

Addus HomeCare Corp  
Form ARS  
May 06, 2014  
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# **ADDUS HOMECARE CORPORATION**

## **2013 ANNUAL REPORT**

**NASDAQ:ADUS**

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The graph below matches the cumulative 50-Month total return of holders of Addus HomeCare Corporation's common stock with the cumulative total returns of the NASDAQ Composite index, the NASDAQ Health Services index and a customized peer group of four companies that includes: Almost Family Inc., Amedisys Inc., Gentiva Health Services Inc. and LHC Group Inc. The graph assumes that the value of the investment in our common stock, in each index, and in the peer group (including reinvestment of dividends) was \$100 on 10/28/2009 and tracks it through 12/31/2013.

	10/09	12/09	3/10	6/10	9/10	12/10	3/11	6/11	9/11
<b>Addus HomeCare Corporation</b>	<b>100.00</b>	<b>108.36</b>	<b>71.14</b>	<b>70.41</b>	<b>46.76</b>	<b>48.29</b>	<b>59.01</b>	<b>63.96</b>	<b>47.70</b>
<b>NASDAQ Composite</b>	<b>100.00</b>	<b>107.12</b>	<b>113.13</b>	<b>100.35</b>	<b>112.60</b>	<b>126.20</b>	<b>132.48</b>	<b>132.65</b>	<b>116.24</b>
<b>NASDAQ Health Services</b>	<b>100.00</b>	<b>112.28</b>	<b>119.53</b>	<b>99.93</b>	<b>98.85</b>	<b>114.77</b>	<b>127.07</b>	<b>120.33</b>	<b>92.35</b>
<b>Peer Group</b>	<b>100.00</b>	<b>114.30</b>	<b>121.74</b>	<b>104.09</b>	<b>73.09</b>	<b>95.60</b>	<b>98.42</b>	<b>74.10</b>	<b>37.94</b>
	<b>12/11</b>	<b>3/12</b>	<b>6/12</b>	<b>9/12</b>	<b>12/12</b>	<b>3/13</b>	<b>6/13</b>	<b>9/13</b>	<b>12/13</b>
	<b>42.05</b>	<b>58.30</b>	<b>57.83</b>	<b>63.02</b>	<b>84.19</b>	<b>155.36</b>	<b>232.51</b>	<b>341.22</b>	<b>264.43</b>
	<b>126.93</b>	<b>150.15</b>	<b>143.04</b>	<b>152.62</b>	<b>148.20</b>	<b>161.51</b>	<b>169.09</b>	<b>188.96</b>	<b>209.79</b>
	<b>95.64</b>	<b>106.33</b>	<b>109.43</b>	<b>118.43</b>	<b>107.84</b>	<b>119.19</b>	<b>131.20</b>	<b>145.28</b>	<b>158.05</b>
	<b>32.43</b>	<b>45.09</b>	<b>38.82</b>	<b>45.56</b>	<b>43.64</b>	<b>44.46</b>	<b>42.41</b>	<b>53.48</b>	<b>55.58</b>

*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from            to

Commission file number 001-34504

**ADDUS HOMECARE CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

**20-5340172**  
(I.R.S. Employer

incorporation or organization)

**2401 South Plum Grove Road**

Identification No.)

**Palatine, Illinois 60067**

(Address of principal executive offices)

**(847) 303-5300**

(Registrant's telephone number, including area code)

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

<b>Title of each class</b>	<b>Name of each Exchange on which Registered</b>
Common Stock, par value \$0.001	The NASDAQ Stock Market LLC

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, based on the last sale price on The NASDAQ Global Market on June 28, 2013 (the last business day of the registrant's most recently completed second fiscal quarter) was \$112,336,629.

As of March 10, 2014, there were 10,912,973 shares of common stock outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Certain portions of the registrant's Definitive Proxy Statement for its 2014 Annual Meeting of Stockholders (which is expected to be filed with the Commission within 120 days after the end of the registrant's 2013 fiscal year) are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**SPECIAL CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

When included in this Annual Report on Form 10-K, or in other documents that we file with the Securities and Exchange Commission ( SEC ) or in statements made by or on behalf of the Company, words like believes, belief, expects, plans, anticipates, intends, projects, estimates, might, would, should and similar expressions are intended to identify forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve a variety of risks and uncertainties that could cause actual results to differ materially from those described therein. These risks and uncertainties include, but are not limited to the following: changes in Medicaid, Medicare and other medical payment levels, changes in or our failure to comply with existing Federal and State laws or regulations or the inability to comply with new government regulations on a timely basis, competition in the home and community based service industry, changes in the case mix of consumers and payment methodologies, changes resulting from the assumption by managed care organizations of responsibility for managing and paying for home and community based services to consumers, changes in estimates and judgments associated with critical accounting policies, our ability to maintain or establish new referral sources, our ability to attract and retain qualified personnel, changes in payments and covered services due to the economic downturn and deficit spending by Federal and State governments, future cost containment initiatives undertaken by third party payors, our access to financing due to the volatility and disruption of the capital and credit markets, our ability to meet debt service requirements and comply with covenants in debt agreements, business disruptions due to natural disasters or acts of terrorism, our ability to integrate and manage our information systems, our expectations regarding the size and growth of the market for our services, the acceptance of privatized social services, our expectations regarding changes in reimbursement rates, authorized hours and eligibility standards of state governmental agencies, the potential to settle litigation, and the effect of those changes on our results of operations in 2013 or for periods thereafter, our ability to successfully implement our coordinated care model to grow our business, our ability to attract referrals, our ability to continue identifying and pursuing acquisition opportunities and expand into new geographic markets, the impact of acquisitions on our business, the effectiveness, quality and cost of our services and various other matters, many of which are beyond our control.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on any forward-looking statement as a prediction of future events. We expressly disclaim any obligation or undertaking and we do not intend to release publicly any updates or changes in our expectations concerning the forward-looking statements or any changes in events, conditions or circumstances upon which any forward-looking statement may be based, except as required by law. For a discussion of some of the factors discussed above as well as additional factors, see Part I, Item 1A Risk Factors and Part II, Item 7 Critical Accounting Policies and Estimates within Management s Discussion and Analysis of Financial Condition and Results of Operations .

Unless otherwise provided, Addus, we, us, our, and the Company refer to Addus HomeCare Corporation and our consolidated subsidiaries and Holdings refers to Addus HomeCare Corporation. When we refer to 2013, 2012 and 2011, we mean the twelve month period then ended December 31, unless otherwise provided.

A copy of this Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the SEC, including all exhibits, is available on our internet website at <http://www.addus.com> on the Investor Relations page link. Information contained on, or accessible through, our website is not a part of, and is not incorporated by reference into, this Annual Report on Form 10-K.

**Table of Contents****PART I****ITEM 1. BUSINESS****Overview**

We are a comprehensive provider of home and community based services, which are primarily social in nature and are provided in the home, and focused on the dual eligible population. Our services include personal care and assistance with activities of daily living, and adult day care. Our consumers are individuals with special needs who are at risk of hospitalization or institutionalization, such as the elderly, chronically ill and disabled. Our payor clients include federal, state and local governmental agencies, commercial insurers and private individuals. We provide home and community based services through over 121 locations across 21 states to over 26,000 consumers.

Effective March 1, 2013, we sold substantially all of the assets used in our home health business (the Home Health Business) in Arkansas, Nevada and South Carolina, and 90% of the Home Health Business in California and Illinois, to subsidiaries of LHC Group, Inc. (the Purchasers) for a cash purchase price of approximately \$20 million. We retained a 10% ownership interest in the Home Health Business in California and Illinois. The assets sold included 19 home health agencies and two hospice agencies in five states. Effective December 30, 2013, we sold one home health agency in Pennsylvania for \$0.2 million. Through home health agencies, we previously provided physical, occupational and speech therapy, as well as skilled nursing services, to pediatric, adult infirm and elderly patients. The results of the Home Health Business sold and one additional agency in Idaho which was closed in November 2012, are reflected as discontinued operations for all periods presented herein. Continuing operations include the results of operations previously included in our home & community segment and three agencies previously included in our home health segment. Following the sale of the Home Health Business, we manage and internally report our business in one segment.

We believe the sale of the Home Health Business substantially positions us for future growth. The sale allows us to focus both management and financial resources to address changes in the home and community based services industry and to address the needs of managed care organizations as they become responsible for the state sponsored programs. We completed two acquisitions in 2013 and January 2014 which expand our presence in two existing markets and provide us with a base of operations in two new targeted managed care states. We have improved our financial performance by lowering our administrative costs and concentrating our efforts on the business that is growing and providing all of our profitability and disposing of the business that was unprofitable. We have improved our overall financial position by eliminating our debt and adding substantial amounts in cash reserves to our balance sheet. A summary of our results for 2013, 2012 and 2011, expressed in thousands, are provided in the table below:

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net service revenues continuing operations	\$ 265,941	\$ 244,315	\$ 230,105
Net service revenues discontinued operations	6,462	38,822	42,995
Net income from continuing operations	11,163	9,288	8,412
Earnings (loss) from discontinued operations	7,982	(1,653)	(10,393)
Net income (loss)	\$ 19,145	\$ 7,635	\$ (1,981)
Total assets	\$ 163,934	\$ 149,857	\$ 154,692

The home and community based services we provide are primarily social in nature and include assistance with bathing, grooming, dressing, personal hygiene and medication reminders, and other activities of daily living. We provide these services on a long-term, continuous basis, with an average duration of approximately 17 months per consumer. Our adult day centers provide a comprehensive program of skilled and support services and designated medical services for adults in a community-based group setting. Services provided by our adult day centers include social activities, transportation services to and from the centers, the provision of meals and snacks, personal care and therapeutic activities such as exercise and cognitive interaction.



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We utilize a coordinated care model that is designed to enhance consumer outcomes and satisfaction as well as lower the cost of acute care treatment and reduce service duplication. Through our coordinated care model, we utilize our home care aides to observe and report changes in the condition of our consumers for the purpose of early intervention in the disease process, thereby preventing or reducing the cost of medical services by avoiding emergency room visits, and/or reducing the need for hospitalization. These changes in condition are evaluated by appropriately trained managers and referred to appropriate medical personnel including the primary care physicians and managed care plans for treatment and follow-up. We will coordinate the services provided by our team with those of selected health care agencies as appropriate. We believe this approach to the provision of care to our consumers and the integration of our services into the broader healthcare industry is particularly attractive to managed care providers and others who are ultimately responsible for the healthcare needs of our consumers and over time will increase our business with them.

Addus HomeCare Corporation was incorporated in Delaware in 2006 under the name Addus Holding Corporation for the purpose of acquiring Addus HealthCare, Inc. ( Addus HealthCare ). Addus HealthCare was founded in 1979. Our principal executive offices are located at 2401 South Plum Grove Road, Palatine, Illinois 60067. Our telephone number is (847) 303-5300. Our internet address is [www.addus.com](http://www.addus.com). Through our website, we make available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish such information to the SEC.

### ***Our Market and Opportunity***

We provide home and community based services to the elderly and other adult infirm who need long-term care and assistance with essential, routine tasks of life. The Kaiser Commission report on Medicaid and the uninsured dated December 2012 estimated total Medicaid expenditures for home and community based services in 2009 to be over \$50.0 billion annually, up from \$19.4 billion in 2000, with an average annual increase of 11%. Over the same period, participants in Medicaid home and community based services increased from 2.1 million to 3.3 million.

In addition to the projected growth of government-sponsored home and community based services, the private duty market for our services is growing rapidly. We provide our private duty consumers with all of the services we provide to our government-sponsored home and community based consumers.

Historically, there were limited barriers to entry in the home and community based services industry. As a result, the home and community based services industry developed in a highly fragmented manner, with many small local providers. Few companies have a significant market share across multiple regions or states. According to the National Association for Home Care & Hospice, or NAHC, as of 2013, there were over 33,000 homecare and hospice agencies in the United States. Approximately 15,000 were Medicare-certified homecare and hospice agencies, while the remaining 18,000 represent the number of licensed home and community based services agencies in the United States providing services similar to those we provide. In addition, while difficult to estimate, there are many non-licensed, non-certified home and community based services agencies.

More recently, the home and community based services industry has been subject to increased regulation. In several states, providers are now required to obtain state licenses or registrations and must comply with laws and regulations governing standards of practice. Providers must dedicate substantial resources to ensure continuing compliance with all applicable regulations and significant expenditures may be necessary to offer new services or to expand into new markets. Any failure to comply with this growing and changing regulatory regime could lead to the termination of rights to participate in federal and state-sponsored programs and the suspension or revocation of licenses. We believe limitations on the availability of new licenses, the rising cost and complexity of operations and pressure on reimbursement rates due to constrained government resources may create barriers for new providers and may encourage industry consolidation.

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The Federal Coordinated Health Care Office was established to effectively integrate benefits for consumers who are enrolled in both Medicare and Medicaid, also known as dual eligibles, and improve coordination between the federal and state governments to ensure that dual eligibles have full access to items and services to which they are entitled. Stated goals of the Federal Coordinated Health Care Office are to ensure that the dual eligible population has full access to seamless high quality health care and to make the system as cost-effective as possible. The Federal Coordinated Health Care Office works with the Centers for Medicare & Medicaid Services ( CMS ), state Medicaid agencies, and other federal and state agencies, as well as physicians and others, to provide technical assistance and educational tools to improve care coordination between Medicare and Medicaid and to reduce costs, improve beneficiary experience and educate dual eligibles regarding care coverage. It also performs policy and program analysis and develops policy and program recommendations regarding dual eligibles.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, both laws are referred to herein as the Health Reform Act ), encourages states to integrate the state managed Medicaid home and community based programs with managed Medicare programs. The objective of these initiatives is to enhance the coordination of benefits between the two programs and to lower overall costs. The integrated programs are being structured as three year pilots. Nationally, 34 states have initiated, or plan to initiate, efforts to pursue these programs, including 15 of the 21 states in which we provide services.

We believe that our coordinated care program makes us well-suited to partner with managed care providers to address the needs of the dual eligible population. These programs will eliminate service duplication between home and community based programs and traditional Medicare home health. We believe our ability to identify changes in medical health and condition before the medical need requires acute intervention will lower the overall cost of care and will be recognized as an added benefit of our services. We believe this approach to the provision of care to our consumers and the integration of our services into the broader healthcare industry is particularly attractive to managed care providers and others who are ultimately responsible for the healthcare needs of our consumers and over time will increase our business with them.

### ***Our Growth Strategy***

Our ability to grow our net service revenues is closely correlated with the number of consumers to whom we provide our services. Our continued growth depends on our ability to maintain our existing payor client relationships, establish relationships with new payors, enter into new contracts and increase our referral sources. Our continued growth is also dependent upon the authorization by state agencies of new consumers to receive our services. We believe there are several market opportunities for growth. The U.S. population of persons aged 65 and older is growing, and the U.S. Census Bureau estimates that this population will more than double by 2050. Additionally, we believe the overwhelming majority of individuals in need of care generally prefer to receive care in their homes or community-based settings. Finally, we believe the provision of home and community based services is more cost-effective than the provision of similar services in an institutional setting for long-term care. The following are the key elements of our growth strategy:

***Drive growth in existing markets.*** We intend to drive growth in our existing markets by enhancing the breadth of our services, increasing the number of referral sources and leveraging and expanding our payor relationships in each market. We expect to achieve this growth by continuing to educate referral sources about the benefits of our services and maintaining our emphasis on high quality care for our consumers. To take advantage of the growing demand for quality and reputable home and community based services from private duty consumers, we are focusing on increasing and enhancing the private pay services we provide to consumers in all of our locations. By providing private duty services, we expect to increase our net service revenues without a corresponding increase in our operating costs.

***Expand our coordinated care model.*** Our coordinated care model provides significant opportunities to effectively market to a wide range of payor clients and referral sources, many of whom are responsible for consumers with both social and medical service needs. We intend to extend this model to all of our

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markets. We are also seeking to partner with managed care providers to address the needs of the dual eligible population in light of governmental incentives for consumers to enroll in managed care plans. Our approach to the provision of care to our consumers and the integration of our services into the broader healthcare industry is particularly attractive to managed care providers and others who are ultimately responsible for the healthcare needs of our consumers and over time we believe will increase our business with them.

***Growth through acquisitions.*** We intend to continue to grow with selective acquisitions. While entering new markets is a priority for our acquisitions, we are also looking for opportunities to expand within our existing markets.

***Expand into new markets organically.*** We intend to offer our services in geographic markets contiguous to our existing markets through de novo agency development. We also anticipate we will have opportunities to develop new agencies in response to requests from managed care organizations.

### ***Our Services***

We deliver services to our consumers through 121 individual agencies located in 21 states and 5 adult day centers in Illinois. Our home and community based services assist consumers, who would otherwise be at risk of placement in a long-term care institution, with activities of daily living.

Services are primarily provided in consumers' homes on an as-needed, hourly basis, mostly to older adults and younger disabled persons. These services, generally provided by home and community based service aides, are of a social rather than medical nature and include personal care, home support services and adult day care.

Personal care and home support services are provided to consumers who are unable to independently perform some or all of their activities of daily living. Our services are needed when assistance from family or community members is insufficient or where caregivers respite is needed. Personal care services include bathing, grooming, oral care, skincare, assistance with feeding and dressing and medication reminders. Home support services include meal planning and preparation, housekeeping and transportation services. Many consumers need such services on a long-term basis to address chronic or acute conditions. Each payor client establishes its own eligibility standards, determines the type, amount, duration and scope of services, and establishes the applicable reimbursement rate. The average duration of our provision of home and community based services is approximately 17 months per consumer.

We also operate 5 adult day centers in Illinois which provide a comprehensive program of skilled and support services and designated health services for adults in a community-based group setting. Services provided by our adult day centers include social activities, transportation services to and from the centers, the provision of meals and snacks, personal care and therapeutic activities such as exercise and cognitive interaction.

Most of our services are provided pursuant to agreements with state and local governmental social and aging service agencies. These agreements generally have a stated term of one to two years and may be terminated by the counterparty upon 60 days' notice. They are typically renewed for one to five-year terms, provided that we have complied with licensing, certification and program standards, and other regulatory requirements. Reimbursement rates and methods vary by state and service type, but are typically based on an hourly or unit-of-service basis. In 2013, approximately 94.1% of our net service revenues from continuing operations were derived from state and local government programs, while approximately 5.9% of net service revenues from continuing operations were derived from insurance programs and private duty consumers.

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The following table presents our locations, setting forth acquisitions, start-ups, divestitures and closures for the period December 31, 2011 to December 31, 2013. The table excludes locations associated with discontinued operations.

	<b>Total</b>
Total December 31, 2011	107
Closed/Merged	(3)
<b>Total at December 31, 2012</b>	<b>104</b>
Acquired	16
Start-up	2
Closed/Merged	(1)
<b>Total at December 31, 2013</b>	<b>121</b>

Our payor clients are principally federal, state and local governmental agencies. The federal, state and local programs under which they operate are subject to legislative, budgetary and other risks that can influence reimbursement rates. Our commercial insurance carrier payor clients are typically for profit companies and are continuously seeking opportunities to control costs. We are seeking to grow our private duty business.

For 2013, 2012 and 2011, our revenue mix by payor type for continuing operations was as follows:

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
State, local and other governmental programs	94.1%	94.9%	93.5%
Commercial	2.0	1.0	1.3
Private duty	3.9	4.1	5.2
	100.0%	100.0%	100.0%

We derive a significant amount of our net service revenues from our operations in Illinois and California, which represented 66% and 6%; 64% and 7% and 58% and 8% of our total net service revenues for the years ended December 31, 2013, 2012 and 2011, respectively.

A significant amount of our net service revenues from continuing operations are derived from one specific payor client, the Illinois Department on Aging, which accounted for 59%, 57% and 51% of our total net service revenues from continuing operations for the years ended December 31, 2013, 2012 and 2011, respectively.

We also measure the performance of our business through review of our billable hours, billable hours per business day, revenues per billable hour and the number of consumers served, or census.

**Competition**

The home and community based services industry is highly competitive, fragmented and market specific. Each local market has its own competitive profile and no single competitor has significant market share across all of our markets. Our competition consists of home and community based service providers, home health providers, private caregivers, larger publicly held companies, privately held companies, privately held single-site agencies, hospital-based agencies, not-for-profit organizations, community-based organizations, managed care organizations and self-directed care programs. In addition, certain governmental payors contract for services with independent providers such that our relationships with these payors are not exclusive. This is particularly true in California. We have experienced, and expect to continue to experience, competition from new entrants into our markets. Increased competition may result in pricing pressures, loss of or failure to gain market share or loss of consumers or payors, any of which could harm our business. In addition, some of our competitors may have greater financial, technical, political and marketing resources, name recognition on a larger number of consumers and payors than we do.

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***Sales and Marketing***

We focus on initiating and maintaining working relationships with state and local governmental agencies responsible for the provision of the services we offer. We target these agencies in our current markets and in geographical areas that we have identified as potential markets for expansion. We also seek to identify service needs or changes in the service delivery or reimbursement system of governmental entities and attempt to work with and provide input to the responsible government personnel, provider associations and consumer advocacy groups.

In many states there is a need to establish new referral relationships with various managed care plans who are contracting with the states for the management of the state Medicaid programs. We have met with all contracted managed care plans in markets where we serve our clients and are beginning to build those relationships necessary to insure continued referrals of new clients.

We receive substantially all of our consumers from third-party referrals. Generally, family members of potential consumers are made aware of available in-home or alternative living arrangements through a state or local case management system. These systems are operated by governmental or private agencies. We receive referrals from state departments on aging, rehabilitation, mental health and children's services, county departments of social services, the Veterans Health Administration and city departments on aging.

We provide ongoing education and outreach to our target communities, both to inform residents about state and locally-subsidized care options and to communicate our role in providing quality home and community based services. We also utilize consumer-direct sales, marketing and advertising programs designed to attract consumers.

***Payment for Services***

We are compensated for substantially all of our services by federal, state and local government programs, such as Medicaid funded programs and Medicaid waiver programs, other state agencies, the Veterans Health Administration, commercial insurers and private duty consumers.

The following table sets forth net service revenues from continuing operations derived from each of our major payors during the indicated periods as a percentage of total net service revenues from continuing operations.

Payor Group	Year Ended December 31,		
	2013	2012	2011
Illinois Department on Aging	58.8%	57.3%	51.2%
Washington Department of Social and Health Services	6.6	6.4	6.7
Riverside County Department of Public Social Services, CA	3.8	3.9	4.5
Nevada Medicaid	3.4	3.9	5.1
Private duty	3.9	4.1	5.2
Commercial insurance	2.0	1.0	1.3
Other federal, state and local payors	21.5	23.4	26.0
Total	100.0%	100.0%	100.0%

***Illinois Department on Aging***

We provide home and community based services pursuant to agreements with the Illinois Department on Aging, which is funded by Medicaid and general revenue funds of the State of Illinois. Consumers are identified by case managers contracted independently with the Illinois Department on Aging. Once a consumer has been evaluated and determined to be eligible for the program, the case manager refers the consumer to a list of authorized providers, from which the consumer selects the provider. We provide our services in accordance with a care plan developed by the case manager and under administrative directives from the Illinois Department on Aging. We are reimbursed on an hourly fee for service basis.

