company accounts for its investment in Midwest I under the equity method of accounting and the Company recognized earnings in the equity of Midwest I of $0.1 million in the nine months ended September 30, 2008 compared to a loss in the equity of Midwest I of $23,000 in the nine months ended September 30, 2007. The Company earned $0.4 million in management fees on the Midwest I communities in each of the nine months ended September 30, 2008 and 2007. During the second quarter of fiscal 2007, Midwest I finalized its

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purchase price allocation on the five communities it acquired in fiscal 2006, resulting in a noncash charge of $0.1 million being recognized by the Company. The final purchase price allocation resulted in more of the purchase price being allocated to assets with shorter economic lives, which resulted in additional depreciation and amortization expense.

Midwest II Transactions

Midwest II is owned approximately 85% by GE Healthcare and 15% by the Company. Midwest II owns three communities and the Company manages the three communities under long-term management agreements. The Company accounts for its investment in Midwest II under the equity method of accounting and the Company recognized a loss in the equity of Midwest II of $0.1 million and $0.2 million in the nine months ended September 30, 2008 and 2007, respectively. The Company earned $0.4 million in management fees on the Midwest II communities in each of the nine months ended September 30, 2008 and 2007. During the second quarter of fiscal 2007, Midwest II finalized its purchase price allocation on the three communities it acquired in fiscal 2006, resulting in a noncash charge of $0.2 million being recognized by the Company. The final purchase price allocation resulted in more of the purchase price being allocated to assets with shorter economic lives, which resulted in additional depreciation and amortization expense.

SHPII/CSL Transactions

SHPII/CSL is owned 95% by Senior Housing Partners II, LP (SHP II), a fund managed by Prudential, and 5% by the Company. Effective as of November 30, 2004, SHPII/CSL acquired the four Spring Meadows Communities. The Company accounts for its investment in SHPII/CSL under the equity method of accounting and the Company recognized earnings in the equity of SHPII/CSL of $0.2 million in each of the nine months ended September 30, 2008 and 2007. In addition, the Company earned $0.9 million in management fees on the Spring Meadows Communities in each of the nine months ended September 30, 2008 and 2007.

BRE/CSL

The Company and Blackstone Real Estate Advisors (Blackstone) own three joint ventures, collectively BRE/CSL, and the joint ventures are owned 90% by Blackstone and 10% by the Company. BRE/CSL previously owned six senior living communities. The Company managed the six communities owned by BRE/CSL under long-term management contracts. In September 2005, Ventas acquired the six communities owned by BRE/CSL and the Company entered into a series of lease agreements whereby the Company leases the six communities from Ventas. In March 2007, the Company received a final distribution from BRE/CSL of $0.4 million relating to the sale of six communities owned by BRE/CSL to Ventas. This distribution resulted in the recognition of an additional gain of $0.4 million, which has been deferred and is being amortized in the Company s statement of operations as a reduction in facility rent expense over the remaining initial lease term.

Development Agreements

SHPIII/CSL Miami

In May 2007, the Company and SHPIII entered into SHPIII/CSL Miami to develop a senior housing community in Miamisburg, Ohio. Under the joint venture and related agreements, the Company earns development and management fees and may receive incentive distributions. The senior housing community consists of 101 independent living units and 45 assisted living units and opened in August 2008. As of September 30, 2008, the Company had made capital contributions of $0.8 million to the joint venture. The Company accounts for its investment in SHPIII/CSL Miami under the equity method of accounting and the Company recognized a loss in the equity of SHPIII/CSL Miami of $26,000 in the nine months ended September 30, 2008. During the first nine months of fiscal 2008 and 2007, the Company earned $0.3 million and $0.4 million, respectively, in development fees from SHPIII/CSL Miami. In addition during the

first nine months of fiscal 2008, the Company earned $0.1 million in pre-marketing fees and $25,000 in management fees from SHPIII/CSL Miami.

SHPIII/CSL Richmond Heights

In November 2007, the Company and SHPIII entered into SHPIII/CSL Richmond Heights to develop a senior housing community in Richmond Heights, Ohio. Under the joint venture and related agreements, the Company will earn development and management fees and may receive incentive distributions. The senior housing community will consist of 97 independent living units and 45 assisted living units and is expected to open in the first quarter of 2009. As of September 30, 2008, the Company had made capital contributions of $0.8 million to the joint venture. During the first nine months of fiscal 2008, the Company earned $1.0 million in development fees from SHPIII/CSL Richmond Heights. In addition during the first nine months of fiscal 2008, the Company earned $25,000 in pre-marketing fees.

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SHPIII/CSL Levis Commons

In December 2007, the Company and SHPIII entered into SHPIII/CSL Levis Commons to develop a senior housing community near Toledo, Ohio. Under the joint venture and related agreements, the Company will earn development and management fees and may receive incentive distributions. The senior housing community will consist of 101 independent living units and 45 assisted living units and is expected to open in the first quarter of 2009. As of September 30, 2008, the Company had made capital contributions of $0.8 million to the joint venture. During the first nine months of fiscal 2008, the Company earned $1.1 million in development fees from SHPIII/CSL Levis Commons. In addition during the first nine months of fiscal 2008, the Company earned $25,000 in pre-marketing fees.