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Due to its revenue deficiencies and financing issues, the State of Illinois is currently reimbursing us on a delayed basis with respect to these agreements. These payment delays have adversely impacted, and may further adversely impact, our liquidity, and may result in the need to increase borrowings under our credit facility. Other delayed payor reimbursements from the State of Illinois have also contributed to the increase in our receivables balances.

### ***Washington Department of Social and Health Services***

We provide home and community based services pursuant to agreements with the Washington Department of Social and Health Services, which is funded by Medicaid and general revenue funds of the State of Washington. Consumers are identified by area Agency on Aging case managers contracted independently with the Washington Department of Social and Health Services. Once a consumer has been evaluated and determined to be eligible for the program, the case manager refers the consumer to a list of authorized providers, from which the consumer selects the provider. We provide our services in accordance with a care plan developed by the case manager and under administrative directives from the Washington Department of Social and Health Services. We are reimbursed on an hourly fee for service basis.

### ***Riverside County Department of Public Social Services***

We provide services pursuant to an agreement with the County of Riverside, California under its In-Home Support Services Program. Under this agreement, we serve consumers referred to us by county-employed social workers in accordance with the term and conditions of a Quality Assurance Work Plan. We provide personal care and other assistance with activities of daily living under this program. All services are reimbursed on an hourly fee for service basis. The current agreement has a one year term beginning July 1, 2013. The County has offered a one year extension beginning July 1, 2014, which is subject to approval by the County department that oversees our agreement.

Our contract relationship with the County of Riverside, California may change before the end of the term of our agreement, including any renewal terms, as the State of California and Riverside County are planning to enter into managed care demonstration plans whereby the services we provide to consumers in the county would become the responsibility of the contracted managed care plans. The transition of consumers to managed care is expected to take place while our agreement with the County of Riverside is in place. We cannot provide assurance that we will be able to contract with managed care plans at rates comparable to our current contract with the County or that all of our consumers would move to managed care or that the managed care plans would continue to utilize our services at the same rate that they are provided today.

Our arrangements with all of our California county payors are not exclusive in nature. Rather, each county is permitted to contract for services from independent providers with a registry of independent providers managed by the county authority. The independent provider programs represent a competitive threat to us but we believe independent providers do not provide the level of management or supervision that the counties, or the individuals receiving services would have if the contract were with us.

### ***Nevada Medicaid***

We provide services pursuant to an agreement with the State of Nevada Division of Health Care Financing and Policy under Nevada Medicaid's Personal Care Options program. Under this agreement, we identify consumers through community outreach efforts, who are then qualified by the State of Nevada to receive services. We provide personal care and other in-home support services under this program. All services are reimbursed on an hourly fee for service basis.

### ***Private Duty***

Our private duty services are provided on an hourly basis. Our rates are established to achieve a pre-determined gross profit margin, and are competitive with those of other local providers. We bill our private duty consumers for services rendered either bi-monthly or monthly, and in certain circumstances we obtain a two-

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week deposit from the consumer. Other private duty payors include workers compensation programs/insurance, preferred provider organizations and other managed care companies and employers.

### ***Commercial Insurance***

Many states are moving the administration of their Medicaid home and community based programs to commercial managed care insurance companies. This transition is in response to federal and state initiatives to address the needs of the dual eligible population and in an overall desire to better manage the costs of the Medicaid long term care programs. Reimbursement from the managed care companies is generally on an hourly, fee for service basis with rates consistent with the individual state funded rates.

Most long-term care insurance policies contain benefits for in-home services and adult day care. Policies are generally subject to dollar limitations on the amount of daily, weekly or monthly coverage provided. Depending on the type of service, coverage for services may be predicated on a physician or nurse determination that the care is necessary or on the development of a plan for care in the home.

### ***Other Federal, State and Local Payors***

#### ***Medicaid Funded Programs and Medicaid Waiver Programs***

Medicaid is a state-administered program that provides certain social and medical services to qualified low-income individuals, and is jointly funded by the federal government and individual states. Reimbursement rates and methods vary by state and service type, but are typically based on an hourly or unit-of-service basis. Rates are subject to adjustment based on statutory and regulatory changes, administrative rulings, government funding limitations and interpretations of policy by individual state agencies. Within guidelines established by federal statutes and regulations, each state establishes its own eligibility standards, determines the type, amount, duration and scope of services, sets the rate of payment for services and administers its own program, subject to federal oversight. Most states cover Medicaid beneficiaries for intermittent home health services, as well as continuous services for children and young adults with complicated medical conditions, and certain states cover home and community-based services.

In an effort to control escalating Medicaid costs, states are increasingly requiring Medicaid beneficiaries to enroll in managed care plans. Under a health reform bill signed into law in January 2012, Illinois set a goal to increase the percentage of Medicaid beneficiaries in Medicaid managed care plans from the then current 8% to 50% by 2015. Under these programs, States are increasingly requiring Medicaid beneficiaries to work with case managers.

#### ***Veterans Health Administration***

The Veterans Health Administration operates the nation's largest integrated health care system, with more than 1,800 sites of care, and provides health care benefits, including home and community based services, to eligible military veterans. The Veterans Health Administration provides funding to regional and local offices and facilities that support the in-home care needs of eligible aged and disabled veterans by contracting directly with local in-home care providers, and to the aid and attendance pension, which pays veterans for their otherwise unreimbursed health and long-term care expenses. We currently have relationships and agreements with the Veterans Health Administration to provide home and community based services in Illinois, Arkansas and California.

#### ***Other***

Other sources of funding are available to support home and community based services in different states and localities. In addition, many states appropriate general funds or special use funds through targeted taxes or lotteries to finance home and community based services for senior citizens and people with disabilities.

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Depending on the state, these funds may be used to supplement existing Medicaid waiver programs or for distinct programs that serve non-Medicaid eligible consumers.

***Exposure for Payments Previously Received***

As described above under the caption *Business Overview*, we sold our Home Health Business effective March 1, 2013, pursuant to an Asset Purchase Agreement, dated as of February 7, 2013 (the *Home Health Purchase Agreement*), with LHC Group, Inc. and the Purchasers identified therein. Pursuant to the Home Health Purchase Agreement, we retained a 10% ownership interest in the Home Health Business in California and Illinois. In addition, not included in the sale were four home health agencies in Delaware, Idaho, Indiana and Pennsylvania. The home health agency in Pennsylvania was sold on December 30, 2013 and the agency in Idaho was closed in November 2012 and efforts to sell the Idaho agency were abandoned in December 2013. Because regulatory requirements in Delaware and Indiana require the provision of home and community based services to be provided by a licensed home health agency, we will continue to provide limited home health services reimbursable by Medicare in these agencies in order to maintain these licenses.

While we no longer receive substantial payments from Medicare for home health services, pursuant to the Home Health Purchase Agreement, we are obligated to indemnify the Purchasers for, among other things, (i) penalties, fines, judgments and settlement amounts arising from a violation of certain specified statutes, including the False Claims Act, the Civil Monetary Penalties Law, the federal Anti-Kickback Statute, the Stark Law or any state law equivalent in connection with the operation of the Home Health Business prior to the consummation of the sale (the *Closing*), and (ii) any liability related to the failure of any reimbursement claim submitted to certain government programs for services rendered by the Home Health Business prior to the Closing to meet the requirements of such government programs, or any violation prior to the Closing of any health care laws. Such liabilities include amounts to be recouped by, or repaid to, such government programs as a result of improperly submitted claims for reimbursement or those discovered as a result of audits by investigative agencies. All services that we have provided that have been or may be reimbursed by Medicare are subject to retroactive adjustments and/or total denial of payments received from Medicare under various review and audit provisions included in the program regulations. The review period is generally described as six years from the date the services are provided but could be expanded to ten years under certain circumstances if fraud is found to have existed at the time of original billing. In the event that there are adjustments relating to the period prior to the Closing, we may be required to reimburse the Purchasers for the amount of such adjustments.

Medicare is the U.S. government's health insurance program funded by the Social Security Administration for individuals aged 65 or older, individuals under the age of 65 with certain disabilities and individuals of all ages with end-stage renal disease. Eligibility for Medicare does not depend on income, and coverage is restricted to reasonable and medically-necessary treatment.

Medicare home health rates are based on a Medicare episodic rate set annually through federal legislation. The rate covers a 60-day episode of care. Payment for each patient's episode of care is based on the severity of the consumer's condition, his or her service needs and other factors relating to the cost of providing services and supplies.

In addition, Medicare payments can be adjusted through changes in the payment rate and recoveries of overpayments for, among other things, unusually costly care for a particular consumer, low utilization, transfers to another provider, the level of therapy services required, the number of episodes of care provided, and if the consumer is discharged but readmitted within the same 60-day episodic period. In addition, Medicare can also reduce levels of reimbursement if a provider is unable to produce appropriate billing documentation or acceptable medical authorizations.



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***Insurance Programs and Costs***

We maintain workers compensation, general and professional liability, automobile, directors and officers liability, fiduciary liability and excess liability insurance. We offer various health insurance plans to eligible full-time and part-time employees. We believe our insurance coverage and self-insurance reserves are adequate for our current operations. However, we cannot assure you that any potential losses or asserted claims will not exceed such insurance coverage and self-insurance reserves.

***Employees***

The following is a breakdown of our part- and full-time employees, as well as the employees in our National Support Center, as of December 31, 2013:

	<b>Full-time</b>	<b>Part-time</b>	<b>Total</b>
Continuing Operations Home and Community Based Services	4,221	12,222	16,443
National Support Center	120	22	142
	4,341	12,244	16,585

Our home and community based service aides provide substantially all of our services and comprise approximately 95% of our total workforce. In most cases, our home and community based services aides undergo a criminal background check, and are provided with pre-service training and orientation and an evaluation of their skills. In many cases, home and community based services aides are also required to attend ongoing in-services education. In certain states, our home and community based services aides are required to complete certified training programs and maintain a state certification; however, no state in which we operate requires home and community based services aides to maintain a license similar to that of a nurse or therapist. Approximately 70% of our total employees are represented by labor unions. We maintain strong working relationships with these labor unions. We have a national agreement with the Service Employees International Union (the SEIU). Wages and benefits are negotiated at the local level at various times throughout the year.

***Our Technology***

We have licensed the Horizon Homecare software solution from McKesson Information Solutions, LLC, or McKesson, to address our administrative, office, clinical and operating information system needs, including compliance with the Health Insurance Portability and Accountability Act, or HIPAA, requirements. Horizon Homecare assists our staff in gathering information to improve the quality of consumer care, optimize financial performance, adjust consumer mix, promote regulatory compliance and enhance staff efficiency. Horizon Homecare supports intake, personnel scheduling, office clinical and reimbursement management in an integrated database. The Horizon Homecare software is hosted by McKesson in a secure data center, which provides multiple redundancies for storage, power, bandwidth and security. Using this technology, we are able to standardize the care delivered across our network of locations and effectively monitor our performance and consumer outcomes. We have also leveraged this technology to implement a centralized billing and collections function at our national support center.

We have developed internally a customized payroll management system. This system has been utilized to calculate and produce our payroll. This software is integrated with Horizon Homecare and other clinical data-management systems, and includes a feature for general ledger population, tax reporting, managing wage assignments and garnishments, on-site check printing, and direct-deposit paychecks. Secure management reports are made available centrally and through our internal reporting module. We have contracted to replace this internal payroll system with an external vendor of a comprehensive HRIS/Payroll system.

We utilize commercial vendors for electronic visit verification pursuant to which our home and community based service aides record their beginning and ending times for services provided through either an interactive

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voice recognition (IVR) system or cell phone based system. We have supplemented these commercial systems with company developed smart phone applications that allow our homecare aides the ability to communicate with our support center, to request additional work if available, to monitor or change their schedules and to inquire about payroll information.

### ***Government Regulation***

#### *Overview*

Our business is subject to extensive and increasing federal, state and local regulation. Changes in the law or new interpretations of existing laws may have a dramatic effect on the definition of permissible activities, the relative cost of doing business, and the methods and amounts of payment for care by both governmental and other payors. Departments of the federal government are currently considering how to implement programs and policy changes and mandated demonstration projects in the Health Reform Act. As a result of the Health Reform Act, it is expected that the number of Medicaid beneficiaries will increase (although several states in which we operate have declined to expand Medicaid eligibility) and in addition, there may be additional increases if employers terminate their employee health plans. It is impossible to know at this time what effect, if any, this will have on budgetary allocations for our services. The health care industry has experienced, and is expected to continue to experience, extensive and dynamic change. In addition, differences among state laws may impede our ability to expand into certain markets. If we fail to comply with applicable laws and regulations, we could suffer civil or criminal penalties, including the loss of our licenses to operate and our ability to participate in federal or state programs. See also Management's Discussion and Analysis of Financial Condition and Results of Operations Overview.

#### *Medicaid Participation*

To participate in and qualify for reimbursement under Medicaid programs, we are subject to various requirements imposed by federal and state authorities. If we were to violate the applicable federal and state regulations, we could be excluded from participation in federal and state healthcare programs and be subject to substantial civil and criminal penalties.

#### *Health Reform Act*

The Health Reform Act includes several provisions that may affect reimbursement for our services. The Health Reform Act is broad, sweeping reform, and is subject to change, including through the adoption of related regulations, the way in which its provisions are interpreted and the manner in which it is enforced. Although the Health Reform Act provides for expansion of eligibility for Medicaid enrollment, 21 states, including some in which we do business, have opted not to participate in Medicaid expansion. The Health Reform Act also creates within CMS a Center for Medicare and Medicaid Innovation, or CMMI, to test innovative payment and service delivery systems to reduce program expenditures while maintaining or enhancing quality. Among the issues that are to be addressed by CMMI are: allowing the states to test new models of care for individuals dually eligible for Medicare and Medicaid, supporting continuing care hospitals that offer post acute care during the 30 days following discharge, funding home health providers that offer chronic care management services, and establishing pilot programs that bundle acute care hospital services with physician services and post-acute care services, including home health services for patients with certain selected conditions. We may have difficulty negotiating for a fair share of the bundled payment. In addition, we may be unfairly penalized if a consumer is readmitted to the hospital within 30 days of discharge for reasons beyond our control.

We cannot assure you that the provisions described above, or that any other provisions of the Health Reform Act, will not adversely impact our business, results of operations or financial position.

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### *Permits and Licensure*

Our home and community based services are authorized and / or licensed under various state and county requirements. Our home and community based aides generally have no licensure requirements, although in certain states, they are required to complete training programs and maintain state certification. We believe we are currently licensed appropriately where required by the laws of the states in which we operate, but additional licensing requirements may be imposed upon us in existing markets or markets that we enter in the future.

### *Applicable Federal and State Laws*

*Anti-Kickback Laws:* The federal government enforces the federal Anti-Kickback Law that prohibits the offer, payment, solicitation or receipt of any remuneration to or from any person or entity to induce or in exchange for the referral of patients covered by federal health care programs such as Medicare and Medicaid. The federal Anti-Kickback Law also prohibits the purchasing, leasing, ordering or arranging for any item, facility or service covered by the government payment programs (or the recommendation thereof) in exchange for such referrals. Many states, including Illinois, Nevada and California also have similar laws proscribing kickbacks, some of which are not limited to services for which government-funded payment may be made. Violations of these provisions are punishable by criminal fines, civil penalties, imprisonment or exclusion from participation in reimbursement programs.

*The Stark Law and other Prohibitions on Physician Self-Referral:* We may also be affected by the federal law, commonly known as the Stark Law, that prohibits physicians from making a referral for health care items or services, including home health services, if they, or their family members, have a financial relationship with the entity receiving the referral unless certain conditions are met. Violations are punishable by civil monetary penalties on both the person making the referral and the provider rendering the service. Such persons or entities are also subject to exclusion from federal and state healthcare programs. We believe our compensation agreements with physicians who served as medical directors in our home health agencies meet the requirements for the personal services exception and that our operations comply with the Stark Law.

Many states, including Illinois, Nevada and California have also enacted statutes similar in scope and purpose to the Stark Law.

*Beneficiary Inducement Prohibition:* The federal Civil Monetary Penalties Law ( CMPL ) imposes substantial penalties for offering remuneration or other inducements to influence federal health care beneficiaries' decisions to seek specific governmentally reimbursable items or services, or to choose particular providers. The CMPL also can be used for civil prosecution of the Anti-Kickback Law. Sanctions under the CMPL include substantial financial penalties as well as exclusion from participation in all federal and state health care programs.

*The False Claims Act:* Under the federal False Claims Act, the government may fine any person, company or corporation that knowingly submits, or participates in submitting, claims for payment to the federal government which are false or fraudulent, or which contain false or misleading information. Any such person or entity that knowingly makes or uses a false record or statement to avoid paying the federal government may also be subject to fines under the False Claims Act. Private parties may initiate whistleblower lawsuits against any person or entity under the False Claims Act in the name of the government and may share in the proceeds of a successful suit. The penalty for violation of the False Claims Act is a minimum of \$5,500 and a maximum of \$11,000 for each fraudulent claim plus three times the amount of damages caused to the government as a result of each fraudulent claim. A False Claims Act violation may provide the basis for the imposition of administrative penalties as well as exclusion from participation in governmental health care programs, including Medicare and Medicaid. In addition to the False Claims Act, the federal government may use several criminal statutes to prosecute the submission of false or fraudulent claims for payment to the federal government.

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Amendments to the False Claims Act in the Health Reform Act provide that a provider must report and return overpayments within 60 days of identifying the overpayment or the claims for the services that generated the overpayments become false claims subject to the False Claims Act. Overpayments include payments for services for which the provider does not have proper documentation.

Many states, including Illinois, Nevada and California have similar false claims statutes that impose additional liability for the types of acts prohibited by the False Claims Act.

*Fraud Alerts:* From time to time, various federal and state agencies, such as the U.S. Department of Health and Human Services ( DHHS ), issue pronouncements that identify practices that may be subject to heightened scrutiny, as well as practices that may violate fraud and abuse laws. We believe, but cannot assure you, that our operations comply with the principles expressed by the Office of the Inspector General (the OIG ) in these reports and special fraud alerts.

*HIPAA and the HITECH Act:* HIPAA privacy regulations contain detailed requirements concerning the use and disclosure of individually identifiable health information by HIPAA covered entities, which includes our company. In addition to the privacy requirements, HIPAA covered entities must implement certain security standards to protect the integrity, confidentiality and availability of certain electronic health information. The Health Information Technology for Economic and Clinical Health Act ( HITECH Act ) imposes additional privacy and security requirements on health care providers and on their business associates. Failure to comply with HIPAA or the HITECH Act could result in fines and penalties that could have a material adverse effect on us.

Most states, including Illinois, Nevada and California also have laws that protect the privacy and security of confidential personal information.

*Civil Monetary Penalties:* The DHHS may impose civil monetary penalties upon any person or entity that presents, or causes to be presented, certain ineligible claims for medical items or services. The amount of penalties varies, depending on the offense, from \$2,000 to \$50,000 per violation plus treble damages for the amount at issue and exclusion from federal health care programs, including Medicare and Medicaid. In addition, persons who have been excluded from the Medicare or Medicaid program may not retain ownership in a participating entity. Participating entities that permit continued ownership by excluded individuals, that contract with excluded individuals, and the excluded individuals themselves, may be penalized. Penalties are also applicable in certain other cases, including violations of the federal Anti-Kickback Law, payments to limit certain patient services and improper execution of statements of medical necessity.

### *Surveys and Audits*

We are subject to routine and periodic surveys and audits by various governmental agencies and other payors. From time to time, we receive and respond to survey reports containing statements of deficiencies. Periodic and random audits conducted or directed by these agencies could result in a delay in receipt or an adjustment to the amount of reimbursements due or received under federal or state programs. Violation of the applicable federal and state health care regulations can result in excluding a health care provider from participating in the Medicare and/or Medicaid and other federal and state healthcare programs and can subject the provider to substantial civil and/or criminal penalties.

Pursuant to the Tax Relief and Health Care Act of 2006, the DHHS created a permanent and national recovery audit program to identify improper Medicare payments made on claims of health care services provided to Medicare beneficiaries. The program uses recovery audit contractors, or RACs, to identify the improper Medicare payments and protect the Medicare Trust Fund from fraud, waste and abuse. Since the start of the program, RACs have identified more than \$4.8 billion in improper payments. RACs are paid a contingent fee based on the improper payments identified. CMS also instituted Zone Program Integrity Contracts ( ZPICs ) for additional audit of Medicare providers, including home health agencies.

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*Environmental, Health and Safety Laws*

We are subject to federal, state and local regulations governing the storage, transport, use and disposal of hazardous materials and waste products. In the event of an accident involving such hazardous materials, we could be held liable for any damages that result, and any liability could exceed the limits or fall outside the coverage of our insurance. We may not be able to maintain insurance on acceptable terms, or at all.

**ITEM 1A. RISK FACTORS**

*The risks described below, and risks described elsewhere in this Form 10-K, could have a material adverse effect on our business and consolidated financial condition, results of operations and cash flows and the actual outcome of matters as to which forward-looking statements are made in this Form 10-K. The risk factors described below and elsewhere in this Form 10-K are not the only risks we face. Our business and consolidated financial condition, results of operations and cash flows may also be materially adversely affected by factors that are not currently known to us, by factors that we currently consider immaterial or by factors that are not specific to us, such as general economic conditions.*

*If any of the following risks are actually realized, our business and consolidated financial condition, results of operations and cash flows could be materially adversely affected. In that case, the trading price of our common stock could decline.*

*You should refer to the explanation of the qualifications and limitations on forward-looking statements under **Special Caution Concerning Forward-Looking Statements**. All forward-looking statements made by us are qualified by the risk factors described below.*

***Changes to Medicaid, Medicaid waiver or other state and local medical and social programs could adversely affect our client caseload, units of service, net service revenues, gross profit and profitability.***

For the year ended December 31, 2013, we derived approximately 94% of our net service revenues from continuing operations from agreements that are directly or indirectly paid for by state and local governmental agencies, such as Medicaid funded programs and Medicaid waiver programs. Governmental agencies generally condition their agreements with us upon a sufficient budgetary appropriation. If a governmental agency does not receive an appropriation sufficient to cover its contractual obligations with us, it may terminate an agreement or defer or reduce the amount of the reimbursement we receive. Almost all the states in which we operate are facing budgetary shortfalls due to the current economic downturn and the rising costs of health care, and as a result, have made, are considering or may consider making changes in their Medicaid, Medicaid waiver or other state and local medical and social programs. The Deficit Reduction Act of 2005 permits states to make benefit cuts to their Medicaid programs, which could affect the services for which states contract with us. Changes that states have made or may consider making to address their budget deficits include:

limiting increases in, or decreasing, reimbursement rates;

redefining eligibility standards or coverage criteria for social and medical programs or the receipt of home and community based services under those programs;

increasing the consumer's share of costs or co-payment requirements;

decreasing the number of authorized hours for recipients;

slowing payments to providers;

increasing utilization of self-directed care alternatives or all inclusive programs; or

shifting beneficiaries to managed care programs.

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Certain of these measures have been implemented by, or are proposed in, states in which we operate. For example, California has considered a number of proposals, including potential changes in eligibility standards or hours utilization and Illinois has delayed payments to providers. In 2013, we derived approximately 66% of our total net service revenues from continuing operations from services provided in Illinois, 6% of our total net service revenues from continuing operations from services provided in California and 7% of our total net service revenues from continuing operations from services provided in Washington. Because a substantial portion of our business is concentrated in these states, any significant reduction in expenditures that pay for our services in these states and other states in which we do business may have a disproportionately negative impact on our future operating results. Provisions in the Health Reform Act increase eligibility for Medicaid, which may cause a reallocation of Medicaid funding. It is difficult to predict at this time what the effect of these changes would be on our business. If changes in Medicaid policy result in a reduction in available funds for the services we offer, our net service revenues could be negatively impacted.

Under the Health Reform Act, the federal medical assistance percentage (the FMAP ) paid by the federal government to states that elect to provide Medicaid coverage to low income adults who were previously ineligible for Medicaid is 100% for calendar years 2014-2016 and gradually decreases to 90% in 2020 and thereafter. Not all states in which we do business may elect to provide coverage to newly eligible individuals. We are not able at this time to determine the impact that these changes will have on our business.

In March 2013, the federal government implemented certain budgetary restrictions, commonly known as sequestration. Although Medicaid is exempt from these automatic cuts, sequestration remains in place and could negatively impact reimbursement or authorizations for services under our federal or state contracts.

A number of states have initiated efforts to combat Medicaid fraud and overpayments. If the number of Medicaid applicants or recipients is significantly reduced as a result of these efforts, the number of consumers we serve could be reduced, which could negatively affect our business and results of operations.

***State efforts to transition their home and community based programs to being administered by managed care plans could adversely affect our net service revenues and our profitability.***

Under the Health Reform Act, states are encouraged to integrate the state managed Medicaid home and community based programs with managed Medicare programs. The objective of these initiatives is to enhance the coordination of benefits between the two programs and to lower overall costs.

Nationally, 34 states have initiated, or plan to initiate, efforts to pursue these programs, including 15 of the 21 states in which we provide services. However, the timing for implementation of these demonstration projects are unknown at this time. In addition, the final regulations implementing these programs modify the requirements and definitions around home and community-based settings. We cannot assure you that: we will be able to secure favorable contracts with all or some of the managed care organizations; our reimbursement under these programs will remain at current levels; that the authorizations for services will remain at current levels or that our profitability will remain at levels consistent with past performance. If states in which we provide services transition their home and community based programs to managed care plans and we are not able to participate through contracts with managed care organization or otherwise, we could lose revenue generated in those states, even in states in which we currently have contracts to provide home and community based services.

***The implementation of Accountable Care Organizations (ACOs) may limit our ability to increase our market share and could adversely affect our revenues.***

CMS published final ACO regulations in October 2011, which established a shared savings program to facilitate coordination and cooperation among providers to improve the quality of care for Medicare fee-for-service beneficiaries and reduce unnecessary costs. These programs are focused on efforts by hospitals and physician groups to organize the medical providers and are not directed toward home and community based

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service providers. If we are not included in development of these programs, or if the ACOs establish similar services to include home and community based programs for their participants, we are at risk for losing market share and for a loss of our current business. Other cost savings initiatives may be presented by the government and commercial payors to control costs and reduce hospital admissions / readmissions in which we could be financially at risk. We cannot predict at this time what effect ACOs or like organizations may have on our company.

***Efforts to reduce the costs of the Illinois Department on Aging program could adversely affect our service revenues and profitability.***

In 2013, we derived approximately 58.8% of our revenue from continuing operations from the Illinois Department on Aging programs. Since 2011 the State of Illinois has undertaken a number of initiatives to reduce the costs of the Illinois Department on Aging program, such as the mandated utilization of an electronic visit verification (EVV) system by all providers. It is difficult to ascertain what impact, if any, these initiatives will have on our business. If they impact the number of hours authorized or services provided to existing consumers, they would adversely affect our service revenues and profitability.

***Delays in reimbursement due to state budget deficits or otherwise have decreased, and may in the future further decrease, our liquidity.***

There is generally a delay between the time that we provide services and the time that we receive reimbursement or payment for these services. The majority of the 21 states in which we operate are operating with budget deficits for their current fiscal year. These and other states may in the future delay reimbursement, which would adversely affect our liquidity. Specifically, the State of Illinois is currently reimbursing us on a delayed basis, including with respect to our agreements with the Illinois Department on Aging, our largest payor. Our reimbursements from the State of Illinois could be further delayed. In addition, from time to time, procedural issues require us to resubmit claims before payment is remitted, which contributes to our aged receivables. Additionally, unanticipated delays in receiving reimbursement from state programs due to changes in their policies or billing or audit procedures may adversely impact our liquidity and working capital. Because we fund our operations primarily through the collection of accounts receivable, any delays in reimbursement would result in the need to increase borrowings under our credit facility.

***Our revenue may be negatively impacted by a failure to appropriately document services, resulting delays in reimbursement and related indemnification obligations.***

Reimbursement to us is conditioned upon providing the correct administrative and billing codes and properly documenting the services themselves, including the level of service provided, and the necessity for the services. If incorrect or incomplete documentation is provided or inaccurate reimbursement codes are utilized, this could result in nonpayment for services rendered and could lead to allegations of billing fraud. This could subsequently lead to civil and criminal penalties, including exclusion from government healthcare programs, such as Medicare and Medicaid. In addition, third-party payors may disallow, in whole or in part, requests for reimbursement based on determinations that certain amounts are not covered, services provided were not medically necessary, or supporting documentation was not adequate. Pursuant to the Home Health Purchase Agreement, we are obligated to indemnify the Purchasers for, among other things, (i) penalties, fines, judgments and settlement amounts arising from a violation of certain specified statutes, including the False Claims Act, the Civil Monetary Penalties Law, the federal Anti-Kickback Statute, the Stark Law or any state law equivalent in connection with the operation of the Home Health Business prior to the Closing, and (ii) any liability related to the failure of any reimbursement claim submitted to certain government programs for services rendered by the Home Health Business prior to the Closing to meet the requirements of such government programs, or any violation prior to the Closing of any health care laws. Such liabilities include amounts to be recouped by, or repaid to, such government programs as a result of improperly submitted claims for reimbursement or those discovered as a result of audits by investigative agencies. All services that we have provided that have been or



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may be reimbursed by Medicare are subject to retroactive adjustments and/or total denial of payments received from Medicare under various review and audit provisions included in the program regulations. The review period is generally described as six years from the date the services are provided but could be expanded to ten years under certain circumstances if fraud is found to have existed at the time of original billing. In the event that there are adjustments relating to the period prior to the Closing, we may be required to reimburse the Purchasers or the government for the amount of such adjustments, which could adversely affect our business and financial condition. In addition, timing delays may cause working capital shortages. Working capital management, including prompt and diligent billing and collection, is an important factor in achieving our financial results and maintaining liquidity. It is possible that documentation support, system problems, provider issues or industry trends may extend our collection period, which may materially adversely affect our working capital, and our working capital management procedures may not successfully mitigate this risk.

***The implementation or expansion of self-directed care programs in states in which we operate may limit our ability to increase our market share and could adversely affect our revenue.***

Self-directed care programs are funded by Medicaid and state and local agencies and allow the consumer to exercise discretion in selecting home and community based service providers. Consumers may hire family members, friends or neighbors to provide services that might otherwise be provided by a home and community based service agency provider, such as our company. Most states and the District of Columbia have implemented self-directed care programs, to varying degrees and for different types of consumers. States are under pressure from the federal government and certain advocacy groups to expand these programs. CMS has provided states with specific Medicaid waiver options for programs that offer person-centered planning, individual budgeting or self-directed services and support as part of the CMS Independence Plus initiative introduced in 2002 under an Executive Order of the President. Certain private foundations have also granted resources to states to develop and study programs that provide financial accounts to consumers for their long-term care needs, and counseling services to help prepare a plan of care that will help meet those needs. Expansion of these self-directed programs may erode our Medicaid consumer base and could adversely affect our net service revenues.

***Failure to renew a significant agreement or group of related agreements may materially impact our revenue.***

In 2013, we derived approximately 58.8% of our net service revenues from continuing operations under agreements with the Illinois Department on Aging, 6.6% of our net service revenues from continuing operations under an agreement with Washington, 3.4% of our net service revenues from continuing operations under an agreement with Nevada Medicaid and 3.8% of our net service revenues from continuing operations under an agreement with the Riverside County (California) Department of Public Social Services. Each of our agreements is generally in effect for a specific term. For example, the services we provide to the Illinois Department on Aging are provided under a number of agreements that expire at various times through 2015, while our agreement with the Riverside County Department of Public Social Services is reevaluated and subject to renewal annually. In addition, our relationship with Riverside County may change before the end of the term of our agreement, including any renewal terms, as the State of California and Riverside County are planning to enter into managed care demonstration plans whereby the services we provide to consumers in the county would become the responsibility of the contracted managed care plans. Even though our agreements are stated to be for a specific term, they are generally terminable by the counterparty upon 60 days' notice. Our ability to renew or retain our agreements depends on our quality of service and reputation, as well as other factors over which we have little or no control, such as state appropriations and changes in provider eligibility requirements. Additionally, failure to satisfy any of the numerous technical renewal requirements in connection with our proposals for agreements could result in a proposal being rejected even if it contains favorable pricing terms. Failure to obtain, renew or retain agreements with major payors may negatively impact our results of operations and revenue. We can give no assurance these agreements will be renewed on commercially reasonable terms or at all.

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*Our industry is highly competitive, fragmented and market-specific, with limited barriers to entry.*

We compete with home and community based service providers, home health providers, private caregivers, larger publicly held companies, privately held companies, privately held single-site agencies, hospital-based agencies, not-for-profit organizations, community-based organizations and self-directed care programs. In addition, certain governmental payors contract for services with independent providers such that our relationships with these payors are not exclusive, particularly in California. Our competition consists of home and community based service providers, home health providers, private caregivers, larger publicly traded companies, privately held companies, privately held single-site agencies, hospital-based agencies, non-for-profit organizations, community-based organizations, managed care organizations and self-directed care programs. Some of our competitors have greater financial, technical, political and marketing resources, name recognition or a larger number of consumers and payors than we do. In addition, some of these organizations offer more services than we do in the markets in which we operate. Consumers or referral sources may perceive that local service providers and not-for-profit agencies deliver higher quality services or are more responsive. These competitive advantages may limit our ability to attract and retain referrals in local markets and to increase our overall market share.

There are limited barriers to entry in providing home-based social and medical services, and the trend has been for states to eliminate many of the barriers that historically existed. For example, Illinois changed the way in which it procures home and community based service providers in 2009, allowing all providers that are willing and capable to obtain state approval and provide services. This may increase competition in that state, and because we derived approximately 66% of our net service revenues from continuing operations from services provided in Illinois in 2013, this increased competition could negatively impact our business.

Local competitors may develop strategic relationships with referral sources and payors. This could result in pricing pressures, loss of or failure to gain market share or loss of consumers or payors, any of which could harm our business. In addition, existing competitors may offer new or enhanced services that we do not provide, or be viewed by consumers as a more desirable local alternative. The introduction of new and enhanced service offerings, in combination with the development of strategic relationships by our competitors, could cause a decline in revenue, a loss of market acceptance of our services and a negative impact on our results of operations.

*Our profitability could be negatively affected by a reduction in reimbursement from payors.*

States such as Illinois and California are experiencing large budget deficits, which may result in lower Medicaid payments. In addition, private payors, including commercial insurance companies, could also reduce reimbursement. Any reduction in Medicaid reimbursements or imposition of copayments that dissuade the use of our services, or any reduction in reimbursement from private payors, would materially adversely affect our profitability.

*We are subject to extensive government regulation. Changes to the laws and regulations governing our business could negatively impact our profitability and any failure to comply with these regulations could adversely affect our business.*

The federal government and the states in which we operate regulate our industry extensively. The laws and regulations governing our operations, along with the terms of participation in various government programs, impose certain requirements on the way in which we do business, the services we offer, and our interactions with consumers and the public. These requirements include matters related to:

licensure and certification;

adequacy and quality of services;

qualifications and training of personnel;

confidentiality, maintenance and security issues associated with medical records and claims processing;

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the use and disclosure of protected health information;

relationships with physicians and other referral sources;

operating policies and procedures;

addition of facilities and services; and

billing for services.

These laws and regulations, including the Health Reform Act, and their interpretations, are subject to frequent change. These changes could reduce our profitability by increasing our liability, increasing our administrative and other costs, increasing or decreasing mandated services, forcing us to restructure our relationships with referral sources and providers or requiring us to implement additional or different programs and systems. Failure to comply could lead to the termination of rights to participate in federal and state-sponsored programs, the suspension or revocation of licenses and other civil and criminal penalties and a delay in our ability to bill and collect for services provided. We cannot assure you that the provisions described above will not adversely impact our business, results of operations or financial results. Further, we may be unable to mitigate any adverse effects resulting from the Health Reform Act.

The Health Reform Act amended the False Claims Act to provide that a provider must report and return overpayments within 60 days of identifying the overpayment or the claims for the services that generated the overpayments become false claims subject to the False Claims Act. Overpayments include payments for services for which the provider does not have proper documentation. If we were to identify documentation failures that could not be corrected we could be required to return payments received for those claims within the mandated 60-day time period. If we fail to identify and return overpayments within the required 60-day period we could be subject to suits under the False Claims Act by the government or relators (whistleblowers). Any of these could have a material adverse impact on our business and operations. During an internal evaluation of billing processes, we discovered documentation errors in a number of claims that we had submitted to Medicare and consistent with applicable law, in March 2014, we voluntarily remitted approximately \$1.8 million to the government. See Note 7 to the Consolidated Financial Statements, Details of Certain Balance Sheet Accounts, included elsewhere herein for more information.

In October 2013, California enacted the Home Care Services Consumer Protection Act. The act establishes a licensing program for home care organizations, and requires background checks, basic training, and tuberculosis screening for the aides that are employed by home care organizations. Home care organizations and aides will have until January 1, 2015 to comply with the new licensing and background check requirements. Although we sold the bulk of our home health business in California in March 2013, we continue to operate in California. The requirements of the act are expected to impose additional costs on us.

We are subject to various federal and state regulations and laws, including Anti-kickback laws, the Stark Law, the False Claims Act, Fraud Alerts, HIPPA and the HITECH Act as described in the Section Government Regulation discussed elsewhere in this document. Failure to comply to these regulations or violations to these laws could lead to fines and exclusions or other sanctions that could have a material effect on our business.

***We are subject to federal and state laws that govern our employment practices. Failure to comply with these laws, or changes to these laws that increase our employment-related expenses, could adversely impact our operations.***

We are required to comply with all applicable federal and state laws and regulations relating to employment, including occupational safety and health requirements, wage and hour requirements, employment insurance and equal employment opportunity laws. These laws can vary significantly among states and can be highly technical. Costs and expenses related to these requirements are a significant operating expense and may increase as a result of, among other things, changes in federal or state laws or regulations requiring employers to provide specified

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benefits to employees, increases in the minimum wage and local living wage ordinances, increases in the level of existing benefits or the lengthening of periods for which unemployment benefits are available. We may not be able to offset any increased costs and expenses. Furthermore, any failure to comply with these laws, including even a seemingly minor infraction, can result in significant penalties which could harm our reputation and have a material adverse effect on our business.

In addition, certain individuals and entities, known as excluded persons, are prohibited from receiving payment for their services rendered to Medicaid, Medicare and other federal and state healthcare program beneficiaries. If we inadvertently hire or contract with an excluded person, or if any of our current employees or contractors becomes an excluded person in the future without our knowledge, we may be subject to substantial civil penalties, including up to \$10,000 for each item or service furnished by the excluded individual to a federal or state healthcare program beneficiary, an assessment of up to three times the amount claimed and exclusion from the program.

Under the Health Reform Act, beginning in 2015, if we continue to provide a medical plan, we will be required to provide a minimum level of coverage for 70 percent of our full-time employees or be subject to an annual penalty. Many of our employees are not provided any medical coverage. If we determine that we will provide medical coverage for these employees, the costs could be material and have a significant effect on our profitability.

In September 2013, the United States Department of Labor announced the adoption of a rule that extended the minimum wage and overtime pay requirements of federal law to most direct care workers, such as home health aides, personal care aides and certified nursing assistants. These employees have been exempt from federal wage laws since 1974. The new rule will take effect on January 1, 2015. A number of states already require that direct care workers receive state-mandated minimum wage and/or overtime pay. Opponents say that the new protections will make in-home care more expensive for government programs such as Medicaid that pay for such services, and that the new rule could result in a reduction in covered services. We are currently evaluating the effect of the new rule on our operations.

***We are subject to reviews, compliance audits and investigations that could result in adverse findings that negatively affect our net service revenues and profitability.***

As a result of our participation in Medicaid, Medicaid waiver, Medicare programs, Veterans Health Administration programs and other state and local governmental programs, and pursuant to certain of our contractual relationships, we are subject to various reviews, audits and investigations by governmental authorities and other third parties to verify our compliance with these programs and agreements as well as applicable laws, regulations and conditions of participation. Pursuant to the Home Health Purchase Agreement, we are obligated to indemnify the Purchasers for, among other things, (i) penalties, fines, judgments and settlement amounts arising from a violation of certain specified statutes, including the False Claims Act, the Civil Monetary Penalties Law, the federal Anti-Kickback Statute, the Stark Law or any state law equivalent in connection with the operation of the Home Health Business prior to the Closing, and (ii) any liability related to the failure of any reimbursement claim submitted to certain government programs for services rendered by the Home Health Business prior to the Closing to meet the requirements of such government programs, or any violation prior to the Closing of any health care laws. Such liabilities include amounts to be recouped by, or repaid to, such government programs as a result of improperly submitted claims for reimbursement or those discovered as a result of audits by investigative agencies. All services that we have provided that have been or may be reimbursed by Medicare are subject to retroactive adjustments and/or total denial of payments received from Medicare under various review and audit provisions included in the program regulations. The review period is generally described as six years from the date the services are provided but could be expanded to ten years under certain circumstances if fraud is found to have existed at the time of original billing. In the event that there are adjustments relating to the period prior to the Closing, we may be required to reimburse the Purchasers for the amount of such adjustments, which could adversely affect our business and financial condition. Payments we

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receive in respect of Medicaid and Medicare can be retroactively adjusted after a new examination during the claims settlement process or as a result of pre- or post-payment audits. Federal, state and local government payors may disallow our requests for reimbursement based on determinations that certain costs are not reimbursable because proper documentation was not provided or because certain services were not covered or deemed necessary. In addition, other third-party payors may reserve rights to conduct audits and make reimbursement adjustments in connection with or exclusive of audit activities. Significant adjustments as a result of these audits could adversely affect our revenues and profitability.

If we fail to meet any of the conditions of participation or coverage with respect to state licensure or our participation in Medicaid, Medicaid waiver, Medicare programs, Veterans Health Administration programs and other state and local governmental programs, we may receive a notice of deficiency from the applicable surveyor or authority. Failure to institute a plan of action to correct the deficiency within the period provided by the surveyor or authority could result in civil or criminal penalties, the imposition of fines or other sanctions, damage to our reputation, cancellation of our agreements, suspension or revocation of our licenses or disqualification from federal and state reimbursement programs. These actions may adversely affect our ability to provide certain services, to receive payments from other payors and to continue to operate. Additionally, actions taken against one of our locations may subject our other locations to adverse consequences. We may also fail to discover all instances of noncompliance by our acquisition targets, which could subject us to adverse remedies once those acquisitions are complete. Any termination of one or more of our locations from any federal, state or local program for failure to satisfy such program's conditions of participation could adversely affect our net service revenues and profitability.

***Negative publicity or changes in public perception of our services may adversely affect our ability to receive referrals, obtain new agreements and renew existing agreements.***

Our success in receiving referrals, obtaining new agreements and renewing our existing agreements depends upon maintaining our reputation as a quality service provider among governmental authorities, physicians, hospitals, discharge planning departments, case managers, nursing homes, rehabilitation centers, advocacy groups, consumers and their families, other referral sources and the public. While we believe that the services that we provide are of high quality, if studies mandated by Congress in the Health Reform Act to make public quality measures are implemented and if our quality measures are deemed to be not of the highest value, our reputation could be negatively affected. Negative publicity, changes in public perceptions of our services or government investigations of our operations could damage our reputation and hinder our ability to receive referrals, retain agreements or obtain new agreements. Increased government scrutiny may also contribute to an increase in compliance costs and could discourage consumers from using our services. Any of these events could have a negative effect on our business, financial condition and operating results.

In addition, in connection with the sale of our Home Health Business, we granted a license to the Purchasers that allows them to use certain of our intellectual property, including the Addus name, for the provision of skilled nursing and related physical therapy healthcare services to individuals in their homes and hospice services in California, Illinois, Arkansas, South Carolina and Nevada. Although the use of the intellectual property is required to be consistent and at least equal to the level of quality and brand perception prior to the sale, we do not have operational control over the Purchasers. As a result, home health agencies operated by the Purchasers may not be operated in a manner consistent with the standards we uphold at our agencies. If such agencies do not maintain operational standards consistent with the standards we demand of our agencies, the image and brand reputation of Addus may suffer and our business may be materially affected.

***Our growth strategy depends on our ability to manage growing and changing operations and we may not be successful in managing this growth.***

Our business plan calls for significant growth in business over the next several years through the expansion of our services in existing markets and the establishment of a presence in new markets. This growth will place significant demands on our management team, systems, internal controls and financial and professional

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resources. In addition, we will need to further develop our financial controls and reporting systems to accommodate future growth. This could require us to incur expenses for hiring additional qualified personnel, retaining professionals to assist in developing the appropriate control systems and expanding our information technology infrastructure. Our inability to effectively manage growth could have a material adverse effect on our financial results.

### ***Future acquisitions or start-ups may be unsuccessful and could expose us to unforeseen liabilities.***

Our growth strategy includes geographical expansion into new markets and the addition of new services in existing markets through the acquisition of local service providers. These acquisitions involve significant risks and uncertainties, including difficulties assimilating acquired personnel and other corporate cultures into our business, the potential loss of key employees or consumers of acquired providers, and the assumption of liabilities and exposure to unforeseen liabilities of acquired providers. In the past, we have made acquisitions that have not performed as expected or that we have been unable to successfully integrate with our existing operations. In addition, our due diligence review of acquired businesses may not successfully identify all potential issues. For example, we were unable to fully integrate one acquired business because we were unable to procure a necessary government endorsement. The failure to effectively integrate future acquisitions could have an adverse impact on our operations.

We have grown our business through start-up, or de novo, locations, and we may in the future start up new locations in existing and new markets. Start-ups involve significant risks, including those relating to licensure, accreditation, hiring new personnel, establishing relationships with referral sources and delayed or difficulty in installing our operating and information systems. We may not be successful in establishing start-up locations in a timely manner due to generating insufficient business activity and incurring higher than projected operating cost that could have a material adverse effect on our financial condition, results of operations and cash flows.

### ***We may be unable to pursue acquisitions or expand into new geographic regions without obtaining additional capital or consent from our lenders.***

At December 31, 2013 and December 31, 2012, we had cash balances of \$15.6 million and \$1.7 million, respectively. As of December 31, 2013, we had no outstanding debt on our credit facility. After giving effect to the amount drawn on our credit facility, approximately \$12.4 million of outstanding letters of credit and borrowing limits based on an advanced multiple of adjusted EBITDA, we had \$42.6 million available for borrowing under the credit facility as of December 31, 2013. Since our credit facility provides for borrowings based on a multiple of an EBITDA ratio, any declines experienced in our EBITDA would result in a decrease in our available borrowings under our credit facility.