Facility Lease Transactions

The Company currently leases 25 communities with certain real estate investment trusts (REITs) and accounts for each of the leases as an operating lease. The lease terms are generally for ten years with renewal options for 10-20 years at the Company s option. Under these agreements the Company is responsible for all operating costs, maintenance and repairs, insurance and property taxes. The following table further describes each of the lease agreements (dollars in millions):

Landlord	Date of Lease	Number of Communities	Value of Transaction	Term	Initial Lease Rate (1)	Lease Acquisition Costs (2)	Deferred Gains/Lease Concession (3)
Ventas	September 30, 2005	6	$84.6	10 years (Two five-year renewals)	8%	$ 1.3	$ 4.6
Ventas	October 18, 2005	1	19.5	10 years (Two five-year renewals)	8%	0.2	
Ventas	March 31, 2006	1	29.0	10 years (Two five-year renewals)	8%	0.1	14.3
Ventas	June 8, 2006	1	19.1	9.5 years (Two five-year renewals)	8%	0.4	
Ventas	January 31, 2008	1	5.0	10 years (Two five-year renewals)	7.75%	0.2	
HCP	May 1, 2006	3	54.0	10 years	8%	0.2	12.8

				(Two ten-year renewals)				
HCP	May 31, 2006	6	43.0	10 years (Two ten-year renewals)	8%		0.2	0.6
HCP	December 1, 2006	4	51.0	10 years (Two ten-year renewals)	8%		0.7	
HCP	December 14, 2006	1	18.0	10 years (Two ten-year renewals)	7.75%		0.3	
HCP	April 11, 2007	1	8.0	10 years (Two ten-year renewals)	7.25%		0.1	
Subtotal							3.7	32.3
Accumulated amortization							(0.9)	
Accumulated deferred gain recognized								(8.3)
Net lease acquisition costs / deferred gains as of September 30, 2008						$	2.8	$ 24.0

(1) Initial lease rates are subject to conditional lease escalation provisions as set forth in each lease agreement.

(2) Lease acquisition costs are being amortized over the leases initial term.

(3) Deferred gains of $31.7 million and lease concessions of $0.6 million are

being recognized in the Company s statement of operations as a reduction in facility rent expense over the leases initial term. Lease concessions relate to the HCP transaction on May 31, 2006.

The Company is currently in discussions with Ventas regarding its lease on the Towne Centre facility. The Company and Ventas have differing interpretations of the correct method of computing the lease coverage ratio. Based on these discussions with Ventas, the Company expects this issue to be resolved on terms acceptable to the Company, without a material impact on the Company s financial statements.

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Recently Issued Accounting Standards

FASB Statement No. 157, Fair Value Measurements. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 does not require any new fair value measurements but would apply to assets and liabilities that are required to be recorded at fair value under other accounting standards. The Company adopted FAS 157 on January 1, 2008 and elected to defer the provisions of FAS 157 for its nonfinancial assets and liabilities. Under the provisions of FAS 157 nonfinancial assets and liabilities will be subject to the provisions of FAS 157 on January 1, 2009. The Company s adoption of FAS 157 did not have a material effect on the Company s financial statements.

FASB Statement No. 159, Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement 115 permits, but does not require, entities to measure many financial instruments, including liabilities and certain other items, at fair value with resulting changes in fair value reported in earnings. The Company has elected not to apply the fair value option to any of its financial instruments not already carried at fair value in accordance with other accounting standards, and therefore the adoption of FAS 159 did not impact the Company s consolidated financial statements.

FASB Statement No. 141(R) Business Combinations requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The impact of FAS 141(R) on the Company s consolidated financial statements will depend upon the nature, terms and size of the acquisitions we consummate after the effective date.

EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities . FSP 03-6-1 clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method described in SFAS No. 128, Earnings Per Share. This FSP is effective for us on January 1, 2009 and requires all presented prior-period earnings per share data to be adjusted retrospectively. The Company is still in the process of evaluating the impact FSP 03-6-1 will have on our Consolidated Financial Statements.

Website

The Company s internet website www.capitalsenior.com contains an Investor Relations section, which provides links to the Company s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Section 16 filings and amendments to those reports, which reports and filings are available free of charge as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC).

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Results of Operations

The following table sets forth for the periods indicated selected statements of income data in thousands of dollars and expressed as a percentage of total revenues.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	$	%	$	%	$	%	$	%
Revenues:								
Resident and healthcare revenue	$ 43,224	90.6	$ 41,910	87.8	$ 128,795	88.7	$ 124,842	88.6
Unaffiliated management service revenue	52	0.1	778	1.6	140	0.1	939	0.7
Affiliated management service revenue	1,011	2.1	864	1.8	4,180	2.9	2,035	1.4
Community reimbursement revenue	3,430	7.2	4,206	8.8	12,151	8.4	13,049	9.3
Total revenue	47,717	100.0	47,758	100.0	145,266	100.0	140,865	100.0
Expenses:								
Operating expenses (exclusive of depreciation and amortization shown below)	27,320	57.3	26,344	55.2	80,191	55.2	77,263	54.8
General and administrative expenses	2,405	5.0	2,880	6.0	9,733	6.7	9,180	6.5
Facility lease expense	6,319	13.2	6,037	12.6	18,774	12.9	17,754	12.6
Stock-based compensation	293	0.6	283	0.6	786	0.5	763	0.5
Depreciation and amortization	3,143	6.6	2,835	5.9	9,258	6.4	8,361	5.9
Community reimbursement expense	3,430	7.2	4,206	8.8	12,151	8.4	13,049	9.3
Total expenses	42,910	89.9	42,585	89.2	130,893	90.1	126,370	89.7
Income from operations	4,807	10.1	5,173	10.8	14,373	9.9	14,495	10.3