We cannot predict the timing, size and success of our acquisition efforts, our efforts to expand into new geographic regions or the associated capital commitments. If we do not have sufficient cash resources or availability under our credit facility, our growth could be limited unless we obtain additional equity or debt financing. In the future, we may elect to issue additional equity securities in conjunction with raising capital, completing an acquisition or expanding into a new geographic region. Such issuances would be dilutive to existing shareholders. In addition, our credit facility prohibits us from consummating more than three acquisitions in any calendar year, and, in any event, does not permit the purchase price for any one acquisition to exceed \$500,000, in each case without the consent of the lenders. The consideration we paid in connection with 11 of the 14 acquisitions we completed exceeded \$500,000. In addition, our credit facility requires, among other things, that we are in pro forma compliance with the financial covenants set forth therein and that no event of default exists before and after giving effect to any proposed acquisition. Our ability to expand in a manner consistent with historic practices may be limited if we are unable to obtain such consent from our lenders.

Access to additional capital and credit markets, at a reasonable cost, may be necessary for us to fund our operations, including potential acquisitions and working capital requirements. We currently rely on one financial

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institution for funding under our credit facility and any instability in the financial markets or the negative impact of local, national and worldwide economic conditions on that financial institution could impact our short and long-term liquidity needs to meet our business requirements.

*As a result of the indemnification provisions of the Home Health Purchase Agreement pursuant to which we sold Home Health Business, we may incur expenses and liabilities related to periods up to the date of sale or pursuant to our other indemnification obligations thereunder.*

As a result of the indemnification provisions of the Home Health Purchase Agreement pursuant to which we sold the Home Health Business, we have agreed to indemnify the Purchasers for, among other things, (i) penalties, fines, judgments and settlement amounts arising from a violation of certain specified statutes, including the False Claims Act, the Civil Monetary Penalties Law, the federal Anti-Kickback Statute, the Stark Law or any state law equivalent in connection with the operation of the Home Health Business prior to the Closing, and (ii) any liability related to the failure of any reimbursement claim submitted to certain government programs for services rendered by the Home Health Business prior to the Closing to meet the requirements of such government programs, or any violation prior to the Closing of any health care laws. Such liabilities include amounts to be recouped by, or repaid to, such government programs as a result of improperly submitted claims for reimbursement or those discovered as a result of audits by investigative agencies. All services that we have provided that have been or may be reimbursed by Medicare are subject to retroactive adjustments and/or total denial of payments received from Medicare under various review and audit provisions included in the program regulations. The review period is generally described as six years from the date the services are provided but could be expanded to ten years under certain circumstances if fraud is found to have existed at the time of original billing. In the event that there are adjustments relating to the period prior to the Closing, we may be required to reimburse the Purchasers for the amount of such adjustments, which could adversely affect our business and financial condition.

In addition, pursuant to the Home Health Purchase Agreement, we are obligated to indemnify the Purchasers for breaches of representations, warranties and covenants, certain taxes and liabilities related to the pre-Closing period (other than specifically identified assumed liabilities). Any liability we have to the Purchasers under the Home Health Purchase Agreement could adversely affect our results of operations.

*Our business may be harmed by labor relations matters.*

We are subject to a risk of work stoppages and other labor relations matters because our hourly workforce is highly unionized. As of December 31, 2013, approximately 70% of our hourly workforce was represented by two national unions, including the Service Employees International Union, which is our largest union. We have a national agreement with the SEIU. Wages and benefits are negotiated at the local level at various times throughout the year. These negotiations are often initiated when we receive increases in our hourly rates from various state agencies. Upon expiration of these collective bargaining agreements, we may not be able to negotiate labor agreements on satisfactory terms with these labor unions. A strike, work stoppage or other slowdown could result in a disruption of our operations and/or higher ongoing labor costs, which could adversely affect our business. Labor costs are the most significant component of our total expenditures and, therefore, an increase in the cost of labor could significantly harm our business.

*Our operations subject us to risk of litigation.*

Operating in the home and community based services industry exposes us to an inherent risk of wrongful death, personal injury, professional malpractice and other potential claims or litigation brought by our consumers and employees. Because we operate in this industry, from time to time, we are subject to claims alleging that we did not properly treat or care for a consumer that we failed to follow internal or external procedures that resulted in death or harm to a consumer or that our employees mistreated our consumers, resulting in death or harm. We are also subject to claims arising out of accidents involving vehicle collisions brought by consumers whom we

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are transporting or from employees driving to or from home visits. We operate five adult day centers which provide transportation for our elderly and disabled consumers. Each of our vehicles transports 7 to 14 passengers to and from our locations. The concentration of consumers in one vehicle increases the risk of larger claims being brought against us in the event of an accident.

In addition, regulatory agencies may initiate administrative proceedings alleging violations of statutes and regulations arising from our services and seek to impose monetary penalties on us. We could be required to pay substantial amounts to respond to regulatory investigations or, if we do not prevail, damages or penalties arising from these legal proceedings. We also are subject to potential lawsuits under the False Claims Act or other federal and state whistleblower statutes designed to combat fraud and abuse in our industry. These lawsuits can involve significant monetary awards or penalties which may not be covered by our insurance. If our third-party insurance coverage and self-insurance coverage reserves are not adequate to cover these claims, it could have a material adverse effect on our business, results of operations and financial condition. Even if we are successful in our defense, civil lawsuits or regulatory proceedings could distract us from running our business or irreparably damage our reputation.

***Our insurance liability coverage may not be sufficient for our business needs.***

Although we maintain insurance consistent with industry practice, the insurance we maintain may not be sufficient to satisfy all claims made against us. For example, we have a \$350,000 deductible per person/per occurrence under our workers' compensation insurance program. We cannot assure you that claims will not be made in the future in excess of the limits of our insurance, and any such claims, if successful and in excess of such limits, may have a material adverse effect on our business or assets. We utilize historical data to estimate our reserves for our insurance programs. If losses on asserted claims exceed the current insurance coverage and accrued reserves, our business, results of operations and financial condition could be adversely affected. Changes in our annual insurance costs and self-insured retention limits depend in large part on the insurance market, and insurance coverage may not continue to be available to us at commercially reasonable rates, in adequate amounts or on satisfactory terms.

***Inclement weather or natural disasters may impact our ability to provide services.***

Inclement weather may prevent our employees from providing authorized services. We are not paid for authorized services that are not delivered due to these weather events. Furthermore, prolonged inclement weather or the occurrence of natural disasters in the markets in which we operate could disrupt our relationships with consumers, employees and referral sources located in affected areas and, in the case of our corporate office, our ability to provide administrative support services, including billing and collection services. For example, our corporate headquarters and a number of our agencies are located in the Midwestern United States and California, increasing our exposure to blizzards and other major snowstorms, ice storms, tornados, flooding and earthquakes. Severe weather experienced during January and February of 2014 may negatively impact revenues in the first quarter of 2014. Future inclement weather or natural disasters may adversely affect our business and consolidated financial condition, results of operations and cash flows.

***Our business depends on our information systems. Our operations may be disrupted if we are unable to effectively integrate, manage and maintain the security of our information systems.***

Our business depends on effective and secure information systems that assist us in, among other things, gathering information to improve the quality of consumer care, optimizing financial performance, adjusting consumer mix, monitoring regulatory compliance and enhancing staff efficiency. We rely on an external service provider, McKesson, to provide continual maintenance, upgrading and enhancement of our primary information systems used for our operational needs. The software we license from McKesson supports intake, personnel scheduling, office clinical and centralized billing and receivables management in an integrated database, enabling us to standardize the care delivered across our network of locations and monitor our performance and consumer outcomes. To the extent that McKesson becomes insolvent or fails to support the software or systems, or if we lose our license with McKesson, our operations could be negatively affected.



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We also depend upon a proprietary payroll management system that includes a feature for general ledger population, tax reporting, managing wage assignments and garnishments, on-site check printing, and direct-deposit paychecks. If we experience a reduction or interruption in the performance, reliability or availability of our information systems, or fail to restore our information systems after such a reduction or interruption, our operations and ability to produce timely and accurate reports could be adversely affected. The operation of this system is dependent on the knowledge and talents of a limited number of company employees. Should these individuals terminate their employment, our ability to adequately support or maintain the system could be materially affected. We expect to replace our proprietary payroll system with a new system provided by an outside vendor during 2014. If we experience any disruptions in service during the transition to the outside vendor, our ability to produce timely and accurate reports could be adversely affected.

Because of the confidential health information and consumer records we store and transmit, loss of electronically-stored information for any reason could expose us to a risk of regulatory action, litigation and liability.

If we experience a reduction in the performance, reliability, or availability of our information systems, our operations and ability to process transactions and produce timely and accurate reports could be adversely affected. If we experience difficulties with the transition and integration of information systems or are unable to implement, maintain, or expand our systems properly, we could suffer from, among other things, operational disruptions, regulatory problems, and increases in administrative expenses.

We do not have full redundancy of all of our information systems. Should our support center become inoperable as a result of a natural disaster or terrorist acts, it would take substantial amount of time and resources to restore our business to the current state of operation. This risk is becoming even more critical as we are centralizing more of our business operations. The disruption to the business would be material and would affect our operational and financial performance.

Our business requires the secure transmission of confidential information over public networks. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments could result in compromises or breaches of our security systems and consumer data stored in our information systems. Anyone who circumvents our security measures could misappropriate our confidential information or cause interruptions in our services or operations. The Internet is a public network, and data is sent over this network from many sources. In the past, computer viruses or software programs that disable or impair computers have been distributed and have rapidly spread over the Internet. Computer viruses could be introduced into our systems which could disrupt our operations or make our systems inaccessible. We may be required to expend significant capital and other resources to protect against the threat of security breaches or to alleviate problems caused by breaches. Our security measures may be inadequate to prevent security breaches, and our business operations would be negatively impacted by cancellation of contracts and loss of consumers if security breaches are not prevented.

***The agreements that govern our credit facility contain various covenants that limit our discretion in the operation of our business and we have agreed to negotiate new terms.***

Our credit facility agreement requires us to comply with customary financial and non-financial covenants. The financial covenants require us to maintain a maximum fixed charge ratio and a maximum leverage ratio, and limit our capital expenditures. Our credit facility also includes non-financial covenants including restrictions on our ability to:

transfer assets, enter into mergers, make acquisitions or experience fundamental changes;

make investments, loans and advances;

incur additional indebtedness and guarantee obligations;

create liens on assets;

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enter into affiliate transactions;

enter into transactions other than in the ordinary course of business;

incur capital lease obligations; and

make capital expenditures.

We agreed, as a condition to receiving our lender's consent to the sale of the Home Health Business, to renegotiate the terms of our current credit facility, including a potential reduction in the amount of the maximum revolving loan limit and commitment. We are in the process of renegotiating our credit facility and there can be no assurances that we will be able to obtain financing on terms that are as favorable as our current credit facility. This could result in a reduction of our available credit or increases to our costs. These changes along with the restrictions in our current credit facility could impose significant operating and financial restrictions on our ability to take actions that may be in our best interests.

***Our current principal stockholders have significant influence over us, and they could delay, deter or prevent a change of control or other business combination or otherwise cause us to take action with which you might not agree.***

Eos Capital Partners III, L.P. and Eos Partners SBIC III, L.P., or the Eos Funds, together beneficially own approximately 36.9% of our outstanding common stock as of December 31, 2013. As a result, the Eos Funds have the ability to significantly influence all matters submitted to our stockholders for approval, including:

changes to the composition of our board of directors, which has the authority to direct our business and appoint and remove our officers;

proposed mergers, consolidations or other business combinations; and

amendments to our certificate of incorporation and bylaws which govern the rights attached to our shares of common stock.

In addition, one of our directors is affiliated with the Eos Funds.

This concentration of ownership of shares of our common stock could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of shares of our common stock that might otherwise give you the opportunity to realize a premium over the then-prevailing market price of our common stock. The interests of the Eos Funds may not always coincide with the interests of the other holders of our common stock. This concentration of ownership may also adversely affect our stock price.

***We may not be able to attract, train and retain qualified personnel.***

We must attract and retain qualified personnel in the markets in which we operate in order to provide our services. We compete for personnel with other providers of social and medical services as well as companies in other service-based industries. Competition may be greater for skilled personnel, such as regional and agency directors. Our ability to attract and retain personnel depends on several factors, including our ability to provide employees with attractive assignments and competitive benefits and salaries.

The loss of one or more of the members of the executive management team or the inability of a new management team to successfully execute our strategies may adversely affect our business. If we are unable to attract and retain qualified personnel, we may be unable to provide our services, the quality of our services may decline, and we could lose consumers and referral sources.



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*We may be more vulnerable to the effects of a public health catastrophe than other businesses due to the nature of our consumers.*

The majority of our consumers are older individuals with complex medical challenges, many of whom may be more vulnerable than the general public during a pandemic or in a public health catastrophe. Our employees are also at greater risk of contracting contagious diseases due to their increased exposure to vulnerable consumers. For example, if a flu pandemic were to occur, we could suffer significant losses to our consumer population or a reduction in the availability of our employees and, at a high cost, be required to hire replacements for affected workers. Accordingly, certain public health catastrophes could have a material adverse effect on our financial condition and results of operations.

*We depend on the services of our executive officers and other key employees.*

Our success depends upon the continued employment of certain members of our senior management team. We also depend upon the continued employment of the individuals that manage several of our key functional areas, including operations, business development, accounting, finance, human resources, marketing, information systems, contracting and compliance. The departure of any member of our senior management team may materially adversely affect our operations.

*If we were required to write down all or part of our goodwill and/or our intangible assets, our net earnings and net worth could be materially adversely affected.*

Goodwill and intangible assets with finite lives represent a significant portion of our assets. Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. If our market capitalization drops significantly below the amount of net equity recorded on our balance sheet, it might indicate a decline in our fair value and would require us to further evaluate whether our goodwill has been impaired. If as part of our annual review of goodwill and intangibles, we were required to write down all or a significant part of our goodwill and/or intangible assets, our net earnings and net worth could be materially adversely affected, which could affect our flexibility to obtain additional financing. In addition, if our assumptions used in preparing our valuations of our reporting units for purposes of impairment testing differ materially from actual future results, we may record impairment charges in the future and our financial results may be materially adversely affected. We had \$60.0 million of goodwill and \$8.8 million of intangible assets recorded on our consolidated balance sheet at December 31, 2013.

It is not possible at this time to determine if there will be any future impairment charge, or if there is, whether such charges would be material. We will continue to review our goodwill and other intangible assets for possible impairment. We cannot be certain that a downturn in our business or changes in market conditions will not result in an impairment of goodwill or other intangible assets and the recognition of resulting expenses in future periods, which could adversely affect our results of operations for those periods.

*The market price of our common stock may be volatile and this may adversely affect our stockholders.*

The price at which our common stock trades may be volatile. The stock market has recently experienced significant price and volume fluctuations that have affected the market prices of all securities, including securities of health care companies. The market price of our common stock may be influenced by many factors, including:

our operating and financial performance;

variances in our quarterly financial results compared to expectations;

the depth and liquidity of the market for our common stock;

we have a small base of registered shares of common stock consisting of the 5.4 million shares we issued in our initial public offering ( IPO ), which represents approximately 49.5% of our total common shares outstanding, that could result in significant stock price movements upward or downward based on low levels of trading volume in our common stock;



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future sales of common stock or the perception that sales could occur;

investor perception of our business and our prospects;

developments relating to litigation or governmental investigations;

changes or proposed changes in health care laws or regulations or enforcement of these laws and regulations, or announcements relating to these matters; or

general economic and stock market conditions.

In addition, the stock market in general has experienced price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of homecare companies. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance. In the past, securities class-action litigation has often been brought against companies following periods of volatility in the market price of their respective securities. We have been and may become involved in this type of litigation in the future. Litigation of this type is often expensive to defend and may divert our management team's attention as well as resources from the operation of our business.

***We do not anticipate paying dividends on our common stock in the foreseeable future and, consequently, your ability to achieve a return on your investment will depend solely on appreciation in the price of our common stock.***

We do not pay dividends on our shares of common stock and intend to retain all future earnings to finance the continued growth and development of our business and for general corporate purposes. In addition, we do not anticipate paying cash dividends on our common stock in the foreseeable future. Any future payment of cash dividends will depend upon our financial condition, capital requirements, earnings and other factors deemed relevant by our board of directors.

***If securities or industry analysts fail to publish research or reports about our business or publish negative research or reports, or our results are below analysts' estimates, our stock price and trading volume could decline.***

The trading market for our common stock may depend in part on the research and reports that industry or securities analysts publish about us or our business. We do not have any control over these analysts. If analysts fail to publish reports on us regularly or at all, we could fail to gain visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. If one or more analysts do cover us and downgrade their evaluations of our stock or our results are below analysts' estimates, our stock price would likely decline. In addition, due to the small number of analysts covering us, a single comment or report from one of the analysts whether positive or negative, could result in a significant increase or decrease in our stock price.

***Provisions in our organizational documents and Delaware law could delay or prevent a change in control of our company, which could adversely affect the price of our common stock.***

Provisions in our amended and restated certificate of incorporation and bylaws and anti-takeover provisions of the Delaware General Corporation Law, could discourage, delay or prevent an unsolicited change in control of our company, which could adversely affect the price of our common stock. These provisions may also have the effect of making it more difficult for third parties to replace our current management without the consent of the board of directors. Provisions in our amended and restated certificate of incorporation and bylaws that could delay or prevent an unsolicited change in control include:

a staggered board of directors;

limitations on persons authorized to call a special meeting of stockholders; and

the authorization of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval.

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As a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. This section generally prohibits us from engaging in mergers and other business combinations with stockholders that beneficially own 15% or more of our voting stock, or with their affiliates, unless our directors or stockholders approve the business combination in the prescribed manner. However, because the Eos Funds acquired their shares prior to our IPO, Section 203 is currently inapplicable to any business combination with the Eos Funds or their affiliates. In addition, our amended and restated bylaws require that any stockholder proposals or nominations for election to our board of directors must meet specific advance notice requirements and procedures, which make it more difficult for our stockholders to make proposals or director nominations.

***If we fail to achieve and maintain effective internal control over financial reporting, our business and stock price could be adversely impacted.***

Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires our management to report on, and requires our independent registered public accounting firm to attest to, the effectiveness of our internal controls over financial reporting. Compliance with SEC regulations adopted pursuant to Section 404 of the Sarbanes Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting. Compliance with Section 404 of the Sarbanes-Oxley Act has increased our legal and financial compliance costs making some activities more difficult, time-consuming or costly and may also place strain on our personnel, systems and resources.

Compliance with public reporting and Sarbanes-Oxley Act requirements requires us to continually evaluate the adequacy of, and in some cases expand our compliance, accounting and finance staff. As a result of our increased stock price and overall market value as of the end of the second quarter of 2013, we became subject to the requirements of Section 404 of Sarbanes Oxley. Accordingly, we are now required to have an audit of our internal controls over financial reporting. We believe that material weaknesses in internal controls over financial reporting existed as of December 31, 2013, principally related to general controls over our information technology, including user access and change management activities and to overall controls related to our payroll system and related processes. We will engage an expert consultant to assist in enhancing the controls over our information technology; in addition, we have selected the vendor for a new payroll system that will address the control issues in that area and will engage an expert consultant to assist in the implementation. Implementing any appropriate changes to our internal controls may require specific compliance training of our directors, officers and employees, entail substantial costs to modify our existing accounting systems, and take a significant period of time to complete. Such changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. Moreover, if we fail to satisfy the requirements of Section 404 on a timely basis, we could be subject to regulatory scrutiny and sanctions, our ability to raise capital could be impaired, investors may lose confidence in the accuracy and completeness of our financial reports and our stock price could be adversely affected.

***Compliance with changing regulations including specific program compliance, corporate governance and public disclosure will result in additional expenses and pose challenges for our management team.***

The state agencies that contract for our services require our compliance with various rules and regulations affecting the services we provide. We have a compliance officer who monitors and reports on our efforts for achieving the desired results. State agencies are recommending increased rules and regulations in an effort to control the growth of these programs and their overall costs. The implementation of these changes may require the Company to increase their efforts to remain compliant, may reduce the authorizations for services to be provided, may result in certain consumers no longer being eligible for our services all of which may result in lower revenues and increased costs, reducing our operating performance and profitability. If we continue to serve our consumers without addressing these increased regulations we are at risk for non-compliance with program requirements and potential penalties.



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Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations promulgated there-under, the Sarbanes-Oxley Act and SEC regulations, have created uncertainty for public companies and significantly increased the costs and risks associated with accessing the U.S. public markets. We are committed to maintaining high standards of internal controls over financial reporting, corporate governance and public disclosure. As a result, we intend to continue to invest appropriate resources to comply with evolving standards, and this investment has resulted and will likely continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

### ***Declines in earnings could create future liquidity problems.***

The availability of funds under the revolving credit portion of our credit facility is based on the lesser of (i) the product of adjusted EBITDA, as defined, for the most recent 12-month period multiplied by the specified advance multiple, up to 3.25, less the outstanding senior indebtedness and letters of credit or (ii) \$55.0 million less the outstanding revolving loans and letters of credit. As of December 31, 2013 our total availability under our credit facility was \$42.4 million.

The current Federal and state economic and reimbursement environments and state budgetary pressures to decrease or eliminate services we provide could negatively affect our future earnings. This decrease in earnings would reduce the availability of funds under our credit facility which could have a negative impact on our future operating results.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

We do not own any real property. As of December 31, 2013, we operated at 122 leased properties including our National Support Center. Home and community based services are operated out of 121 of these facilities. As part of the sale of the Home Health Business, a portion of 13 of the facilities were subleased to the Purchasers. We lease approximately 27,000 square feet of an office building in Palatine, Illinois, which serves as our corporate headquarters, from a former member of our board of directors and the former Chairman of Addus HealthCare. We have entered into a new lease for approximately 59,000 square feet of an office building located in Downers Grove, IL to become our new corporate headquarters. We will assume occupancy in May of 2014 at which time our arrangement with the former board member and Chairman of Addus HealthCare will terminate.

### **ITEM 3. LEGAL PROCEEDINGS**

From time to time, we are subject to claims and suits arising in the ordinary course of our business, including claims for damages for personal injuries. In our management's opinion, the ultimate resolution of any of these pending claims and legal proceedings will not have a material adverse effect on our financial position or results of operations.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock has been trading on The NASDAQ Global Market under the symbol ADUS since our IPO on October 27, 2009. Prior to that time, there was no public market for our common stock. The holders of our common stock are entitled to one vote per share on any matter to be voted upon by stockholders. All shares of common stock rank equally as to voting and all other matters. The table below sets forth the high and low sales prices for our common stock, as reported by The NASDAQ Global Market, for each of the periods indicated.

	High	Low
<b>2013</b>		
Fourth Quarter	\$ 32.40	\$ 21.13
Third Quarter	29.94	17.62
Second Quarter	20.72	11.17
First Quarter	14.07	7.12
<b>2012</b>		
Fourth Quarter	\$ 7.49	\$ 5.25
Third Quarter	5.38	4.29
Second Quarter	5.30	3.67
First Quarter	5.05	3.21

**Holdings**

As of December 31, 2013, 46.4% of our shares were held by Company insiders. An additional 23.9% of the stock was held by 10 institutional investors. We cannot estimate the total number of holders of the shares of our company.

**Dividends**

Historically, we have not paid dividends on our common stock, and we currently do not intend to pay any dividends on our common stock. We currently plan to retain any earnings to support the operation, and to finance the growth, of our business rather than to pay cash dividends. Payments of any cash dividends in the future will depend on our financial condition, results of operations and capital requirements as well as other factors deemed relevant by our board of directors. Our credit facility restricts our ability to declare or pay any dividend or other distribution unless no default then exists or would occur as a result thereof, and we are in pro forma compliance with the financial covenants contained in our credit facility after giving effect thereto.

**Equity Compensation Plan**

The following table presents securities authorized for issuance under our equity compensation plans at December 31, 2013.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (2)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First
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				Column) (3)
Equity Compensation Plans Approved by Security Holders	717,588	\$	8.80	1,681,750
Equity Compensation Plans Not Approved by Security Holders				
<b>Total</b>	<b>717,588</b>	<b>\$</b>	<b>8.80</b>	<b>1,681,750</b>

- (1) Includes both grants of stock options and unvested share awards.
- (2) Includes weighted-average exercise price of outstanding stock options only.
- (3) Represents shares of common stock that may be issued pursuant to our 2006 stock incentive plan (the 2006 Plan ) or our 2009 stock incentive plan (the 2009 Plan ). We do not plan on issuing any further grants under the 2006 Plan. There are 852,791 shares of common stock that may be issued pursuant to the 2009 Plan.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth selected financial information derived from our consolidated financial statements for the periods and at the dates indicated. The information is qualified in its entirety by and should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

	2013	For the Year Ended December 31,			2009
		2012	2011	2010	
		(in thousands, except per share data)			
<b>Consolidated Statements of Operations Data:</b>					
Net service revenues (1)	\$ 265,941	\$ 244,315	\$ 230,105	\$ 230,099	\$ 219,921
Cost of service revenues	198,202	180,264	168,632	170,376	162,734
Gross profit	67,739	64,051	61,473	59,723	57,187
General and administrative expenses (4)	50,118	46,362	45,858	47,042	45,137
Revaluation of contingent consideration (6)			(469)	5,011	
Gain on sale of agency		(495)			
Depreciation and amortization	2,160	2,521	3,167	3,408	4,144
Total operating expenses	52,278	48,388	48,556	50,450	49,281
Operating income from continuing operations	15,461	15,663	12,917	9,273	7,906
Interest income (7)	(188)	(155)	(2,263)	(155)	
Interest expense (2)	674	1,723	2,524	3,159	6,773
Total interest expense, net	486	1,568	261	3,004	6,773
Income from continuing operations before income taxes	14,975	14,095	12,656	6,269	1,133
Income tax expense (benefit)	3,812	4,807	4,244	1,902	(94)
Net income from continuing operations	11,163	9,288	8,412	4,367	1,227
Less: Preferred stock dividends, undeclared subject to payment upon conversion; declared and converted in November 2009					(5,387)
Net income (loss) from continuing operations attributable to common shareholders	11,163	9,288	8,412	4,367	(4,160)
<b>Discontinued Operations</b>					
Net income (loss) from home health business (5)	(980)	(1,653)	(10,393)	1,661	2,375
Gain on sale of home health business, net of tax	8,962				
Income (losses) from discontinued operations	7,982	(1,653)	(10,393)	1,661	2,375
Net income (loss)	\$ 19,145	\$ 7,635	\$ (1,981)	\$ 6,028	\$ (1,785)
<b>Basic income (loss) per common share:</b>					
Continuing operations	\$ 1.03	\$ 0.86	\$ 0.78	\$ 0.41	\$ (1.54)
Discontinued operations	0.74	(0.15)	(0.96)	0.16	0.88
Basic income (loss) per common share:	\$ 1.77	\$ 0.71	\$ (0.18)	\$ 0.57	\$ (0.66)

Diluted income (loss) per common share:

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Continuing operations	\$ 1.01	\$ 0.86	\$ 0.78	\$ 0.41	\$ (1.54)
Discontinued operations	0.72	(0.15)	(0.96)	0.16	0.88
<b>Diluted income (loss) per common share:</b>	<b>\$ 1.73</b>	<b>\$ 0.71</b>	<b>\$ (0.18)</b>	<b>\$ 0.57</b>	<b>\$ (0.66)</b>

Weighted average number of common shares and potential common shares outstanding:

Basic	10,826	10,764	10,752	10,604	2,707
Diluted	11,075	10,784	10,752	10,606	2,707

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	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
<b>Key Metrics:</b>					
<b>General:</b>					
Adjusted EBITDA (in thousands) (3)	\$ 18,136	\$ 18,525	\$ 16,415	\$ 12,936	\$ 12,347
States served at period end	21	19	19	19	16
Locations at period end	121	96	96	107	101
Employees at period end	16,585	13,836	12,463	11,716	10,940
<b>Operational Data:</b>					
Average billable census	26,802	25,104	23,877	23,743	22,768
Billable hours (in thousands)	15,621	14,388	13,504	13,599	13,377
Average billable hours per census per month	49	48	47	48	49
Billable hours per business day	59,850	55,126	51,938	52,103	51,253
Revenues per billable hour	\$ 17.02	\$ 16.98	\$ 17.04	\$ 16.92	\$ 16.44
<b>Percentage of Revenues by Payor:</b>					
State, local or other governmental	94%	95%	94%	93%	94%
Commercial	2	1	1	1	1
Private duty	4	4	5	6	5
	2013	2012	December 31, 2011 (in thousands)	2010	2009
<b>Consolidated Balance Sheet Data:</b>					
Cash	\$ 15,565	\$ 1,737	\$ 2,020	\$ 816	\$ 518
Accounts receivable, net of allowances	61,354	71,303	72,368	70,954	70,491
Goodwill and intangibles	68,788	56,906	58,739	77,500	72,564
Total assets	163,934	149,857	154,692	166,924	161,315
Total debt		16,458	31,527	45,185	49,239
Stockholders' equity	113,856	94,417	86,441	88,091	80,567

- (1) Acquisitions completed in 2013 accounted for \$1.7 million of growth in net service revenues from continuing operations for the year ended December 31, 2013. Acquisitions completed in 2010 included in 2011 accounted for \$4.9 million of growth in net service revenues from continuing operations for the year ended December 31, 2011 compared to the year ended December 31, 2010, and included \$4.6 million of growth in net service revenues from continuing operations for the year ended December 31, 2010 compared to the year ended December 31, 2009.
- (2) During 2009 we incurred one-time charges relating to our IPO which included \$1.2 million of separation costs related to the former Chairman of Addus HealthCare which was charged to general and administrative expenses; a charge to interest expense pursuant to a contingent payment agreement in which an amount equal to \$12.7 million was paid upon the completion of our IPO, of which \$1.8 million was deemed interest expense; and the write-off of \$0.8 million in unamortized debt issuance costs relating to our former credit facility that was charged to interest expense.
- (3) We define Adjusted EBITDA as earnings before discontinued operations, interest expense, taxes, depreciation, amortization, stock-based compensation expense and preferred dividends. Adjusted EBITDA is a performance measure used by management that is not calculated in accordance with generally accepted accounting principles in the United States (GAAP). It should not be considered in isolation or as a substitute for net income, operating income or any other measure of financial performance calculated in accordance with GAAP. Management believes that Adjusted EBITDA is useful to investors, management and others in evaluating our operating performance for the following reasons:

By reporting Adjusted EBITDA, we believe that we provide investors with insight and consistency in our financial reporting and present a basis for comparison of our business operations between current,



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past and future periods. Adjusted EBITDA allows management, investors and others to evaluate and compare our core operating results, including return on capital and operating efficiencies, from period to period, by removing the impact of our capital structure (interest expense), asset base (amortization and depreciation), tax consequences and non-cash stock-based compensation expense from our results of operations, and also facilitates comparisons with the core results of our public company peers.

We believe that Adjusted EBITDA is a measure widely used by securities analysts, investors and others to evaluate the financial performance of other public companies, and therefore may be useful as a means of comparison with those companies, when viewed in conjunction with traditional GAAP financial measures.

We adopted ASC Topic 718 Share-Based Payment, on September 19, 2006, the effective date of our 2006 Stock Incentive Plan (the 2006 Plan ), and recorded stock-based compensation expense of \$0.5 million for the year ended December 31, 2013 and \$0.3 million per year for the years ended December 31, 2012, 2011, 2010, 2009 and 2008, respectively. By comparing our Adjusted EBITDA in different periods, our investors can evaluate our operating results without stock-based compensation expense, which is a non-cash expense that is not a key measure of our operations.

In addition, management has chosen to use Adjusted EBITDA as a performance measure because the amount of non-cash expenses, such as depreciation, amortization and stock-based compensation expense, may not directly correlate to the underlying performance of our business operations, and because such expenses can vary significantly from period to period as a result of new acquisitions, full amortization of previously acquired tangible and intangible assets or the timing of new stock-based awards, as the case may be. This facilitates internal comparisons to historical operating results, as well as external comparisons to the operating results of our competitors and other companies in the home and community based services industry. Because management believes Adjusted EBITDA is useful as a performance measure, management uses Adjusted EBITDA:

as one of our primary financial measures in the day-to-day oversight of our business to allocate financial and human resources across our organization, to assess appropriate levels of marketing and other initiatives and to generally enhance the financial performance of our business;

in the preparation of our annual operating budget, as well as for other planning purposes on a quarterly and annual basis, including allocations in order to implement our growth strategy, to determine appropriate levels of investments in acquisitions and to endeavor to achieve strong core operating results;

to evaluate the effectiveness of business strategies, such as the allocation of resources, the mix of organic growth and acquisitive growth and adjustments to our payor mix;

as a means of evaluating the effectiveness of management in directing our core operating performance, which we consider to be performance that can be affected by our management in any particular period through their allocation and use of resources that affect our underlying revenue and profit-generating operations during that period;

for the valuation of prospective acquisitions, and to evaluate the effectiveness of integration of past acquisitions into our company; and

in communications with our board of directors concerning our financial performance.

Although Adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results of operations as reported under GAAP. Some of these limitations include:



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Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or other contractual commitments;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

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Adjusted EBITDA does not reflect interest expense or interest income;

Adjusted EBITDA does not reflect cash requirements for income taxes;

although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for these replacements;

Adjusted EBITDA does not reflect any goodwill and intangible asset impairment charges;

Adjusted EBITDA does not reflect any revaluation of contingent consideration;

Adjusted EBITDA does not reflect any preferred stock dividends;

Adjusted EBITDA does not reflect any stock based compensation; and

other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Management compensates for these limitations by using GAAP financial measures in addition to Adjusted EBITDA in managing the day-to-day and long-term operations of our business. We believe that consideration of Adjusted EBITDA, together with a careful review of our GAAP financial measures, is the most informed method of analyzing our company.

The following table sets forth a reconciliation of net income, the most directly comparable GAAP measure, to Adjusted EBITDA

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
<b>Reconciliation of Adjusted EBITDA to net income (loss):</b>					
Net income (loss)	\$ 19,145	\$ 7,635	\$ (1,981)	\$ 6,028	\$ (1,785)
Less: (Earnings) loss from discontinued operations, net of tax	(7,982)	1,653	10,393	(1,661)	(2,375)
Net income from continuing operations	11,163	9,288	8,412	4,367	(4,160)
Preferred stock dividends					5,387
Interest expense, net	486	1,568	261	3,004	6,773
Income tax expense (benefit) from continuing operations	3,812	4,807	4,244	1,902	(94)
Depreciation and amortization	2,160	2,521	3,167	3,408	4,144
Stock-based compensation expense	515	341	331	255	297
Adjusted EBITDA (1)	\$ 18,136	\$ 18,525	\$ 16,415	\$ 12,936	\$ 12,347

(1) The selected historical consolidated statements of operations data for the fiscal years ended December 31, 2013, 2012, 2011 and 2010 and the balance sheet data as of December 31, 2013 and 2012, were derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated statements of operations data for the year ended December 31, 2009 and the balance sheet data as of December 31, 2009 were derived from our audited consolidated financial statements

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which are not included in this Annual Report on Form 10-K.

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- (4) Adjusted EBITDA for 2009 includes a \$1.2 million charge related to the separation agreement with the former Chairman of Addus HealthCare.
  
- (5) During December 2012, in anticipation of the sale of the Home Health Business we reported the operating results of our Home Health Business as discontinued operations. On February 7, 2013, we entered into the Home Health Purchase Agreement with the Purchasers. In 2011, we determined that all of the \$16.0 million allocated to goodwill and intangible assets for our home health reportable unit was impaired and recorded an impairment loss of \$16.0 million.
  
- (6) Adjusted EBITDA for 2011 includes a \$0.5 million non-cash gain for the revaluation of contingent consideration originally estimated for the purchase of assets from Advantage.
  
- (7) Legislation enacted in Illinois entitles designated service program providers to receive a prompt payment interest penalty based on qualifying services approved for payment that remain unpaid after a designated period of time. As the amount and timing of the receipt of these payments are not certain, the interest income is recognized when received. We recorded prompt payment interest income of \$0.2 million, \$0.2 million, \$2.3 million and \$0.2 million in the years ended December 31, 2013, 2012, 2011 and 2010, respectively.

**Table of Contents****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion together with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements about our business and operations. Our actual results may differ materially from those we currently anticipate as a result of the factors we describe under Risk Factors and elsewhere in this Annual Report on Form 10-K.*

**Overview**

We are a comprehensive provider of home and community based services, which are primarily social in nature and are provided in the home, focused on the dual eligible population. Our services include personal care and assistance with activities of daily living, and adult day care. Our consumers are individuals with special needs who are at risk of hospitalization or institutionalization, such as the elderly, chronically ill and disabled. Our payor clients include federal, state and local governmental agencies, commercial insurers and private individuals. We provide services through over 121 locations across 21 states to over 26,000 consumers.

Effective March 1, 2013, we sold substantially all of the assets used in our Home Health Business in Arkansas, Nevada and South Carolina, and 90% of the Home Health Business in California and Illinois, to the Purchasers for a cash purchase price of approximately \$20 million. We retained a 10% ownership interest in the Home Health Business in California and Illinois. The assets sold included 19 home health agencies and two hospice agencies in five states. On December 30, 2013 we sold one home health agency in Pennsylvania for \$0.2 million. In November 2012, we ceased operations in a home health agency located in Idaho and abandoned efforts to sell this location in December 2013. Through our former home health agencies, we previously provided physical, occupational and speech therapy, as well as skilled nursing services, to pediatric, adult infirm and elderly patients. The results of the Home Health Business sold or held for sale are reflected as discontinued operations for all periods presented herein. Continuing operations include the results of operations previously included in our home & community segment and three agencies previously included in our home health segment. Following the sale of the Home Health Business, we manage and internally report our business in one segment.

We believe the sale of the Home Health Business substantially positions us for future growth. The sale allows us to focus both management and financial resources to address changes in the home and community based services industry and to address the needs of managed care organizations as they become responsible for the state sponsored programs. We have improved our financial performance by lowering our administrative costs and concentrating our efforts on the business that is growing and providing all of our profitability and disposing of the business that was unprofitable. We have improved our overall financial position by eliminating our debt and adding substantial amounts in cash reserves to our balance sheet.

A summary of our results for 2013, 2012 and 2011 are provided in the table below:

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net service revenues continuing operations	\$ 265,941	\$ 244,315	\$ 230,105
Net service revenues discontinued operations	6,462	38,822	42,995
Net income from continuing operations	11,163	9,288	8,412
Earnings (loss) from discontinued operations	7,982	(1,653)	(10,393)
Net income (loss)	\$ 19,145	\$ 7,635	\$ (1,981)
Total assets	\$ 163,934	\$ 149,857	\$ 154,692

The home and community based services we provide are primarily social in nature and include assistance with bathing, grooming, dressing, personal hygiene and medication reminders, and other activities of daily living. We provide these services on a long-term, continuous basis, with an average duration of approximately 17

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months per consumer. Our adult day centers provide a comprehensive program of skilled and support services and designated medical services for adults in a community-based group setting. Services provided by our adult day centers include social activities, transportation services to and from the centers, the provision of meals and snacks, personal care and therapeutic activities such as exercise and cognitive interaction.

We utilize a coordinated care model that is designed to enhance consumer outcomes and satisfaction as well as lower the cost of acute care treatment and reduce service duplication. Through our coordinated care model, we utilize our home care aides to observe and report changes in the condition of our consumers for the purpose of early intervention in the disease process, thereby preventing or reducing the cost of medical services by avoiding emergency room visits, and/or reducing the need of hospitalization. These changes in condition are evaluated by appropriately trained managers and referred to appropriate medical personnel including the primary care physicians and managed care plans for treatment and follow-up. We will coordinate the services provided by our team with those of selected health care agencies. We believe this approach to the provision of care to our consumers and the integration of our services into the broader healthcare industry is particularly attractive to managed care providers and others who are ultimately responsible for the healthcare needs of our consumers and over time will increase our business with them.

Our ability to grow our net service revenues is closely correlated with the number of consumers to whom we provide our services. Our continued growth depends on our ability to maintain our existing payor client relationships, establish relationships with new payors, enter into new contracts and increase our referral sources. Our continued growth is also dependent upon the authorization by state agencies of new consumers to receive our services. We believe there are several market opportunities for growth. The U.S. population of persons aged 65 and older is growing, and the U.S. Census Bureau estimates that this population will more than double by 2050. Additionally, we believe the overwhelming majority of individuals in need of care generally prefer to receive care in their homes or community-based settings. Finally, we believe the provision of home and community based services is more cost-effective than the provision of similar services in an institutional setting for long-term care.

We have historically grown our business primarily through organic growth, complemented with selective acquisitions. Our acquisitions have historically been focused on facilitating entry into new states.

We entered into two definitive acquisition agreements to acquire home and community based businesses during 2013 to further our presence in both existing states and to expand into new states. On October 17, 2013, we entered into an asset purchase agreement to acquire the entire home and community based business of Medi Home Private Care Division of Medical Services of America, Inc. The acquisition included two agencies located in South Carolina which closed effective November 1, 2013; four agencies located in Tennessee and two agencies located in Ohio which closed in January 2014. We also entered into an asset purchase agreement to acquire the assets of Coordinated Home Health Care, LLC, a personal care business located in New Mexico, on November 7, 2013. The combined purchase price for these two acquisitions was \$12.3 million at the close and a maximum of \$2.3 million in future cash based on certain performance. The purchase included sixteen offices located in Southern New Mexico. The transaction closed effective December 1, 2013. The related acquisitions costs were \$0.7 million for the Medi Home Private Care Division of Medical Services of America, Inc. and Coordinated Home Health Care, LLC deals, respectively.

On July 26, 2010, we entered into an Asset Purchase Agreement (the Purchase Agreement), pursuant to which we acquired the operations and certain assets of Advantage Health Systems, Inc., a South Carolina corporation ( Advantage ). Advantage is a provider of home and community based services in South Carolina and Georgia, which expanded our services across 19 states. The total consideration payable pursuant to the Purchase Agreement was \$8.3 million, comprised of \$5.1 million in cash, common stock consideration with a deemed value of \$1.2 million resulting in the issuance of 248,000 common shares, a maximum of \$2.0 million in future cash consideration subject to the achievement of certain performance targets set forth in an earn-out agreement and the assumption of certain specified liabilities. In April 2011, we paid the first earn-out payment of

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\$0.5 million to the sellers of Advantage. During the fourth quarter of 2011 we completed a revaluation of the remaining contingent earn-out obligation and recorded a reduction of approximately \$0.5 million with a remaining obligation of \$0.7 million as of December 31, 2012. The final earn-out payment was made to Advantage for approximately \$0.5 million on September 20, 2013.

**Business**

The results of the Home Health Business sold are reflected as discontinued operations for all periods presented herein. Continuing operations include the results of operations previously included in our home & community segment and three agencies previously included in our home health segment. Following the sale of the Home Health Business, we manage and internally report our business in one segment. The following table presents our locations, acquisitions, start-ups and closures, exclusive of the Home Health Business for the period December 31, 2011 to December 31, 2013:

	<b>Total</b>
Total December 31, 2011	107
Closed/Merged	(3)
<b>Total at December 31, 2012</b>	<b>104</b>
Acquired	16
Start-up	2
Closed/Merged	(1)
<b>Total at December 31, 2013</b>	<b>121</b>

As of December 31, 2013, we provided our home and community based services through 121 locations across 21 states.

Our payor clients are principally federal, state and local governmental agencies. The federal, state and local programs under which they operate are subject to legislative, budgetary and other risks that can influence reimbursement rates. Our commercial insurance carrier payor clients are typically for profit companies and are continuously seeking opportunities to control costs. We are seeking to grow our private duty business.

For 2013, 2012 and 2011, our payor revenue mix for continuing operations was:

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
State, local and other governmental programs	94.1%	94.9%	93.5%
Commercial	2.0	1.0	1.3
Private duty	3.9	4.1	5.2
	100.0%	100.0%	100.0%

We derive a significant amount of our net service revenues from our continuing operations in Illinois and California, which represented 66% and 6%; 64% and 7%; 58% and 8%; of our total net service revenues from continuing operations for the years ended December 31, 2013, 2012 and 2011, respectively.

A significant amount of our net service revenues from continuing operations are derived from one payor client, the Illinois Department on Aging, which accounted for 59%, 57% and 51% of our total net service revenues from continuing operations for the years ended December 31, 2013, 2012 and 2011, respectively.

We also measure the performance of our business using a number of different metrics. We consider billable hours, billable hours per business day, revenues per billable hour and the number of consumers, or census.

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### *Components of our Statements of Operations*

#### ***Net Service Revenues***

We generate net service revenues from continuing operations by providing our services directly to individuals. We receive payment for providing such services from our payor clients, including federal, state and local governmental agencies, commercial insurers and private individuals.

Net service revenues from continuing operations are typically generated based on services rendered and reimbursed on an hourly basis. Our net service revenues from continuing operations were generated principally through reimbursements by state, local and other governmental programs which are partially funded by Medicaid programs, and to a lesser extent from private duty and insurance programs. Net service revenues from continuing operations are principally provided based on authorized hours, determined by the relevant agency, at an hourly rate, which is either contractual or fixed by legislation, and recognized as net service revenues at the time services are rendered.

#### ***Cost of Service Revenues***

We incur direct care wages, payroll taxes and benefit-related costs from continuing operations in connection with providing our services. We also provide workers' compensation and general liability coverage for these employees.

Employees are also reimbursed for their travel time and related travel costs.

#### ***General and Administrative Expenses***

Our general and administrative expenses from continuing operations consist of expenses incurred in connection with our activities and as part of our central administrative functions.

Our general and administrative expenses from continuing operations consist principally of supervisory personnel, care coordination and office administration costs. These expenses include wages, payroll taxes and benefit-related costs; facility rent; operating costs such as utilities, postage, telephone and office expenses; and bad debt expense. We have initiated efforts to centralize administrative tasks currently conducted at the branch locations. The costs related to these initiatives are included in the general and administrative expenses from continuing operations. Other centralized expenses from continuing operations include administrative departments of accounting, information systems, human resources, billing and collections and contract administration, as well as national program coordination efforts for marketing and private duty. These expenses primarily consist of compensation, including stock-based compensation, payroll taxes, and related benefits; legal, accounting and other professional fees; rents and related facility costs; and other operating costs such as software application costs, software implementation costs, travel, general insurance and bank account maintenance fees.