Other income (expense):								
Interest income	140	0.3	154	0.3	363	0.2	509	0.4
Interest expense	(3,066)	(6.4)	(3,160)	(6.6)	(9,172)	(6.3)	(9,615)	(6.8)
(Loss) gain on sale of assets			(8)	0.0	596	0.4	74	0.1
Write-off of deferred loan costs							(538)	(0.4)
Other income (expense)	75	0.2	(8)	(0.0)	227	0.2	(61)	(0.0)
Income before provision for income taxes	1,956	4.1	2,151	4.5	6,387	4.4	4,864	3.5
Provision for income taxes	(754)	(1.6)	(784)	(1.6)	(2,449)	(1.7)	(1,807)	(1.3)
Net income	$ 1,202	2.5	$ 1,367	2.9	$ 3,938	2.7	$ 3,057	2.2

Three Months Ended September 30, 2008 Compared to the Three Months Ended September 30, 2007

Revenues.

Total revenues were $47.7 million for the three months ended September 30, 2008 compared to $47.8 million for the three months ended September 30, 2007, representing a decrease of approximately $0.1 million or 0.1%. This decrease in revenue is primarily the result of a decrease in unaffiliated management services revenue of $0.7 million and a decrease in community reimbursement revenue of $0.8 million offset by an increase in resident and healthcare revenue of $1.3 million and an increase in affiliated management services revenue of $0.1 million.

Resident and healthcare revenue increased $1.3 million or 3.1% as a result of an increase of $0.3 million from the addition of the Whitley Place community which was leased from HCP on January 31, 2008 along with an increase in the average monthly rent of 4.9% at the Company s consolidated communities offset by a decrease in occupancy at the Company s consolidated communities of 2.8%. The Company consolidated 50 communities in the third quarter of fiscal 2008 compared to 49 communities in the third quarter of fiscal 2007.

Affiliated management services revenue increased due primarily to an increase in development and pre-marketing fees of $0.1 million. The Company earned $0.4 million in development and pre-marketing fees on two communities under development in the three months ended September 30, 2008 compared to development fee revenue of $0.3 million on one community under development in the three months ended September 30, 2007.

Unaffiliated management services revenue decreased by $0.7 million to $0.1 million in the third quarter of fiscal 2008 compared to unaffiliated management services revenue of $0.8 million in the third quarter of fiscal 2007. The third quarter of fiscal 2007 included the recovery of management fees of $0.4 million from Covenant Group of Texas, Inc. (Covenant) and the reduction of a contingent note payable to Covenant of $0.3 million

under the provisions of the CGI Management, Inc. (CGIM) purchase and sale agreement. The Company managed two communities owned by third parties in the three months ended September 30, 2008 compared to three communities in the three months ended September 30, 2007.

Community reimbursement revenue is comprised of reimbursable expenses from non-consolidated communities that the Company operates under long-term management agreements.

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Expenses.

Total expenses were $42.9 million in the third quarter of fiscal 2008 compared to $42.6 million in the third quarter of fiscal 2007, representing an increase of $0.3 million or 0.8%. This increase is primarily the result of a $1.0 million increase in operating expenses, a $0.3 million increase in facility lease expense, a $10,000 increase in stock-based compensation and a $0.3 million increase in depreciation and amortization expense offset by a $0.5 million decrease in general and administrative expenses and a decrease of $0.8 million in community reimbursement expense.

Operating expenses increased $1.0 million or 3.7% primarily due to an increase of $0.3 million from the addition of the Whitley Place community, along with an increase in operating expenses at the Company s other communities of $0.7 million. The primary increases in operating expense include an increase in labor and benefit costs of $0.5 million, an increase in utility costs of $0.2 million, an increase in provision for doubtful accounts of $0.2 million along with a net increase of $0.1 million in other community operating costs.

General and administrative expenses decreased $0.5 million primarily due to a decrease in health insurance claims of $0.4 million and a reduction in bonus expense of $0.3 million in the current year offset by a net increase in other general and administrative costs of $0.2 million.

Facility lease expenses increased $0.3 million primarily due to the Company leasing 25 senior living communities in the third quarter of fiscal 2008 compared to 24 senior living communities in the third quarter of fiscal 2007 along with increases in contingent rent on certain leases.

Stock-based compensation increased $10,000 in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 primarily due to the award of additional restricted shares to certain employees and directors of the Company.

Depreciation and amortization expense increased $0.3 million primarily as a result of an increase in depreciation expense at the Company s 50 consolidated communities of $0.2 million along with depreciation expense of $0.1 million primarily related to leasehold improvements at the Company s corporate offices and new information systems which were put into service on January 1, 2008.