#### ***Depreciation and Amortization Expenses***

We amortize our intangible assets with finite lives, consisting of customer and referral relationships, trade names, trademarks and non-compete agreements, principally on accelerated methods based upon their estimated useful lives. Depreciable assets consist principally of furniture and equipment, network administration and telephone equipment, and operating system software. Depreciable and leasehold assets are depreciated or amortized on a straight-line method over their useful lives or, if less and if applicable, their lease terms.

#### ***Interest Income***

Legislation enacted in Illinois entitles designated service program providers to receive a prompt payment interest penalty based on qualifying services approved for payment that remain unpaid after a designated period of time. As the amount and timing of the receipt of these payments are not certain, the interest income is



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recognized when received and reported in the statement of operations caption, interest income. While we may be owed additional prompt payment interest, the amount and timing of receipt of such payments remains uncertain and we have determined that we will continue to recognize prompt payment interest income when received. The state amended its prompt payment interest terms, effective July 1, 2011, which changed the measurement period for outstanding invoices from a 60-day to a 90-day outstanding period. We believe this change in terms will reduce future amounts paid for prompt payment interest.

***Interest Expense***

Interest expense from continuing operations consists of interest costs on our credit facility and other debt instruments.

***Income Tax Expense***

All of our income from continuing operations is from domestic sources. We incur state and local taxes in states in which we operate. The differences from the federal statutory rate of 35% are principally due to state taxes and the use of federal employment tax credits.

***Discontinued Operations***

Discontinued operations consists of the results of operations, net of tax for our Home Health Business that was sold effective March 1, 2013 and the results of operations for an agency in Pennsylvania that was sold on December 30, 2013 and an agency in Idaho that was closed in November 2012.

**Table of Contents****Results of Operations**

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

The following table sets forth, for the periods indicated, our consolidated results of operations.

	2013		2012		Change	
	Amount	% of Net Service Revenues	Amount	% of Net Service Revenues	Amount	%
(in thousands, except percentages)						
Net service revenues	\$ 265,941	100.0%	\$ 244,315	100.0%	\$ 21,626	8.9%
Cost of service revenues	198,202	74.5	180,264	73.8	17,938	10.0
Gross profit	67,739	25.5	64,051	26.2	3,688	5.8
General and administrative expenses	50,118	18.8	46,362	19.0	3,756	8.1
Gain on sale of agency			(495)	(0.2)	495	*
Depreciation and amortization	2,160	0.8	2,521	1.0	(361)	(14.3)
Total operating expenses	52,278	19.7	48,388	19.8	3,890	8.0
Operating income from continuing operations	15,461	5.8	15,663	6.4	(202)	(1.3)
Interest income	(188)	(0.1)	(155)	(0.1)	(33)	21.3
Interest expense	674	0.3	1,723	0.7	(1,049)	(60.9)
Total interest expense, net	486	0.2	1,568	0.6	(1,082)	(69.0)
Income from continuing operations before income taxes	14,975	5.6	14,095	5.8	880	6.2
Income tax expense	3,812	1.4	4,807	2.0	(995)	(20.7)
Net income from continuing operations	11,163	4.2	9,288	3.8	1,875	20.2
Discontinued operations:						
Earnings (loss) from home health business, net of tax	7,982	3.0	(1,653)	(0.7)	9,635	(582.9)
Net income (loss)	\$ 19,145	7.2%	\$ 7,635	3.1%	\$ 11,510	150.8%
<b>Business Metrics</b>						
Average billable census	26,802		25,104		1,698	6.8%
Billable hours (in thousands)	15,621		14,388		1,233	8.7
Average Billable hours per census per month	49		48		1	2.1
Billable hours per business day	59,850		55,126		4,724	8.6
Revenues per billable hour	\$ 17.02		\$ 16.98		\$ 0.04	.02%

\* Percentage information not meaningful

Net service revenues from state, local and other governmental programs accounted for 94.1 % and 94.9 % of net service revenues for 2013 and 2012, respectively. Private duty and, to a lesser extent, commercial payors accounted for the remainder of net service revenues.

Net service revenues increased \$21.6 million, or 8.9%, to \$265.9 million for 2013 compared to \$244.3 million for the same period in 2012. The increase was primarily due to a 6.8% increase in average census and a related 8.6% increase in billable hours.

## Edgar Filing: Addus HomeCare Corp - Form ARS

Gross profit, expressed as a percentage of net service revenues, decreased to 25.5% for 2013, from 26.2% in 2012. This decrease as a percent of revenue of 0.7% is primarily due to increased wage costs for homecare aides.

General and administrative expenses, expressed as a percentage of net service revenues decreased to 18.8% for 2013, from 19.0% in 2012. General and administrative expenses increased to \$ 50.1 million in 2013 as compared to \$46.4 million in 2012. In 2013, we had cost increases in administrative wages, an increase legal and

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consulting expenses for acquisitions and business development initiatives, increased telecom and technology related costs, an increase in management bonuses and an increase in bad debts.

Depreciation and amortization, expressed as a percentage of net service revenues, decreased to 0.8 % for 2013, from 1.0% in 2012. Amortization of intangibles, which are principally amortized using accelerated methods, totaled \$1.3 million and \$1.7 million for 2013 and 2012, respectively.

**Interest Income**

Legislation enacted in Illinois entitles designated service program providers to receive a prompt payment interest penalty based on qualifying services approved for payment that remain unpaid after a designated period of time. As the amount and timing of the receipt of these payments are not certain, the interest income is recognized when received and reported in the income statement caption, interest income. We received \$0.2 million in prompt payment interest in 2013 and \$0.2 million in 2012. While we may be owed additional prompt payment interest, the amount and timing of receipt of such payments remains uncertain and we have determined that we will continue to recognize prompt payment interest income when received. The state amended its prompt payment interest terms, effective July 1, 2011, which changed the measurement period for outstanding invoices from a 60-day to a 90-day outstanding period. We believe this change in terms will reduce future amounts paid for prompt payment interest.

**Interest Expense, Net**

Interest expense was \$ 0.7 million and \$1.7 million for 2013 and 2012, respectively. Interest expense decreased \$ 1.0 million primarily due to a reduction in outstanding debt.

**Income Tax Expense (Benefit)**

Our effective tax rates from continuing operations for 2013 and 2012 were 25.5% and 34.1%, respectively. The principal difference between the Federal and State statutory rates and our effective tax rate is the use of Federal employment opportunity tax credits. Our effective tax rate for 2012 does not include any earned 2012 Federal employment opportunity tax credits, which were recognized in 2013 as the Federal employment opportunity tax credits were reinstated in January 2013.

**Discontinued Operations**

Effective March 1, 2013, we sold substantially all of the assets used in our home health business as described in Item 1. Therefore, we have segregated the Home Health Business operating results and presented them separately as discontinued operations for all periods presented (see note 2 Discontinued Operations of the Notes to the Consolidated Financial Statements included elsewhere herein).

See table below that depicts the results of discontinued operations.

	2013		2012		Change	
	Amount	% of Net Service Revenues	Amount	% of Net Service Revenues	Amount	%
			(in thousands, except percentages)			
Net service revenues	\$ 6,462	100.0%	\$ 38,822	100.0%	\$ (32,360)	(83.4)%
Cost of service revenues	3,692	57.1	20,818	53.6	(17,126)	(82.3)
Gross profit	2,770	42.9	18,004	46.4	(15,234)	(84.6)
General and administrative expenses	4,442	68.7	20,743	53.4	(16,301)	(78.6)
Depreciation and amortization			13		(13)	(100.0)
Operating loss from discontinued operations	(1,672)	(25.9)	(2,752)	(7.1)	1,080	(39.2)
Income tax (benefit)	(692)	(10.7)	(1,099)	(2.8)	407	(37.0)

## Edgar Filing: Addus HomeCare Corp - Form ARS

Net loss from discontinued operations	\$ (980)	(15.2)%	\$ (1,653)	(4.3)%	\$ 673	(40.7)%
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The losses for 2013 are primarily related to the wind-down of the business after the sale on March 1, 2013. Operating losses for 2012 were primarily due to reduced sales, higher costs to treat consumers and our inability to reduce fixed general and administrative costs at a rate consistent with revenue declines.

**Results of Operations**

*Year Ended December 31, 2012 Compared to Year Ended December 31, 2011*

The following table sets forth, for the periods indicated, our consolidated results of operations.

	2012		2011		Change	
	Amount	% of Net Service Revenues	Amount	% of Net Service Revenues	Amount	%
(in thousands, except percentages)						
Net service revenues	\$ 244,315	100.0%	\$ 230,105	100.0%	\$ 14,210	6.2%
Cost of service revenues	180,264	73.8	168,632	73.3	11,632	6.9
Gross profit	64,051	26.2	61,473	26.7	2,578	4.2
General and administrative expenses	46,362	19.0	45,858	19.9	504	1.1
Revaluation of contingent consideration			(469)	(0.2)	469	(100.0)
Gain on sale of agency	(495)	(0.2)			(495)	*
Depreciation and amortization	2,521	1.0	3,167	1.4	(646)	(20.4)
Total operating expenses	48,388	19.8	48,556	21.1	(168)	(0.3)
Operating income from continuing operations	15,663	6.4	12,917	5.6	2,746	21.3
Interest income	(155)	(0.1)	(2,263)	(1.0)	2,108	(93.2)
Interest expense	1,723	0.7	2,524	1.1	(801)	(31.7)
Total interest expense, net	1,568	0.6	261	0.1	1,307	500.8
Income from continuing operations before income taxes	14,095	5.8	12,656	5.5	1,439	11.4
Income tax expense	4,807	2.0	4,244	1.8	563	13.3
Net income from continuing operations	9,288	3.8	8,412	3.7	876	10.4
Discontinued operations:						
Earnings (loss) from home health business, net of tax	(1,653)	(0.7)	(10,393)	(4.5)	8,740	(84.1)
Net income (loss)	\$ 7,635	3.1%	\$ (1,981)	(0.9)%	\$ 9,616	485.4%
Business Metrics						
Average billable census	25,104		23,877		1,277	5.3%
Billable hours (in thousands)	14,388		13,504		884	6.5
Average Billable hours per census per month	48		47		1	2.1
Billable hours per business day	55,126		51,938		3,188	6.1
Revenues per billable hour	\$ 16.98		\$ 17.04		\$ (0.06)	(0.4)%

Net service revenues from state, local and other governmental programs accounted for 94.9% and 93.5% of net service revenues for 2012 and 2011, respectively. Private duty and, to a lesser extent, commercial payors accounted for the remainder of net service revenues.

Net service revenues increased \$14.2 million, or 6.2%, to \$244.3 million for 2012 compared to \$230.1 million for the same period in 2011. The increase was primarily due to a 5.3% increase in average census increase and a related 6.5% increase in billable hours.

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Gross profit, expressed as a percentage of net service revenues, decreased to 26.2% for 2012, from 26.7% in 2011. This decrease as a percent of revenue of 0.5% is primarily due to an increase in workers' compensation costs as a result of an increase in average claim costs during 2012, partially offset by an increase in the average billed hours per census per month while leveraging the fixed wage cost for field staff.

General and administrative expenses, expressed as a percentage of net service revenues decreased to 19.0% for 2012, from 19.9% in 2011. General and administrative expenses increased to \$46.4 million in 2012 as compared to \$45.9 million in 2011. In 2012, we had cost increases in administrative wages, telecom and technology related costs, an increase in management bonuses, an increase in corporate infrastructure and consulting expenses for business development initiatives which were partially offset by a decrease in bad debt expense due to improved collections and a decrease in legal related expenses.

Depreciation and amortization, expressed as a percentage of net service revenues, decreased to 1.0% for 2012, from 1.4% in 2011. Amortization of intangibles, which are principally amortized using accelerated methods, totaled \$1.7 million and \$2.2 million for 2012 and 2011, respectively.

### ***Interest Income***

Legislation enacted in Illinois entitles designated service program providers to receive a prompt payment interest penalty based on qualifying services approved for payment that remain unpaid after a designated period of time. As the amount and timing of the receipt of these payments are not certain, the interest income is recognized when received and reported in the income statement caption, interest income. We received \$0.2 million in prompt payment interest in 2012 and \$2.3 million in 2011. While we may be owed additional prompt payment interest, the amount and timing of receipt of such payments remains uncertain and we have determined that we will continue to recognize prompt payment interest income when received. The state amended its prompt payment interest terms, effective July 1, 2011, which changed the measurement period for outstanding invoices from a 60-day to a 90-day outstanding period. We believe this change in terms will reduce future amounts paid for prompt payment interest.

### ***Interest Expense***

Interest expense was \$1.7 million and \$2.5 million for 2012 and 2011, respectively. Interest expense decreased \$0.8 million primarily due to a reduction in outstanding debt.

### ***Income Tax Expense (Benefit)***

Our effective tax rates from continuing operations for 2012 and 2011 were 34.1% and 33.5%, respectively. The principal difference between the Federal and State statutory rates and our effective tax rate is the use of Federal employment opportunity tax credits. Our effective tax rate for 2012 does not include any earned 2012 Federal employment opportunity tax credits, which were recognized in 2013 as the Federal employment opportunity tax credits were reinstated in January 2013.

### ***Discontinued Operations***

Effective February 2013, we entered into the Home Health Purchase Agreement. Therefore, we have segregated the Home Health Business operating results and presented them separately as discontinued operations for all periods presented (see note 2 Discontinued Operations of the Notes to the Consolidated Financial Statements included elsewhere herein).

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See table below that depicts the results of discontinued operations.

	2012		2011		Change	
	Amount	% of Net Service Revenues	Amount	% of Net Service Revenues	Amount	%
	(in thousands, except percentages)					
Net service revenues	\$ 38,822	100.0%	\$ 42,995	100.0%	\$ (4,173)	(9.7)%
Cost of service revenues	20,818	53.6	22,673	52.7	(1,855)	(8.2)
Gross profit	18,004	46.4	20,322	47.3	(2,318)	(11.4)
General and administrative expenses	20,743	53.4	21,068	49.0	(325)	(1.5)
Goodwill and intangible asset impairment charge			15,989	37.2	(15,989)	(100.0)
Depreciation and amortization	13		387	0.9	(374)	(96.6)
Operating loss from discontinued operations	(2,752)	(7.1)	(17,122)	(39.8)	14,370	(83.9)
Income tax (benefit)	(1,099)	(2.8)	(6,729)	(15.7)	5,630	83.7
Net loss from discontinued operations	\$ (1,653)	(4.3)%	\$ (10,393)	(24.2)%	\$ 8,740	(84.1)%

The losses were primarily due to reduced sales, higher costs to treat consumers and our inability to reduce fixed general and administrative costs at a rate consistent with revenue declines.

**Liquidity and Capital Resources**

Our discussion below regarding our liquidity and capital resources includes discontinued operations.

**Overview**

Our primary sources of liquidity are cash from operations and borrowings under our credit facility. At December 31, 2013 and December 31, 2012, we had cash balances of \$15.6 million and \$1.7 million, respectively.

As of December 31, 2013 we had no balances outstanding under the revolving credit portion of our credit facility. After giving effect to the amount drawn on our credit facility, approximately \$ 12.4 million of outstanding letters of credit and borrowing limits based on an advanced multiple of adjusted EBITDA, we had \$ 42.6 million available for borrowing under the credit facility as of December 31, 2013.

We used \$16.3 million of the proceeds from the sale of the Home Health Business to pay down the outstanding amount of the revolving credit facility during the first quarter of 2013. In addition, in consideration for our lender's consent to the sale of the Home Health Business, we agreed to work in good faith to negotiate an amendment to our credit facility to amend certain provisions of the credit agreement. Cash flows from operating activities represent the inflow of cash from our payor clients and the outflow of cash for payroll and payroll taxes, operating expenses, interest and taxes. Due to its revenue deficiencies and financing issues, the State of Illinois has reimbursed us on a delayed basis with respect to our various agreements including with our largest payor, the Illinois Department on Aging. The open receivable balance from the State of Illinois decreased by \$7.8 million, from \$52.9 million as of December 31, 2012 to \$45.1 million as of December 31, 2013.

The State of Illinois continues to reimburse us on a delayed basis. These payment delays have adversely impacted, and may further adversely impact, our liquidity, and may result in the need to increase borrowings under our credit facility. Delayed reimbursements from our other state payors have also contributed to the increase in our receivable balances.



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***Credit Facility***

Our credit facility provides a \$55.0 million revolving line of credit expiring November 2, 2014, and includes a \$15.0 million sublimit for the issuance of letters of credit and previously included a \$5.0 million term loan that matured and was paid on January 5, 2013. Substantially all of the subsidiaries of Holdings are co-borrowers, and Holdings has guaranteed the borrowers' obligations under the credit facility. The credit facility is secured by a first priority security interest in all of Holdings' and the borrowers' current and future tangible and intangible assets, including the shares of stock of the borrowers.

The availability of funds under the revolving credit portion of the credit facility, as amended, is based on the lesser of (i) the product of adjusted EBITDA, as defined, for the most recent 12-month period for which financial statements have been delivered under the credit facility agreement multiplied by the specified advance multiple, up to 3.25, less the outstanding senior indebtedness and letters of credit, and (ii) \$55.0 million less the outstanding revolving loans and letters of credit. Interest on the revolving line of credit and term loan amounts outstanding under the credit facility is payable either at a floating rate equal to the 30-day LIBOR, plus an applicable margin of 4.6% or the LIBOR rate for term periods of one, two, three or six months plus a margin of 4.6%. Interest on the credit facility is paid monthly on or at the end of the relevant interest period, as determined in accordance with the credit facility agreement. We pay a fee equal to 0.5% per annum of the unused portion of the revolving portion of the credit facility. Issued stand-by letters of credit are charged at a rate of 2.0% per annum payable monthly. We did not have any amounts outstanding on our credit facility as of December 31, 2013 and the total availability under the revolving credit loan facility was \$42.6 million.

The credit facility contains customary affirmative covenants regarding, among other things, the maintenance of records, compliance with laws, maintenance of permits, maintenance of insurance and property and payment of taxes. The credit facility also contains certain customary financial covenants and negative covenants that, among other things, include a requirement to maintain a minimum fixed charge coverage ratio, a requirement to stay below a maximum senior leverage ratio and a requirement to stay below a maximum permitted amount of capital expenditures, as well as restrictions on guarantees, indebtedness, liens, dividends, distributions, investments and loans, subject to customary carve outs, restrictions on our ability to enter into transactions other than in the ordinary course of business, a restriction on the ability to consummate more than three acquisitions in any calendar year, or for the purchase price of any one acquisition to exceed \$0.5 million, in each case without the consent of the lenders, restrictions on mergers, transfers of assets, acquisitions, equipment, subsidiaries and affiliate transactions, subject to customary carve outs, and restrictions on fundamental changes and lines of business. We were in compliance with all of our credit facility covenants at December 31, 2013.

During the second quarter of 2012, the lenders under our credit facility agreed to a modified interpretation of the credit facility as it relates to the calculation of the fixed charge ratio, which provides us with increased flexibility in meeting this covenant. In order to obtain consent from our lender for the sale of the Home Health Business we agreed to work in good faith to negotiate and enter into an amendment to the credit facility to amend certain provisions including a reduction in the maximum revolving loan limit and revolving loan commitment.

We have received a commitment letter to renew our credit facility for a period of five years on essentially the same terms as the expiring facility. If executed, the term of the new facility will expire in November 2, 2019.

While our growth plan is not dependent on the completion of acquisitions, if we do not have sufficient cash resources or availability under our credit facility, or we are otherwise prohibited from making acquisitions, our growth could be limited unless we obtain additional equity or debt financing or unless we obtain the necessary consents from our lenders. We believe the available borrowings under our credit facility which, when taken together with cash from operations, will be sufficient to cover our working capital needs for at least the next 12 months.

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*Cash Flows*

The following table summarizes historical changes in our cash flows for:

	<b>For the Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>		
Net cash provided by operating activities	\$ 27,393	\$ 15,405	\$ 15,947
Net cash provided by (used in) investing activities	2,893	(619)	(1,051)
Net cash (used in) financing activities	(16,458)	(15,069)	(13,692)

*Year Ended December 31, 2013 Compared to Year Ended December 31, 2012*

Net cash provided by operating activities was \$27.4 million for 2013, compared to \$15.4 million in 2012. This increase in cash provided by operations was primarily due to an increase in cash generated from continuing operations totaling \$2.3 million, less cash used in discontinued operations totaling \$1.8 million, plus amounts provided by net changes in working capital of \$11.5 million.

Net cash provided by investing activities was \$2.9 million for 2013. Our investing activities for 2013 were \$16.1 million in net proceeds received from the sale of the Home Health Business less \$12.3 million related to acquisitions made during the year and the purchase of \$0.9 million of property and equipment. Our investing activities for 2012 were \$1.1 million for capital expenditures less a \$0.5 million payment received for the sale of an agency.

Net cash used in financing activities was \$16.5 million for 2013 as compared to net cash used of \$15.1 million in 2012. Our financing activities for 2013 were primarily driven by net payments of \$16.3 million on the revolving credit portion of our credit facility and \$0.2 million in payments on our term loan. Our financing activities in 2012 were primarily driven by \$8.5 million in payments on the revolving credit portion of our credit facility, \$4.1 million in payments on subordinated dividend notes and \$2.5 million in payments on our term loan.

*Year Ended December 31, 2012 Compared to Year Ended December 31, 2011*

Net cash provided by operating activities was \$15.4 million for 2012, compared to \$15.9 million in 2011. This decrease in cash provided by operations was primarily due to an increase in working capital accounts of \$2.8 million, which was offset by a decrease in our operating income of \$3.3 million, of which \$2.1 million represents a decline in prompt payment interest received with the remainder predominantly driven from declines in our home health business offset by increases in our home and community based services.

Net cash used in investing activities was \$0.6 million for 2012. Our investing activities for 2012 were \$0.5 million in net proceeds received for the sale of a home health agency and the purchase of \$1.1 million of property and equipment. Our investing activities for 2011 were \$0.6 million for capital expenditures and a \$0.5 million earn-out payment to Advantage.

Net cash used in financing activities was \$15.1 million for 2012 as compared to net cash used of \$13.7 million in 2011. Our financing activities for 2012 were primarily driven by net payments of \$8.5 million on the revolving credit portion of our credit facility, \$4.1 million in payments on our subordinated dividend notes and \$2.5 million in payments on our term loan. Our financing activities in 2011 were primarily driven by \$8.5 million in payments on the revolving credit portion of our credit facility, \$2.5 million in payments on subordinated dividend notes, \$2.3 million in payments on our term loan, and \$0.4 million in payments on other notes.

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*Outstanding Accounts Receivable*

Gross accounts receivable as of December 31, 2013 were approximately \$65.5 million. Outstanding accounts receivable, net of the allowance for doubtful accounts, decreased by \$10.3 million as of December 31, 2013 as compared to December 31, 2012, with \$7.4 million representing the collection of Home Health accounts receivable.

Gross accounts receivable as of December 31, 2012 were approximately \$75.8 million. Outstanding accounts receivable, net of the allowance for doubtful accounts, decreased by \$1.1 million as of December 31, 2012 as compared to December 31, 2011.

We establish our allowance for doubtful accounts to the extent it is probable that a portion or all of a particular account will not be collected. Our provision for doubtful accounts is estimated and recorded primarily by aging receivables utilizing eight aging categories and applying our historical collection rates to each aging category, taking into consideration factors that might impact the use of historical collection rates or payor groups, with certain large payors analyzed separately from other payor groups. In our evaluation of these estimates, we also consider other factors including: delays in payment trends in individual states due to budget or funding issues, billing conversions related to acquisitions or internal systems and resubmission of bills with required documentation and disputes with specific payors.