Community reimbursement expense represents payroll and administrative costs paid by the Company for the benefit of non-consolidated communities and joint ventures.

Other income and expense.

Interest income reflects interest earned on investment of cash balances and interest earned on escrowed funds.

Interest expense decreased $0.1 million to $3.1 million in the third quarter of 2008 compared to $3.2 million in the comparable period of 2007. This decrease in interest expense primarily results from lower debt outstanding during third quarter of fiscal 2008 compared to the third quarter of fiscal 2007.

Other expense/income in the third quarter of fiscal 2008 and 2007 relates to the Company s equity in the earnings/losses of unconsolidated affiliates, which represents the Company s share of the earnings/losses on its investments in SHPII/CSL, SHPIII/CSL,

Midwest I and Midwest II.

Provision for income taxes.

Provision for income taxes for the third quarter of fiscal 2008 was $0.8 million or 38.5% of income before taxes compared to a provision for income taxes of $0.8 million, or 36.4% of income before taxes, for the third quarter of fiscal 2007. The effective tax rates for the third quarter of 2008 and 2007 differ from the statutory tax rates because of state income taxes and permanent tax differences. Management regularly evaluates the future realization of deferred tax assets and provides a valuation allowance, if considered necessary, based on such evaluation. At September 30, 2008, no valuation allowance was considered necessary based on this evaluation.

Net income/loss.

As a result of the foregoing factors, the Company reported net income of $1.2 million for the three months ended September 30, 2008 compared to a net income of $1.4 million for the three months ended September 30, 2007.

Nine Months Ended September 30, 2008 Compared to the Nine Months Ended September 30, 2007

Revenues.

Total revenues were $145.3 million for the nine months ended September 30, 2008 compared to $140.9 million for the nine months ended September 30, 2007 representing an increase of approximately $4.4 million or 3.1%. This increase in revenue is primarily the result of a $4.0 million increase in resident and healthcare revenue, an increase in affiliated management services revenue of $2.1 million offset by a decrease in unaffiliated management services revenue of $0.8 million and a decrease in community reimbursement revenue of $0.9 million.

Resident and healthcare revenue increased $4.0 million or 3.2.% as a result of an increase of $0.9 million from the addition of the Whitley Place community along with an increase in the average monthly rent of 4.3% at the Company s consolidated communities offset by a decrease in occupancy at the Company s consolidated communities of 3.3%. The Company consolidated 50 communities in the first nine months of fiscal 2008 compared to 49 communities in the first nine months of fiscal 2007.

Affiliated management services revenue increased due primarily to an increase in development and pre-marketing fees of $2.1 million. The Company earned $2.5 million in development and pre-marketing fees on three communities under development in the nine months ended September 30, 2008 compared to development fee revenue of $0.4 million on one community under development in the nine months ended September 30, 2007.

Unaffiliated management services revenue decreased by $0.8 million to $0.1 million in the first nine months of fiscal 2008 compared to unaffiliated management services revenue of $0.9 million in the first nine months of fiscal 2007. The first nine months of fiscal 2007 included the recovery of management fees of $0.4 million from Covenant and the reduction of a contingent note payable to Covenant of $0.3 million under the provisions of the CGIM purchase and sale agreement. The Company managed two communities owned by third parties in the nine months ended September 30, 2008 compared to three communities in the nine months ended September 30, 2007.

Community reimbursement revenue is comprised of reimbursable expenses from non-consolidated communities that the Company operates under long-term management agreements.

Expenses.

Total expenses were $130.9 million in the first nine months of fiscal 2008 compared to $126.4 million in the first nine months of fiscal 2007, representing an increase of $4.5 million or 3.6%. This increase is primarily the result of a $2.9 million increase in operating expenses, a $0.6 million increase in general and administrative expenses, a $1.0 million increase in facility lease expense, a $23,000 increase in stock-based compensation and a $0.9 million increase in depreciation and amortization expense offset by a $0.9 million decrease in community reimbursement expense.

Operating expenses increased $2.9 million or 3.8% primarily due to an increase of $0.7 million from the addition of the Whitley Place community along with an increase in

operating expenses at the Company s other communities of $2.2 million. The primary increases in operating expense include an increase in labor and benefit costs of $1.7 million, an increase in utility costs of $0.4 million, an increase in provision for doubtful accounts of $0.2 million, along with an increase of $0.6 in other community operating costs.

General and administrative expenses increased $0.6 million primarily relating to due diligence costs of $0.4 million related to potential acquisitions and developments that the Company terminated, along with an increase in other general and administrative costs of $0.2 million.

Facility lease expenses increased $1.0 million primarily due to the Company leasing 25 senior living communities in the first nine months of fiscal 2008 compared to 24 senior living communities in the first nine months of fiscal 2007 along with increases in contingent rent on certain leases.

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Stock-based compensation increased $23,000 in the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007 primarily due to the award of additional restricted shares to certain employees and directors of the Company.

Depreciation and amortization expense increased $0.9 million primarily as a result of an increase in depreciation expense at the Company s 50 consolidated communities of $0.6 million along with depreciation expense of $0.3 million primarily related to leasehold improvements at the Company s corporate offices and new information systems which were put into service on January 1, 2008.

Community reimbursement expense represents payroll and administrative costs paid by the Company for the benefit of non-consolidated communities and joint ventures.

Other income and expense.

Interest income reflects interest earned on investment of cash balances and interest earned on escrowed funds. Interest income decreased $0.1 million primarily due to lower interest rates in the current fiscal year.

Interest expense decreased $0.4 million to $9.2 million in the first nine months of 2008 compared to $9.6 million in the comparable period of 2007. This decrease in interest expense primarily results from slightly lower debt outstanding during fiscal 2008 compared to fiscal 2007 along with a lower average interest rate in the current fiscal year compared to the prior year.

Gain on sale of assets in the first nine months of fiscal 2008 represents gains associated with the sale of two parcels of land of $0.7 million and the amortization of a deferred gain on the sale of the Richmond Heights land in fiscal 2007 to a joint venture in which the Company has an equity interest offset by a $0.1 million impairment adjustment on a parcel of land, located in Fort Wayne, Indiana, which is classified as held for sale. Gain on sale of assets in the nine months of fiscal 2007 represents the recognition of a gain of $0.1 million related to the sale of a parcel of land located in Baton Rouge, Louisiana and a gain on the sale of a treasury rate lock agreement.

Other expense/income in the first nine months of fiscal 2008 and 2007 relates to the Company s equity in the earnings/losses of unconsolidated affiliates, which represents the Company s share of the earnings/losses on its investments in SHPII/CSL, SHPIII/CSL, Midwest I and Midwest II. During the second quarter of fiscal 2007, Midwest I and Midwest II finalized their purchase price allocation on the eight communities they acquired, resulting in a noncash charge of $0.3 million being recognized by the Company. The final purchase price allocation resulted in more of the purchase price being allocated to assets with shorter economic lives which resulted in additional depreciation and amortization expense.

Provision for income taxes.

Provision for income taxes for the first nine months of fiscal 2008 was $2.4 million or 38.3% of income before taxes compared to a provision for income taxes of $1.8 million, or 37.2% of income before taxes, for the first nine months of fiscal 2007. The effective tax rates for the first nine months of 2008 and 2007 differ from the statutory tax rates because of state income taxes and permanent tax differences. Management regularly evaluates the future realization of deferred tax assets and provides a valuation allowance, if considered necessary, based on such evaluation. At September 30, 2008, no valuation allowance was considered necessary based on this evaluation.

Net income/loss.
As a result of the foregoing factors, the Company reported net income of $3.9 million for the nine months ended September 30, 2008 compared to a net income of $3.1 million for the nine months ended September 30, 2007.

Liquidity and Capital Resources

The impact of the current economic environment could result in decreases in the fair value of assets, slowing of transactions, tightening liquidity and credit markets. These impacts could make securing debt for acquisitions or refinancings for the Company or buyers of the Company s properties more difficult or on terms not acceptable to the Company.

In addition to approximately $28.0 million of cash balances on hand as of September 30, 2008, the Company s principal sources of liquidity are expected to be cash flows from operations, proceeds from the sale of assets, cash flows from SHPII/CSL, Midwest I and

Midwest II and/or additional debt refinancing. The Company expects its available cash and cash flows from operations, proceeds from the sale of assets, and cash flows from SHPII/CSL, Midwest I and Midwest II to be sufficient to fund its short-term working capital requirements. The Company s long-term capital requirements, primarily for acquisitions and other corporate initiatives, could be dependent on its ability to access additional funds through joint ventures and the debt and/or equity markets. The Company from time to time considers and evaluates transactions related to its portfolio including refinancings, purchases and sales, reorganizations and other transactions. There can be no assurance that the Company will continue to generate cash flows at or above current levels or that the Company will be able to obtain the capital necessary to meet the Company s short and long-term capital requirements.
In summary, the Company s cash flows were as follows (in thousands):

	Nine Months Ended September 30,	
	2008	**2007**
Net cash provided by operating activities	$ 13,176	$ 8,696
Net cash used in investing activities	(5,083)	(4,226)
Net cash used in financing activities	(3,405)	(6,045)
Net increase (decrease) in cash and cash equivalents	$ 4,688	$ (1,575)

Operating Activities
The net cash provided by operating activities for the first nine months of fiscal 2008 primarily results from net income of $3.9 million, net non-cash charges of $9.2 million, a decrease in prepaid and other assets of $2.1 million, a decrease on other assets of $0.3 million, an increase in accounts payable and accrued expenses of $0.3 million and a decrease in federal and state income taxes receivable of $1.2 million offset by an increase in accounts receivable of $2.7 million, an increase in property tax and insurance deposits of $0.9 million and a decrease in customer deposits of $0.3 million. The net cash provided by operating activities for the first nine months of fiscal 2007 primarily results from net income of $3.1 million, net non-cash charges of $9.4 million, a decrease in accounts receivable of $0.6 million and a decrease in other assets of $0.9 million offset by an increase in property tax and insurance deposits of $0.8 million, an increase in prepaid and other assets of $1.8 million, an increase in income tax receivable of $2.0 million, a decrease in accounts payable and accrued expenses of $0.3 million and a decrease in customer deposits of $0.4 million.
Investing Activities
The net cash used in investing activities for the first nine months of fiscal 2008 primarily results from capital expenditures of $5.7 million, net investments in joint ventures of $0.8 million offset by proceeds from the sale of two parcels of land, one in Carmichael, California and the other in Lincoln, Nebraska, for $1.4 million. The net cash used in investing activities for the first nine months of fiscal 2007 primarily results from capital expenditures of $5.2 million, net investments in joint ventures of $0.4 million offset by proceeds from the sale of two parcels of land for $1.1 million and proceeds from a final distribution from BRE/CSL of $0.3 million.
Financing Activities
The net cash used in financing activities for the first nine months of fiscal 2008 primarily results from net repayments of notes payable of $3.7 million offset by proceeds from the issuance of common stock of $0.2 million. The net cash used in financing activities for the first nine months of fiscal 2007 primarily results from net repayments of notes payable of