Our collection procedures include review of account agings and direct contact with our payors. We have historically not used collection agencies. An uncollectible amount, not governed by amount or aging, is written off to the allowance account only after reasonable collection efforts have been exhausted.

The following tables detail our accounts receivable before reserves by payor category, showing Illinois governmental payors separately, and the related allowance amount at December 31, 2013, December 31, 2012 and December 31, 2011:

	December 31, 2013				Total
	0-90 Days	91-180 Days	181-365 Days	Over 365 Days	
	(in thousands, except percentages)				
<b>Continuing Operations</b>					
Illinois governmental based programs	\$ 40,584	\$ 2,912	\$ 430	\$ 483	\$ 44,409
Other state, local and other governmental programs	14,551	1,659	914	116	17,240
Private duty and commercial	2,586	380	142	112	3,220
	57,721	4,951	1,486	711	64,869
Aging % continuing operations	89.0%	7.6%	2.3%	1.1%	
<b>Discontinued Operations</b>					
Medicare			744		744
Other state, local and other governmental programs					
Private duty and commercial			(119)		(119)
Illinois governmental based programs			625		625
<b>Total</b>	<b>\$ 57,721</b>	<b>\$ 4,951</b>	<b>\$ 2,111</b>	<b>\$ 711</b>	<b>\$ 65,494</b>
Aging % of total	88.1%	7.6%	3.2%	1.1%	
Allowance for doubtful accounts					\$ 4,140
Reserve as % of gross accounts receivable					6.3%

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	December 31, 2012				Total
	0-90 Days	91-180 Days	181-365 Days	Over 365 Days	
(in thousands, except percentages)					
<b>Continuing Operations</b>					
Illinois governmental based programs	\$ 38,339	\$ 13,374	\$ 1,076	\$ 126	\$ 52,915
Other state, local and other governmental programs	10,248	845	610	329	12,032
Private duty and commercial	1,936	360	127	401	2,824
	50,523	14,579	1,813	856	67,771
<b>Aging % continuing operations</b>					
Medicare	74.5%	21.5%	2.7%	1.3%	
Other state, local and other governmental programs	4,751	955	188		5,894
Private duty and commercial	340	109	58		507
Illinois governmental based programs	965	211	164	30	1,370
	128	19	35	45	227
	6,184	1,294	445	75	7,998
<b>Total</b>	<b>\$ 56,707</b>	<b>\$ 15,873</b>	<b>\$ 2,258</b>	<b>\$ 931</b>	<b>\$ 75,769</b>
<b>Aging % of total</b>	<b>74.9%</b>	<b>20.9%</b>	<b>3%</b>	<b>1.2%</b>	
Allowance for doubtful accounts					\$ 4,466
Reserve as % of gross accounts receivable					5.9%

	December 31, 2011				Total
	0-90 Days	91-180 Days	181-365 Days	Over 365 Days	
(in thousands, except percentages)					
<b>Continuing Operations</b>					
Illinois governmental based programs	\$ 33,233	\$ 11,969	\$ 416	\$ 1,110	\$ 46,728
Other state, local and other governmental programs	11,205	1,235	1,038	1,807	15,285
Private duty and commercial	1,690	502	583	916	3,691
	46,128	13,706	2,037	3,833	65,704
<b>Aging % continuing operations</b>					
Medicare	70.2%	20.9%	3.1%	5.8%	
Other state, local and other governmental programs	6,109	2,991	991	17	10,108
Private duty and commercial	518	153	122	161	954
Illinois governmental based programs	1,225	393	355	149	2,122
	241	249	119	60	669
	8,093	3,786	1,587	387	13,853
<b>Total</b>	<b>\$ 54,221</b>	<b>\$ 17,492</b>	<b>\$ 3,624</b>	<b>\$ 4,220</b>	<b>\$ 79,557</b>
<b>Aging % of total</b>	<b>68.2%</b>	<b>22.0%</b>	<b>4.6%</b>	<b>5.2%</b>	
Allowance for doubtful accounts					\$ 7,189
Reserve as % of gross accounts receivable					9.0%

We calculate our continuing operations days sales outstanding ( DSO ) by taking the accounts receivable outstanding net of the allowance for doubtful accounts divided by the total net service revenues for the last quarter, multiplied by the number of days in that quarter. Our DSOs from continuing operations were 85, 86 and 94 days at December 31, 2013, December 31, 2012 and December 31, 2011, respectively. The DSOs for our largest payor, the Illinois Department on Aging, at December 31, 2013, December 31, 2012 and December 31, 2011 were 97, 122 and 125 days, respectively. We do not expect to continue to receive payments on a consistent basis in the near term and anticipate our DSOs and the

DSO for our largest payor to increase.

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### ***Dividend Notes***

Prior to the completion of our IPO, we had 37,750 shares of series A preferred stock issued and outstanding, all of which were converted into shares of our common stock on November 2, 2009. Shares of our series A preferred stock accumulated dividends each quarter at a rate of 10%, compounded annually. We accrued these undeclared dividends because the holders had the option to convert their shares of series A preferred stock into common stock at any time with the accumulated dividends payable in cash or a note payable. Our series A preferred stock was converted into 4,077,000 shares of common stock in connection with the completion of our IPO on November 2, 2009. We paid \$0.2 million of the \$13.1 million outstanding accumulated dividends as of November 2, 2009 with the remaining \$12.9 million being converted into 10% junior subordinated promissory notes, which we refer to as the dividend notes. The dividend notes were subordinated and junior to all obligations under our credit facility. Our dividend notes were repaid in full during the fourth quarter of 2012.

### ***Off-Balance Sheet Arrangements***

As of December 31, 2013, we did not have any off-balance sheet guarantees or arrangements with unconsolidated entities.

### ***Critical Accounting Policies and Estimates***

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States. The preparation of the financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expense and related disclosures. We base our estimates and judgments on historical experience and other sources and factors that we believe to be reasonable under the circumstances; however, actual results may differ from these estimates. We consider the items discussed below to be critical because of their impact on operations and their application requires our judgment and estimates.

### ***Revenue Recognition***

The majority of our revenues for 2013, 2012 and 2011 from continuing operations are derived from Medicaid and Medicaid waiver programs under agreements with various state and local authorities. These agreements provide for a service term from one year to an indefinite term. Services are provided based on authorized hours, determined by the relevant state or local agency, at an hourly rate specified in the agreement or fixed by legislation. Services to other payors, such as private or commercial clients, are provided at negotiated hourly rates and recognized in net service revenues as services are provided. We provide for appropriate allowances for uncollectible amounts at the time the services are rendered.

### ***Accounts Receivable and Allowance for Doubtful Accounts***

We are paid for our services primarily by state and local agencies under Medicaid or Medicaid waiver programs, Medicare, commercial insurance companies and private individuals. While our accounts receivable are uncollateralized, our credit risk is somewhat limited due to the significance of governmental payors to our results of operations. Laws and regulations governing the governmental programs in which we participate are complex and subject to interpretation. Amounts collected may be different than amounts billed due to client eligibility issues, insufficient or incomplete documentation, services at levels other than authorized and other reasons unrelated to credit risk.

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Legislation enacted in Illinois entitles designated service program providers to receive a prompt payment interest penalty based on qualifying services approved for payment that remain unpaid after a designated period of time. As the amount and timing of the receipt of these payments are not certain, the interest income is recognized when received and reported in the income statement caption, interest income. We received approximately \$0.2 million, \$0.2 million and \$2.3 million in prompt payment interest in 2013, 2012 and 2011, respectively. While we may be owed additional prompt payment interest, the amount and timing of receipt of such payments remains uncertain and we have determined that we will continue to recognize prompt payment interest income when received.

We establish our allowance for doubtful accounts to the extent it is probable that a portion or all of a particular account will not be collected. Our allowance for doubtful accounts is estimated and recorded primarily by aging receivables utilizing eight aging categories and applying our historical collection rates to each aging category, taking into consideration factors that might impact the use of historical collection rates or payor groups, with certain large payors analyzed separately from other payor groups. In our evaluation of these estimates, we also consider delays in payment trends in individual states due to budget or funding issues, billing conversions related to acquisitions or internal systems, resubmission of bills with required documentation and disputes with specific payors. Historically, we have not experienced any write-off of accounts as a result of a state operating with budget deficits. While we regularly monitor state budget and funding developments for the states in which we operate, we consider losses due to state credit risk on outstanding balances as remote. We believe that our recorded allowance for doubtful accounts is sufficient to cover potential losses; however, actual collections in subsequent periods may require changes to our estimates.

### ***Goodwill***

Our carrying value of goodwill is the residual of the purchase price over the fair value of the net assets acquired from various acquisitions including the acquisition of Addus HealthCare, Inc, accordance with ASC Topic 350, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite useful lives are not amortized. Goodwill and indefinite lived intangible assets are required to be tested for impairment at least annually. We test goodwill for impairment at the reporting unit level on an annual basis, as of October 1, or whenever potential impairment triggers occur, such as a significant change in business climate or regulatory changes that would indicate that an impairment may have occurred. We may use a qualitative test, known as Step 0 or a two-step quantitative method to determine whether impairment has occurred. We can elect to perform Step 0 an optional qualitative analysis and based on the results skip the remaining two steps. In 2013 and 2012, we elected to implement Step 0. The results of our Step 0 assessment indicated that it was more likely than not that the fair value of our reporting unit exceeded its carrying value and therefore we concluded that there were no impairments for the years ended December 31, 2013 or 2012.

In 2011, we elected to evaluate the goodwill via the two step methodology. The first step in the evaluation of goodwill impairment involves comparing the current fair value of each reporting unit to the recorded value, including goodwill. We used the combination of a discounted cash flow model ( DCF model ) and the market multiple analysis method to determine the current fair value of each reporting unit. The DCF model was prepared using revenue and expense projections based on our current operating plan. As such, a number of significant assumptions and estimates are involved in the application of the DCF model to forecast revenue growth, price changes, gross profits, operating expenses and operating cash flows. The cash flows were discounted using a weighted average cost of capital of 14.5%, which was management's best estimate based on our capital structure and external industry data. As part of the second step of this evaluation, if the carrying value of goodwill exceeds its fair value, an impairment loss would be recognized.

In light of the then Federal and state economic and reimbursement environments and state budgetary pressures to decrease or eliminate services provided by us, we completed a preliminary assessment of the fair value of our two reporting units, home & community (continuing operations) and home health (discontinued operations), and the potential for goodwill impairment as of June 30, 2011. Our total stockholders' equity as of

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September 30, 2011 was significantly greater than our market capitalization, which was approximately \$43.6 million based on 10,774,886 shares of common stock outstanding as of September 30, 2011. While the market capitalization of approximately \$43.6 million was below our stockholders' equity, the market capitalization metric is only one indicator of fair value. In our opinion, the market capitalization approach, by itself, is not a reliable indicator of the value for our company.

Based on the above factors and updates to our business projections and forecasts, and other factors, we determined that the estimated fair value of our discontinued operations was less than the net book value indicating that its allocated goodwill was impaired. The preliminary assessment for our continuing operations indicated that its fair value was greater than its net book value with no initial indication of goodwill impairment.

As permitted by ASC Topic 350, when an impairment indicator arises toward the end of an interim reporting period, we may recognize our best estimate of that impairment loss. Based on our preliminary analysis prepared as of June 30, 2011, we determined that all of the \$13.1 million allocated to goodwill for the discontinued operations as of September 30, 2011 was impaired and we recorded a goodwill impairment loss in the third quarter of 2011. The goodwill impairment charge was noncash in nature and did not affect our liquidity or cash flows from operating activities. Additionally, the goodwill impairment had no effect on our borrowing availability or covenants under our credit facility agreement.

The preliminary analysis prepared as of June 30, 2011 was subject to the completion of our annual impairment test as of October 1, 2011. We completed our annual impairment test of goodwill as of October 1, 2011 and determined that no additional impairment charges or adjustments were required. The goodwill for our continuing operations was \$50.7 million. Continuing operations had fair values in excess of carrying amounts of approximately \$9.1 million, or 8.9% as of October 1, 2011.

### ***Long-Lived Assets***

We review our long-lived assets and finite lived intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. To determine if impairment exists, we compare the estimated future undiscounted cash flows from the related long-lived assets to the net carrying amount of such assets. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset, generally determined by discounting the estimated future cash flows. No impairment was recorded in 2013 or 2012. Based on our 2011 assessment of fair value discussed above, we determined that all of the \$2.3 million allocated to the discontinued operations finite lived intangibles were impaired.

### ***Indefinite-lived Assets***

We also have indefinite-lived assets that are not subject to amortization expense such as certificates of need and licenses to conduct specific operations within geographic markets. Our management has concluded that certificates of need and licenses have indefinite lives, as management has determined that there are no legal, regulatory, contractual, economic or other factors that would limit the useful life of these intangible assets and we intend to renew and operate the certificates of need and licenses indefinitely. The certificates of need and licenses are tested annually for impairment. No impairment was recorded in 2013 or 2012. Based on our 2011 assessment of fair value discussed above, we determined that all of the \$0.6 million allocated to discontinued operations certificates of need and licenses were impaired and recorded an impairment loss for 2011.

### ***Workers' Compensation Program***

Our workers' compensation insurance program has a \$0.35 million deductible component. We recognize our obligations associated with this program in the period the claim is incurred. The cost of both the claims reported and claims incurred but not reported, up to the deductible, have been accrued based on historical claims experience, industry statistics and an actuarial analysis performed by an independent third party. We monitor our



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claims quarterly and adjust our reserves accordingly. These costs are recorded primarily in the cost of services caption in the consolidated statement of operations. Under the agreement pursuant to which we acquired Addus HealthCare, claims under our workers' compensation insurance program that relate to December 31, 2005 or earlier are the responsibility of the selling shareholders in the acquisition, subject to certain limitations. In August 2010, the FASB issued Accounting Standards Update No 2010-24, Health Care Entities (Topic 954), *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24), which clarifies that companies should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. As of December 31, 2013, December 31, 2012 and December 31, 2011 we recorded \$0.8 million, \$1.0 million and \$1.8 million, respectively, in workers' compensation insurance recovery receivables and a corresponding increase in its workers' compensation liability. The workers' compensation insurance recovery receivable is included in our prepaid expenses and other current assets on the balance sheet.

**Interest Income**

Legislation enacted in Illinois entitles designated service program providers to receive a prompt payment interest penalty based on qualifying services approved for payment that remain unpaid after a designated period of time. As the amount and timing of the receipt of these payments are not certain, the interest income is recognized when received and reported in the statement of operations caption, interest income. We received approximately \$0.2 million, \$0.2 million and \$0.2 million in prompt payment interest in 2013, 2012 and 2011, respectively. While we may be owed additional prompt payment interest, the amount and timing of receipt of such payments remains uncertain and we have determined that we will continue to recognize prompt payment interest income when received.

**New Accounting Pronouncements**

We do not believe any recently issued, but not yet effective, accounting standards will have a material effect on our consolidated financial position, results of operations or cash flows.

**Contractual Obligations and Commitments**

We had outstanding letters of credit of \$12.4 million at December 31, 2013. These standby letters of credit benefit our third party insurer for our high deductible workers' compensation insurance program. The amount of the letters of credit is negotiated annually in conjunction with the insurance renewals. We anticipate our commitment will increase as we continue to grow our business and more years become our responsibility as responsibility shifts from the former owners of Addus HealthCare to us.

The following table summarizes our cash contractual obligations as of December 31, 2013:

Contractual Obligations	Total	Less than	1-2	3-4	More than
		1 Year	Years	Years	5 Years
(in thousands)					
Operating leases	\$ 16,929	\$ 2,964	\$ 4,962	\$ 3,075	\$ 5,928

**Impact of Inflation**

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operation.

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

*Quantitative and Qualitative Disclosures about Market Risk*

Historically, we have been exposed to market risk due to fluctuations in interest rates. As of December 31, 2013, we had no outstanding indebtedness and therefore no current exposure.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our consolidated financial statements together with the related notes and the report of independent registered public accounting firm, are set forth on the pages indicated in Item 15.

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2013. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2013 due to the material weaknesses identified in Management's Annual Report on Internal Control Over Financial Reporting below.

In light of the material weaknesses described below, we performed additional analysis and other post-closing procedures to ensure that our financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the financial statements included in this report fairly present, in all material respects, our financial condition, results of operations, changes in shareholder's equity and cash flows for the periods presented.

*Management's Annual Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

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Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992).

A material weakness (as defined in SEC Rule 12b-2) is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Based on our evaluation under the framework in Internal Control Integrated Framework, our management has determined that certain material weaknesses in internal control over financial reporting existed as of December 31, 2013. Specifically, we had one material weakness in information technology controls due to an aggregation of deficiencies relating to segregation of duties, user access, and change management controls in key information technology systems. We had a second material weakness in payroll processes due to an aggregation of deficiencies relating to the information technology deficiencies described above, ineffective controls over payroll changes, and ineffective review and monitoring controls.

As a result of the material weaknesses described above, management has concluded we did not maintain effective internal control over financial reporting as of December 31, 2013. Our independent registered public accounting firm has issued an auditors report on the effectiveness of our internal control over financial reporting as of December 31, 2013, which report appears in Item 9B of this Annual Report on Form 10-K.

In accordance with SEC regulations, management excluded from its assessment the internal control over financial reporting at Coordinated Home Health Care, an asset purchase, which was acquired on December 1, 2013 and whose financial statements constitute 8.1% of total assets as of December 31, 2013 and 0.7% of revenues for the year ended December 31, 2013.

To remediate the material weaknesses described above, we intend to engage an expert consultant in information technology controls to assist in improving the design and effectiveness of controls in this area. In addition, we are planning the implementation of a comprehensive payroll and human resources information system that will remediate deficiencies identified in payroll.

### ***Changes in Internal Controls Over Financial Reporting***

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have hired a director of internal audit and have engaged a consulting firm to assist us with effecting the changes necessary to correct our internal control deficiencies.

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

Addus HomeCare Corporation

Palatine, IL

We have audited Addus HomeCare Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Addus HomeCare Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

As indicated in the accompanying Item 9A, Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Coordinated Home Health Care, which was acquired on December 1, 2013, and which is included in the consolidated balance sheets of Addus HomeCare Corporation as of December 31, 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. Coordinated Home Health Care constituted 8.1% of total assets as of December 31, 2013, and 0.7% of revenues for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of Coordinated Home Health Care because of the timing of the acquisition which was completed on December 1, 2013. Our audit of internal control over financial reporting of Addus HomeCare Corporation also did not include an evaluation of the internal control over financial reporting of Coordinated Home Health Care.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses regarding

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management's failure to design and maintain controls over payroll monitoring controls and information technology controls related to user access and program changes have been identified and described in management's assessment. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2013 financial statements, and this report does not affect our report dated March 17, 2014 on those financial statements.

In our opinion, Addus HomeCare Corporation did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Addus HomeCare Corporation as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 and our report dated March 17, 2014 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Chicago, IL

March 17, 2014

**ITEM 9B. OTHER INFORMATION**

None.

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**PART III**

Certain information required by Part III is omitted from this Annual Report on Form 10-K as we intend to file our definitive Proxy Statement for the 2013 Annual Meeting of Stockholders pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report, and certain information included in the Proxy Statement is incorporated herein by reference.

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

The information required by this item is incorporated by reference to the 2014 Proxy Statement to be filed with the SEC within 120 days after the end of the year ended December 31, 2013.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to the 2014 Proxy Statement to be filed with the SEC within 120 days after the end of the year ended December 31, 2013.

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

The information required by this item is incorporated by reference to the 2014 Proxy Statement to be filed with the SEC within 120 days after the end of the year ended December 31, 2013.

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

The information required by this item is incorporated by reference to the 2014 Proxy Statement to be filed with the SEC within 120 days after the end of the year ended December 31, 2013.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item is incorporated by reference to the 2014 Proxy Statement to be filed with the SEC within 120 days after the end of the year ended December 31, 2013.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Consolidated Financial Statements

1. Consolidated Financial Statements. The consolidated financial statements as listed in the accompanying Index to Consolidated Financial Information in page F-1 are filed as part of this Annual Report.

**Schedule II Valuation and Qualifying Accounts**

Schedules have been omitted because they are not applicable or are not required or the information required to be set forth in those schedules is included in the consolidated financial statements or related notes. All other schedules not listed in the accompanying index have been omitted as they are either not required or not applicable, or the required information is included in the consolidated financial statements or the notes thereto.