$5.6 million, deferred loan costs paid in connection with the refinancing of five communities of $0.9 million offset by proceeds from the issuance of common stock of $0.3 million, excess tax benefits on the issuance of common stock of $0.1 million and proceeds from the sale of the Company s treasury rate lock of $0.1 million.

Debt Transactions / Refinancings

In May 2008, the Company financed $1.5 million in insurance premiums at a fixed interest rate of 3.75%. The insurance loan will be repaid in 12 equal payments of principal and interest payments of approximately $0.1 million.

On May 3, 2007, the Company refinanced $30.0 million of mortgage debt on four senior living communities with Fannie Mae. As part of the refinancing, the Company repaid approximately $2.7 million of mortgage debt on the four communities. The new mortgage loans have a ten-year term with interest fixed at 5.91% and principal amortized over a 30-year term. The Company incurred $0.5 million in deferred financing costs related to this loan, which is being amortized over ten years. In addition, as part of this refinancing,

the Company wrote-off $0.4 million in deferred loan costs. The new loans replaced $32.7 million of variable rate debt with an effective interest rate of 7.6%.

On March 21, 2007, the Company refinanced $9.5 million of mortgage debt on its Gramercy Hill community with Freddie Mac. As part of the refinancing, the Company received approximately $2.1 million in cash proceeds, net of closing costs. The new mortgage loan has a ten-year term with a one-year extension available at the Company s option, interest fixed at 5.75% and requires interest only payments in the first two years with principal amortized thereafter over a 25-year term. The Company incurred $0.2 million in deferred financing costs related to this loan, which is being amortized over ten years. In addition, as part of this refinancing, the Company wrote-off $13,000 in deferred loan costs and paid $0.2 million in loan exit fees to the prior lender. The loan exit fees are a component of write-off of deferred loan costs in the accompanying statement of operations.

Recent Developments

On May 29, 2008, the Company announced that a Special Committee of its Board of Directors had engaged Banc of America Securities LLC as its financial advisor to assist the Special Committee in exploring and considering a range of strategic alternatives for the Company. There can be no assurance, however, that this process will result in a transaction and the Company is not obligated to provide periodic updates.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company s primary market risk is exposure to changes in interest rates on debt and lease instruments. As of September 30, 2008, the Company had $191.2 million in outstanding debt comprised solely of fixed rate debt instruments. In addition, as of September 30, 2008, the Company had $211.0 million in future lease obligations with contingent rent increases based on changes in the consumer price index.

Changes in interest rates would affect the fair market value of the Company s fixed rate debt instruments but would not have an impact on the Company s earnings or cash flows. Increase in the consumer price index could have an effect on future facility lease expense if the leased community exceeds the contingent rent escalation thresholds set forth in each of the Company s lease agreements.

Item 4. CONTROLS AND PROCEDURES.

Effectiveness of Controls and Procedures

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

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

There have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company s fiscal quarter ended September 30, 2008 that have materially affected, or are

reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

The Company has claims incurred in the normal course of its business. Most of these claims are believed by management to be covered by insurance, subject to normal reservations of rights by the insurance companies and possibly subject to certain exclusions in

the applicable insurance policies. Whether or not covered by insurance, these claims, in the opinion of management, based on advice of legal counsel, should not have a material effect on the consolidated financial statements of the Company if determined adversely to the Company.

Item 1A. RISK FACTORS.

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

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

As of September 30, 2008, we had mortgage and other indebtedness totaling approximately $191.2 million. We cannot assure you that we will generate cash flow from operations or receive proceeds from refinancings, other financings or the sales of assets sufficient to cover required interest and principal payments. Any payment or other default could cause the applicable lender to foreclose upon the communities securing the indebtedness with a consequent loss of income and asset value to us. Further, because some of our mortgages contain cross-default and cross-collateralization provisions, a payment or other default by us with respect to one community could affect a significant number of our other communities.

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

As of September 30, 2008, we leased 25 communities with future lease obligations totaling approximately $211.0 million, with minimum lease obligations of $27.7 million in fiscal 2008. We cannot assure you that we will generate cash flow from operations or receive proceeds from refinancings, other financings or the sales of assets sufficient to cover these required operating lease obligations. Any payment or other default under any such lease could result in the termination of the lease, with a consequent loss of income and asset value to us. Further, because our leases contain cross-default provisions, a payment or other default by us with respect to one leased community could affect all of our other leased communities with related lessors. Certain of our leases contain various financial and other restrictive covenants, which could limit our flexibility in operating our business. Failure to maintain compliance with the lease obligations as set forth in our lease agreements could have a material adverse impact on us.

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

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

- require us to meet specified financial tests at the subsidiary company level, which include, but are not limited to, tangible net worth requirements;

- require us to meet specified financial tests at the community level, which include, but are not limited to, occupancy requirements and lease coverage tests; and

- require consent for changes in control of us.

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

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

Our ability to obtain such financing or refinancing on terms acceptable to us could have a material adverse effect on our business, financial condition and results of operations. Our ability to meet our long-term capital requirements, including the repayment of certain long-term debt obligations, will depend, in part, on our ability to obtain additional financing or refinancings on acceptable

terms from available financing sources, including through the use of mortgage financing, joint venture arrangements, by accessing the debt and/or equity markets and possibly through operating leases or other types of financing, such as lines of credit. There can be no assurance that financing or refinancings will be available or that, if available, will be on terms acceptable to us. Moreover, raising additional funds through the issuance of equity securities could cause existing stockholders to experience dilution and could adversely affect the market price of our common stock. Our inability to obtain additional financing or refinancings on terms acceptable to us could delay or eliminate some or all of our growth plans, necessitate the sales of assets at unfavorable prices or both, and would have a material adverse effect on our business, financial condition and results of operations.

Any future floating rate debt and lease obligations could expose us to rising interest rates.

Future indebtedness and lease obligations, if applicable, may be based on floating interest rates prevailing from time to time. Therefore, increases in prevailing interest rates would increase in the future our interest or lease payment obligations and could in the future have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

Our ability to successfully develop new senior living communities or expand existing senior living communities will depend on a number of factors, including, but not limited to, our ability to acquire suitable sites at reasonable prices; our success in obtaining necessary zoning, licensing, and other required governmental permits and authorizations; and our ability to control construction costs and accurately project completion schedules. Additionally, we anticipate that the development of new senior living communities or the expansion of existing senior living communities may involve a substantial commitment of capital for a period of time

of two years or more until the new senior living communities or expansions are operating and producing revenue, the consequence of which could be an adverse impact on our liquidity. We cannot assure that our developments or expansion of existing senior living communities will be completed at the rate currently expected, if at all, or if completed, that such developments or expansions will be profitable.

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

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

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

Approximately 95% of our total revenues from communities that we operated were attributable to private pay sources and approximately 5% of our revenues from these communities were attributable to reimbursements from Medicare and Medicaid during fiscal 2007. We expect to continue to rely primarily on the ability of residents to pay for our services from their own or familial financial resources. Inflation or other circumstances that adversely affect the ability of the elderly to pay for our services could have a material adverse effect on our business, financial condition and results of operations.

We are subject to risks related to third-party management agreements.

At September 30, 2008, we managed two senior living communities for third parties and 13 senior living communities for joint ventures in which we have a minority interest pursuant to multi-year management agreements. The management agreements generally have initial terms of five years, subject to certain renewal rights. Under these agreements we provide management services to third party and joint venture owners to operate senior living communities and have provided, and may in the future provide, management and consulting services to third parties on market and site selection, pre-opening sales and marketing, start-up training and management services for facilities under development and construction. In most cases, either party to the agreements may terminate them upon the occurrence of an event of default caused by the other party. In addition, subject to our rights to cure deficiencies, community owners may terminate us as manager if any licenses or certificates necessary for operation are revoked, or if we have a change of control. Also, in some instances, a community owner may terminate the management agreement relating to a particular community if we are in default under other management agreements relating to other communities owned by the same community owner or its affiliates. In addition, in certain cases the community owner may terminate the agreement upon 30 days notice to us in the event of a sale of the community. In those agreements, which are terminable in the event of a sale of the community, we have certain rights to offer to purchase the community. The termination of a significant portion of our management agreements could have a material adverse effect on our business, financial condition and results of operations.

Failure to perform our obligations under our joint venture arrangements could have a material adverse effect on us.

We hold minority interests ranging from approximately 5% to 15% in several joint ventures with affiliates of Prudential and GE Healthcare. We also manage the communities owned by these joint ventures. Under the terms of the management agreements with Prudential covering five properties, we are obligated to meet certain cash flow targets and failure to meet these cash flow targets could result in termination of the management agreements. Under the terms of the joint venture agreements with GE Healthcare covering eight properties, we are obligated to meet certain net operating income targets and failure to meet these net operating income targets could result in termination of the management agreements and changes in the sharing ratios under the joint venture agreement.

We are currently developing two communities in two separate joints ventures with affiliates of Prudential. As part of development agreements, we are obligated to meet certain completion and costs guarantees. We are or will be providing pre-opening marketing services for each of the communities and upon completion we will manage the two communities owned by the joint ventures. Under the terms of the management agreements with Prudential covering the three communities, we will be obligated to meet certain cash flow targets and failure to meet these cash flow targets could result in termination of the management agreements.

All of the management agreements with the joint ventures contain termination and renewal provisions. We do not control these joint venture decisions covering termination or renewal. Performance of the above obligations or termination or non-renewal of the management agreements could have a material adverse effect on our business, financial condition and results of operations.

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

The senior living services industry is highly competitive, and we expect that all segments of the industry will become increasingly competitive in the future. We compete with other companies providing independent living, assisted living, skilled nursing, home health care and other similar services and care alternatives. We also compete with other health care businesses with respect to attracting and retaining nurses, technicians, aides and other high quality professional and non-professional employees and managers. Although we believe there is a need for senior living communities in the markets where we operate residences, we expect that

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competition will increase from existing competitors and new market entrants, some of whom may have substantially greater financial resources than us. In addition, some of our competitors operate on a not-for-profit basis or as charitable organizations and have the ability to finance capital expenditures on a tax-exempt basis or through the receipt of charitable contributions, neither of which are available to us. Furthermore, if the development of new senior living communities outpaces the demand for those communities in the markets in which we have senior living communities, those markets may become saturated. Regulation in the independent and assisted living industry, which represents a substantial portion of our senior living services, is not substantial. Consequently, development of new senior living communities could outpace demand. An oversupply of those communities in our markets could cause us to experience decreased occupancy, reduced operating margins and lower profitability.

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

We depend on the services of our executive officers for our management. The loss of some of our executive officers and the inability to attract and retain qualified management personnel could affect our ability to manage our business and could adversely affect our business, financial condition and results of operations.

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

We compete with other providers of senior living services with respect to attracting and retaining qualified management personnel responsible for the day-to-day operations of each of our communities and skilled personnel responsible for providing resident care. A shortage of nurses or trained personnel may require us to enhance our wage and benefits package in order to compete in the hiring and retention of these personnel or to hire more expensive temporary personnel. We also will be dependent on the available labor pool of semi-skilled and unskilled employees in each of the markets in which we operate. No assurance can be given that our labor costs will not increase, or that, if they do increase, they can be matched by corresponding increases in rates charged to residents. Any significant failure by us to control our labor costs or to pass on any increased labor costs to residents through rate increases could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

will be available on acceptable economic terms.

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

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

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increase in the future and we are unable to predict the content of new regulations or their effect on our business, any of which could materially adversely affect us.

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

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

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

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

We may be subject to liability for environmental damages.

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

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

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

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

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

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Not Applicable

Item 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable

Item 5. OTHER INFORMATION.

Not Applicable

Item 6. EXHIBITS.

The exhibits to this Form 10-Q are listed on the Exhibit Index page hereof, which is incorporated by reference in this Item 6.

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Signature

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

Capital Senior Living Corporation
(Registrant)

By: /s/ Ralph A. Beattie
Ralph A. Beattie
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)
Date: November 4, 2008

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INDEX TO EXHIBITS

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

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant. (Incorporated by reference to exhibit 3.1 to the Registration Statement No. 333-33379 on Form S-1/A filed by the Company with the Securities and Exchange Commission on September 8, 1997.)
3.1.1	Amendment to Amended and Restated Certificate of Incorporation of the Registrant. (Incorporated by reference to exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999, filed by the Company with the Securities and Exchange Commission.)
3.2	Bylaws of the Registrant. (Incorporated by reference to exhibit 3.2 to the Registration Statement No. 333-33379 on Form S-1/A filed by the Company with the Securities and Exchange Commission on September 8, 1997.)
3.2.2	Amended and Restated Bylaws of the Registrant. (Incorporated by reference to exhibit 3.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999, filed by the Company with the Securities and Exchange Commission.)
3.2.3	Amendment No. 2 to the Amended and Restated Bylaws of the Registrant. (Incorporated by reference to exhibit 3.2.2 to the Company s Annual Report on Form 10-K for the year period ended December 31, 2002, filed by the Company with the Securities and Exchange Commission.)
4.1	Rights Agreement, dated as of March 9, 2000, between Capital Senior Living Corporation and ChaseMellon Shareholder Services, L.L.C., which includes the form of Certificate of Designation of Series A Junior Participating Preferred Stock, $.01 par value, as Exhibit A, the form of Right Certificate as Exhibit B, and the Summary of Rights as Exhibit C. (Incorporated by reference to exhibit 4.1 to the Company s Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on March 20, 2000.)
4.2	Form of Certificate of Designation of Series A Junior Participating Preferred Stock, $.01 par value. (Incorporated by reference to exhibit 4.1 to the Company s Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on March 20, 2000.)
4.3	Form of Right Certificate. (Incorporated by reference to exhibit 4.1 to the Company s Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on March 20, 2000.)
4.4	Form of Summary of Rights. (Incorporated by reference to exhibit 4.1 to the Company s Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on March 20, 2000.)
4.5	

	Specimen of legend to be placed, pursuant to Section 3(c) of the Rights Agreement, on all new Common Stock certificates issued after March 20, 2000 and prior to the Distribution Date upon transfer, exchange or new issuance. (Incorporated by reference to exhibit 4.1 to the Company s Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on March 20, 2000.)
4.6	2007 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation. (Incorporated by reference to exhibit 4.6 to the Company s Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on May 31, 2007.)

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Exhibit Number	Description
4.7	First Amendment to 2007 Omnibus Stock and Incentive Plan for Capital Senior Living Corporation. (Incorporated by reference to exhibit 4.7 to the Company s Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on May 31, 2007.)
31.1*	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)
32.1*	Certification of Lawrence A. Cohen pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Ralph A. Beattie pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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