(b) Exhibits

**Exhibit**

**Number**

**Description of Document**

3.1	Amended and Restated Certificate of Incorporation of Addus HomeCare Corporation dated as of November 2, 2009 (filed on November 20, 2009 as Exhibit 3.1 to Addus HomeCare Corporation's Quarterly Report on Form 10-Q and incorporated by reference herein)
3.2	Amended and Restated Bylaws of Addus HomeCare Corporation (filed on September 21, 2009 as Exhibit 3.5 to Amendment No. 2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
4.1	Form of Common Stock Certificate (filed on October 2, 2009 as Exhibit 4.1 to Amendment No. 4 to the Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
4.2	Registration Rights Agreement, dated September 19, 2006, by and among Addus HomeCare Corporation, Eos Capital Partners III, L.P., Eos Partners SBIC III, L.P., Freeport Loan Fund LLC, W. Andrew Wright, III, Addus Term Trust, W. Andrew Wright Grantor Retained Annuity Trust, Mark S. Heaney, James A. Wright and Courtney E. Panzer (filed on July 17, 2009 as Exhibit 4.2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.1	Separation and General Release Agreement, dated as of September 20, 2009, between Addus HealthCare, Inc. and W. Andrew Wright, III (filed on September 21, 2009 as Exhibit 10.1(b) to Amendment No. 2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.2	Amended and Restated Employment and Non-Competition Agreement, dated May 6, 2008, between Addus HealthCare, Inc. and Mark S. Heaney (filed on July 17, 2009 as Exhibit 10.2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.3	Amendment to the Amended and Restated Employment and Non-Competition Agreement, dated September 30, 2009, between Addus HealthCare, Inc. and Mark S. Heaney (filed on October 2, 2009 as Exhibit 10.2(a) to Amendment No. 4 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.4	Employment Agreement, dated November 29, 2010, by and between Addus HealthCare, Inc. and Dennis Meulemans (filed on December 1, 2010 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated by reference herein)





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**Exhibit**

<b>Number</b>	<b>Description of Document</b>
10.5	Amended and Restated Employment and Non-Competition Agreement, dated August 27, 2007, between Addus HealthCare, Inc. and Darby Anderson (filed on July 17, 2009 as Exhibit 10.4 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.6	Amendment to the Amended and Restated Employment and Non-Competition Agreement, dated September 30, 2009, between Addus HealthCare, Inc. and Darby Anderson (filed on October 2, 2009 as Exhibit 10.4(a) to Amendment No. 4 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.7	Addus HealthCare, Inc. Home Health and Home Care Division Vice President and Regional Director Bonus Plan (filed on July 17, 2009 as Exhibit 10.10 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.8	Addus HealthCare, Inc. Support Center Vice President and Department Director Bonus Plan (filed on July 17, 2009 as Exhibit 10.11 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.9	Addus Holding Corporation 2006 Stock Incentive Plan (filed on July 17, 2009 as Exhibit 10.12 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.10	Director Form of Option Award Agreement under the 2006 Stock Incentive Plan (filed on July 17, 2009 as Exhibit 10.13 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.11	Executive Form of Option Award Agreement under the 2006 Stock Incentive Plan (filed on July 17, 2009 as Exhibit 10.14 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.12	Form of Indemnification Agreement (filed on July 17, 2009 as Exhibit 10.16 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.13	License Agreement, dated March 24, 2006, between McKesson Information Solutions, LLC and Addus HealthCare, Inc. (filed on August 26, 2009 as Exhibit 10.17 to Amendment No. 1 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.14	Contract Supplement to the License Agreement, dated March 24, 2006 (filed on August 26, 2009 as Exhibit 10.17(a) to Amendment No. 1 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.15	Contract Supplement to the License Agreement, dated March 28, 2006 (filed on August 26, 2009 as Exhibit 10.17(b) to Amendment No. 1 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.16	Amendment to License Agreement, dated March 28, 2006, between McKesson Information Solutions, LLC and Addus HealthCare, Inc. (filed on August 26, 2009 as Exhibit 10.17(c) to Amendment No. 1 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.17	Lease, dated April 1, 1999, between W. Andrew Wright, III and Addus HealthCare, Inc. (filed on July 17, 2009 as Exhibit 10.18 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.18	First Amendment to Lease, dated as of April 1, 2002, between W. Andrew Wright, III and Addus HealthCare, Inc. (filed on July 17, 2009 as Exhibit 10.18(a) to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)

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**Exhibit**

<b>Number</b>	<b>Description of Document</b>
10.19	Second Amendment to Lease, dated as of September 19, 2006, between W. Andrew Wright, III and Addus HealthCare, Inc. (filed on July 17, 2009 as Exhibit 10.18(b) to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.20	Third Amendment to Lease, dated as of September 1, 2008, between W. Andrew Wright, III and Addus HealthCare, Inc. (filed on July 17, 2009 as Exhibit 10.18(c) to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.21	Addus HomeCare Corporation 2009 Stock Incentive Plan (filed on September 21, 2009 as Exhibit 10.20 to Amendment No. 2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.22	Form of Incentive Stock Option Award Agreement under the 2009 Stock Incentive Plan (filed on September 21, 2009 as Exhibit 10.20(a) to Amendment No. 2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.23	Form of Restricted Stock Award Agreement under the 2009 Stock Incentive Plan (filed on September 21, 2009 as Exhibit 10.20(b) to Amendment No. 2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.24	Loan and Security Agreement, dated as of November 2, 2009, by and among Addus HealthCare, Inc., Addus HealthCare (Idaho), Inc., Addus HealthCare (Indiana), Inc., Addus HealthCare (Nevada), Inc., Addus HealthCare (New Jersey), Inc., Addus HealthCare (North Carolina), Inc., Benefits Assurance Co., Inc., Fort Smith Home Health Agency, Inc., Little Rock Home Health Agency, Inc., Lowell Home Health Agency, Inc., PHC Acquisition Corporation and Professional Reliable Nursing Service, Inc., as borrowers, Fifth Third Bank, as agent, the financial institutions that are or may from time to time become parties thereto, and Addus HomeCare Corporation, as guarantor (filed on November 5, 2009 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated by reference herein)
10.25	Consent and Amendment No. 1 to the Loan and Security Agreement, dated as of March 18, 2010, by and among Addus HealthCare, Inc., Addus HealthCare (Idaho), Inc., Addus HealthCare (Indiana), Inc., Addus HealthCare (Nevada), Inc., Addus HealthCare (New Jersey), Inc., Addus HealthCare (North Carolina), Inc., Benefits Assurance Co., Inc., Fort Smith Home Health Agency, Inc., Little Rock Home Health Agency, Inc., Lowell Home Health Agency, Inc., PHC Acquisition Corporation and Professional Reliable Nursing Service, Inc., as borrowers, Fifth Third Bank, as agent, the financial institutions that are or may from time to time become parties thereto, and Addus HomeCare Corporation, as guarantor (filed on March 18, 2010 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated by reference herein)
10.26	Joinder, Consent and Amendment No. 2 to Loan and Security Agreement, dated as of July 26, 2010, by and among Addus HealthCare, Inc., Addus HealthCare (South Carolina), Inc., Addus HealthCare (Idaho), Inc., Addus HealthCare (Indiana), Inc., Addus HealthCare (Nevada), Inc., Addus HealthCare (New Jersey), Inc., Addus HealthCare (North Carolina), Inc., Benefits Assurance Co., Inc., Fort Smith Home Health Agency, Inc., Little Rock Home Health Agency, Inc., Lowell Home Health Agency, Inc., PHC Acquisition Corporation and Professional Reliable Nursing Service, Inc., as borrowers, Fifth Third Bank, as agent, the financial institutions that are or may from time to time become parties thereto, and Addus HomeCare Corporation, as guarantor (filed on July 27, 2010 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated by reference herein)

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**Exhibit**

<b>Number</b>	<b>Description of Document</b>
10.27	Joinder, Consent and Amendment No. 3 to the Loan and Security Agreement, dated as of March 24, 2011, by and among Addus HealthCare, Inc., Addus HealthCare (Idaho), Inc., Addus HealthCare (Indiana), Inc., Addus HealthCare (Nevada), Inc., Addus HealthCare (New Jersey), Inc., Addus HealthCare (North Carolina), Inc., Benefits Assurance Co., Inc., Fort Smith Home Health Agency, Inc., Little Rock Home Health Agency, Inc., Lowell Home Health Agency, Inc., PHC Acquisition Corporation and Professional Reliable Nursing Service, Inc., Addus HealthCare (South Carolina), Inc. Addus HealthCare (Delaware), Inc., as borrowers, Fifth Third Bank, as agent, the financial institutions that are or may from time to time become parties thereto, and Addus HomeCare Corporation, as guarantor (filed on May 25, 2011 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated herein by reference)
10.28	Amendment No. 4 to Loan and Security Agreement, dated as of July 26, 2011, effective as of June 30, 2011, by and among Addus HealthCare, Inc., Addus HealthCare (Idaho), Inc., Addus HealthCare (Indiana), Inc., Addus HealthCare (Nevada), Inc., Addus HealthCare (New Jersey), Inc., Addus HealthCare (North Carolina), Inc., Benefits Assurance Co., Inc., Fort Smith Home Health Agency, Inc., Little Rock Home Health Agency, Inc., Lowell Home Health Agency, Inc., PHC Acquisition Corporation, Professional Reliable Nursing Service, Inc., Addus HealthCare (South Carolina), Inc., Addus HealthCare (Delaware), Inc., as borrowers, Fifth Third Bank, as agent, the financial institutions from time to time parties thereto, and Addus HomeCare Corporation, as guarantor (filed on July 29, 2011 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated herein by reference)
10.29	Amendment No. 2 to Employment and Non-Competition Agreement, dated November 17, 2011, by and between Addus HealthCare, Inc. and Mark S. Heaney (filed on November 23, 2011 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated herein by reference)
10.30	Amendment No. 5 to Loan and Security Agreement, dated as of March 2, 2012, by and among Addus HealthCare, Inc., Addus HealthCare (Idaho), Inc., Addus HealthCare (Indiana), Inc., Addus HealthCare (Nevada), Inc., Addus HealthCare (New Jersey), Inc., Addus HealthCare (North Carolina), Inc., Benefits Assurance Co., Inc., Fort Smith Home Health Agency, Inc., Little Rock Home Health Agency, Inc., Lowell Home Health Agency, Inc., PHC Acquisition Corporation, Professional Reliable Nursing Service, Inc., Addus HealthCare (South Carolina), Inc., Addus HealthCare (Delaware), Inc., as borrowers, Fifth Third Bank, as agent, the financial institutions from time to time parties thereto, and Addus HomeCare Corporation, as guarantor (filed on March 16, 2012 as Exhibit 10.41 to Addus HomeCare Corporation's Annual Report on Form 10-K and incorporated herein by reference)
10.31	Summary of Independent Director Compensation Policy (filed on March 16, 2012 as Exhibit 10.42 to Addus HomeCare Corporation's Annual Report on Form 10-K and incorporated herein by reference)
10.32	The Executive Nonqualified Excess Plan Adoption Agreement, by Addus HealthCare, Inc., dated April 1, 2012 (filed on April 5, 2012 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated by reference herein)
10.33	The Executive Nonqualified Excess Plan Document, dated April 1, 2012 (filed on April 5, 2012 as Exhibit 99.2 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated herein by reference)
10.34	Employment Agreement, effective June 18, 2012, by and between Addus Healthcare, Inc. and Inna Berkovich (filed on June 20, 2012 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated herein by reference)
10.35	Asset Purchase Agreement, dated as of February 7, 2013, by and among Addus HealthCare, Inc., its subsidiaries identified therein, LHC Group, Inc. and its subsidiaries identified therein (filed on March 6, 2013 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated by reference herein)

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**Exhibit**

<b>Number</b>	<b>Description of Document</b>
21.1	Subsidiaries of the Addus HomeCare Corporation (filed on March 28, 2011 as Exhibit 22.1 to Addus HomeCare Corporation's Annual Report on Form 10-K and incorporated herein by reference)
23.1	Consent of BDO USA, LLP, Independent Registered Public Accounting Firm*
31.1	Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101	The following materials from Addus HomeCare Corporation's Annual Report on Form 10-K for the years ended December 31, 2013, formatted in Extensive Business Reporting Language (XBRL), (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

\* Filed herewith

\*\* Furnished herewith

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Addus HomeCare Corporation

By: /s/ MARK S. HEANEY  
**Mark S. Heaney,**

**President and Chief Executive Officer**

Date: March 17, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ MARK S. HEANEY <b>Mark S. Heaney</b>	President and Chief Executive Officer (Principal Executive Officer) and Director	March 17, 2014
/s/ DENNIS B. MEULEMANS <b>Dennis B. Meulemans</b>	Chief Financial Officer (Principal Financial and Accounting Officer)	March 17, 2014
/s/ MARK L. FIRST <b>Mark L. First</b>	Director	March 17, 2014
/s/ SIMON A. BACHLEDA <b>Simon A. Bachleda</b>	Director	March 17, 2014
/s/ STEVEN I. GERINGER <b>Steven I. Geringer</b>	Director	March 17, 2014
/s/ R. DIRK ALLISON <b>R. Dirk Allison</b>	Director	March 17, 2014

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

Addus HomeCare Corporation

Palatine, Illinois

We have audited the accompanying consolidated balance sheets of Addus HomeCare Corporation as of December 31, 2013 and 2012 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. In connection with our audits of the consolidated financial statements, we have also audited the schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Addus HomeCare Corporation at December 31, 2013 and 2012, and the results of its operations and its cash flow for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Addus HomeCare Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 17, 2014 expressed an adverse opinion thereon.

/s/ BDO USA, LLP

Chicago, IL

March 17, 2014

**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****As of December 31, 2013 and 2012****(amounts and shares in thousands, except per share data)**

	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current assets		
Cash	\$ 15,565	\$ 1,737
Accounts receivable, net of allowances of \$4,140 and \$4,466 at December 31, 2013 and 2012, respectively	61,354	71,303
Prepaid expenses and other current assets	6,235	7,293
Assets held for sale, net		245
Deferred tax assets	8,326	7,258
Total current assets	91,480	87,836
Property and equipment, net of accumulated depreciation and amortization	2,634	2,489
Other assets		
Goodwill	60,026	50,536
Intangibles, net of accumulated amortization	8,762	6,370
Investment in joint venture	900	
Deferred tax assets		2,328
Other assets	132	298
Total other assets	69,820	59,532
Total assets	\$ 163,934	\$ 149,857
<b>Liabilities and stockholders' equity</b>		
Current liabilities		
Accounts payable	\$ 4,633	\$ 4,117
Accrued expenses	41,945	32,717
Current maturities of long-term debt		208
Deferred revenue	59	2,148
Total current liabilities	46,637	39,190
Deferred tax liabilities	3,441	
Long-term debt, less current maturities		16,250
Total liabilities	50,078	55,440
Commitments, contingencies and other matters		
Stockholders' equity		
Common stock \$.001 par value; 40,000 authorized and 10,913 and 10,823 shares issued and outstanding as of December 31, 2013 and 2012, respectively	11	11
Additional paid-in capital	83,072	82,778



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Retained earnings	30,773	11,628
Total stockholders' equity	113,856	94,417
Total liabilities and stockholders' equity	\$ 163,934	\$ 149,857

See accompanying notes to consolidated financial statements

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**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****For the years ended December 31, 2013, 2012 and 2011****(amounts and shares in thousands, except per share data)**

	<b>For the Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net service revenues	\$ 265,941	\$ 244,315	\$ 230,105
Cost of service revenues	198,202	180,264	168,632
Gross profit	67,739	64,051	61,473
General and administrative expenses	50,118	46,362	45,858
Revaluation of contingent consideration			(469)
Gain on sale of agency		(495)	
Depreciation and amortization	2,160	2,521	3,167
Total operating expenses	52,278	48,388	48,556
Operating income from continuing operations	15,461	15,663	12,917
Interest income	(188)	(155)	(2,263)
Interest expense	674	1,723	2,524
Total interest expense, net	486	1,568	261
Income from continuing operations before income taxes	14,975	14,095	12,656
Income tax expense	3,812	4,807	4,244
Net income from continuing operations	11,163	9,288	8,412
Discontinued operations:			
Net loss from home health business	(980)	(1,653)	(10,393)
Gain on sale of home health business, net of tax	8,962		
Earnings (losses) from discontinued operations	7,982	(1,653)	(10,393)
Net income (loss)	\$ 19,145	\$ 7,635	\$ (1,981)
Net income (loss) per common share			
Basic income (loss) per share			
Continuing operations	\$ 1.03	\$ 0.86	\$ 0.78
Discontinued operations	0.74	(0.15)	(0.96)
Basic income (loss) per share	\$ 1.77	\$ 0.71	\$ (0.18)
Diluted income (loss) per share			
Continuing operations	\$ 1.01	\$ 0.86	\$ 0.78

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Discontinued operations	0.72	(0.15)	(0.96)
Diluted income (loss) per share	\$ 1.73	\$ 0.71	\$ (0.18)
Weighted average number of common shares and potential common shares outstanding:			
Basic	10,826	10,764	10,752
Diluted	11,075	10,784	10,752
	See accompanying notes to consolidated financial statements		

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**ADDUS HOMECARE CORPORATION**  
**AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**For the years ended December 31, 2013, 2012 and 2011**  
**(amounts and shares in thousands)**

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid in	Earnings	Stockholders
			Capital		Equity
Balance at December 31, 2010	10,751	11	82,106	5,974	88,091
Issuance of shares of common stock under restricted stock award agreements	24				
Stock-based compensation			331		331
Net loss				(1,981)	(1,981)
Balance at December 31, 2011	10,775	11	82,437	3,993	86,441
Issuance of shares of common stock under restricted stock award agreements	43				
Stock-based compensation			341		341
Shares issued	5				
Net income				7,635	7,635
Balance at December 31, 2012	10,823	\$ 11	\$ 82,778	\$ 11,628	\$ 94,417
Issuance of shares of common stock under restricted stock award agreements	63				
Stock-based compensation			515		515
Common shares withheld for withholding taxes on exercise of options	(67)		(221)		(221)
Shares issued	94				
Net income				19,145	19,145
Balance at December 31, 2013	10,913	\$ 11	\$ 83,072	\$ 30,773	\$ 113,856

See accompanying notes to consolidated financial statements

**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the years ended December 31, 2013, 2012 and 2011****(amounts in thousands)**

	2013	For the Year Ended December 31, 2012	2011
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 19,145	\$ 7,635	\$ (1,981)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>			
Depreciation and amortization	2,160	2,544	3,554
Deferred income taxes	4,701	839	(4,663)
Stock-based compensation	515	341	331
Amortization of debt issuance costs	166	215	224
Provision for doubtful accounts	3,019	2,877	4,275
Goodwill and intangible assets impairment charge			15,989
Revaluation of contingent consideration			(469)
(Gain) on sale home health business	(15,284)		
(Gain) loss on sale of agency		(495)	43
<b>Changes in operating accounts, net of acquisitions:</b>			
Accounts receivable	7,818	(1,812)	(5,689)
Prepaid expenses and other current assets	1,061	(18)	1,433
Other Assets			
Accounts payable	435	(1,149)	1,962
Accrued expenses	3,758	4,425	934
Deferred revenue	(101)	3	4
<b>Net cash provided by operating activities</b>	<b>27,393</b>	<b>15,405</b>	<b>15,947</b>
<b>Cash flows from investing activities:</b>			
Acquisitions of businesses	(12,325)		(500)
Net proceeds from sale of home health business	16,105		
Net proceeds from sale of agency		495	
Purchases of property and equipment	(887)	(1,114)	(551)
<b>Net cash provided by (used in) investing activities</b>	<b>2,893</b>	<b>(619)</b>	<b>(1,051)</b>
<b>Cash flows from financing activities:</b>			
Net borrowings (repayments) on term loan	(208)	(2,500)	(2,292)
Net (payments) borrowings on revolving credit loan	(16,250)	(8,500)	(8,500)
Payments on subordinated dividend notes		(4,069)	(2,500)
Debt issuance costs			(34)
Net borrowings (repayments) on other notes payable			(366)
<b>Net cash used in financing activities</b>	<b>(16,458)</b>	<b>(15,069)</b>	<b>(13,692)</b>
<b>Net change in cash</b>	<b>13,828</b>	<b>(283)</b>	<b>1,204</b>

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Cash, at beginning of period	1,737	2,020	816
Cash, at end of period	\$ 15,565	\$ 1,737	\$ 2,020
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 725	\$ 1,557	\$ 2,337
Cash paid for income taxes	5,689	1,758	2,005
Supplemental disclosures of non-cash investing and financing activities			
Contingent and deferred consideration accrued for acquisitions	\$ 1,100	\$	\$
Tax benefit related to the amortization of tax goodwill in excess of book basis	160	159	159
See accompanying notes to consolidated financial statements			

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**ADDUS HOMECARE CORPORATION**

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**Notes to Consolidated Financial Statements**

**(amounts and shares in thousands, except per share data)**

**1. Significant Accounting Policies**

***Basis of Presentation and Description of Business***

The consolidated financial statements include the accounts of Addus HomeCare Corporation ( Holdings ) and its subsidiaries (together with Holdings, the Company or we ). The Company provides home and community based services through a network of locations throughout the United States. These services are primarily performed in the homes of the consumers. The Company s home and community based services include assistance to the elderly, chronically ill and disabled with bathing, grooming, dressing, personal hygiene and medication reminders, and other activities of daily living. Home and community based services are primarily performed under agreements with state and local governmental agencies.

***Discontinued Operations***

On February 7, 2013, subsidiaries of Holdings entered into an Asset Purchase Agreement with LHC Group, Inc. and certain of its subsidiaries (the Home Health Purchase Agreement ). Pursuant to the Home Health Purchase Agreement, effective March 1, 2013, the purchasers agreed to acquire substantially all the assets of the Company s home health business in Arkansas, Nevada and South Carolina and 90% of its home health business in California and Illinois, with the Company retaining 10% ownership in such locations, for cash consideration of \$20,000.

The Company s home health services were operated through licensed and Medicare certified offices that provided physical, occupational and speech therapy, as well as skilled nursing services to pediatric, adult infirm and elderly patients. Home health services were reimbursed from Medicare, Medicaid and Medicaid-waiver programs, commercial insurance and private payors (see note 2) of the Company s Annual Report on Form 10-K.

***Principles of Consolidation***

All intercompany balances and transactions have been eliminated in consolidation. The Company s investment in entities with less than 20% ownership or in which the Company does not have the ability to influence the operations of the investee are being accounted for using the cost method and are included in investments in joint ventures.

***Revenue Recognition***

The Company generates net service revenues by providing services directly to consumers. The Company receives payments for providing services from federal, state and local governmental agencies, commercial insurers and private individuals. The Company s continuing operations, as defined in the Business Section in the Company s Annual Report on Form 10-K, are principally provided based on authorized hours, determined by the relevant agency, at an hourly rate specified in agreements or fixed by legislation and recognized as revenues at the time services are rendered. Home and community based service revenues are reimbursed by state, local and other governmental programs which are partially funded by Medicaid or Medicaid waiver programs, with the remainder reimbursed through private duty and insurance programs.

Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change in the near term. The Company believes that it is in compliance in all material respects with all applicable laws and regulations.

**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(amounts and shares in thousands, except per share data) (Continued)*****Allowance for Doubtful Accounts***

The Company establishes its allowance for doubtful accounts to the extent it is probable that a portion or all of a particular account will not be collected. The Company estimates its provision for doubtful accounts primarily by aging receivables utilizing eight aging categories, and applying its historical collection rates to each aging category, taking into consideration factors that might impact the use of historical collection rates or payor groups, with certain large payors analyzed separately from other payor groups. In the Company's evaluation of these estimates, it also considers delays in payment trends in individual states due to budget or funding issues, billing conversions related to acquisitions or internal systems, resubmission of bills with required documentation and disputes with specific payors. An allowance for doubtful accounts is maintained at a level management believes is sufficient to cover potential losses. However, actual collections could differ from estimates.

***Property and Equipment***

Property and equipment are recorded at cost and depreciated over the estimated useful lives of the related assets by use of the straight-line method except for internally developed software which is amortized by the sum-of-years digits method. Maintenance and repairs are charged to expense as incurred. The estimated useful lives of the property and equipment are as follows:

Computer equipment	3 - 5 years
Furniture and equipment	5 - 7 years
Transportation equipment	5 years
Computer software	5 - 10 years
Leasehold improvements	Lesser of useful life or lease term, unless probability of lease renewal is likely

***Goodwill***

The Company's carrying value of goodwill is the residual of the purchase price over the fair value of the net assets acquired from various acquisitions including the acquisition of Addus HealthCare, Inc. (Addus HealthCare). In accordance with Accounting Standards Codification (ASC) Topic 350, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite useful lives are not amortized. The Company tests goodwill for impairment at the reporting unit level on an annual basis, as of October 1, or whenever potential impairment triggers occur, such as a significant change in business climate or regulatory changes that would indicate that an impairment may have occurred. Goodwill and indefinite lived intangible assets are required to be tested for impairment at least annually. The Company may use a qualitative test, known as Step 0 or a two-step quantitative method to determine whether impairment has occurred. In Step 0, the Company can elect to perform an optional qualitative analysis and based on the results skip the two step analysis. In 2013 and 2012, the Company elected to implement Step 0 and was not required to conduct the remaining two step analysis.

In 2011, the Company elected to evaluate the goodwill via the two step methodology. The first step in the evaluation of goodwill impairment involves comparing the current fair value of each reporting unit to the recorded value, including goodwill. The Company used the combination of a discounted cash flow model (DCF model) and the market multiple analysis method to determine the current fair value of each reporting unit. The DCF model was prepared using revenue and expense projections based on the Company's current operating plan. As such, a number of significant assumptions and estimates were involved in the application of the DCF model to forecast revenue growth, price changes, gross profits, operating expenses and operating cash flows. In 2011, the





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**(amounts and shares in thousands, except per share data) (Continued)**

cash flows were discounted using a weighted average cost of capital of 14.5%, which was management's best estimate based on the capital structure of the Company and external industry data. As part of the second step of this evaluation, if the carrying value of goodwill exceeds its fair value, an impairment loss would be recognized. The Company recorded a \$15,989 goodwill and intangible asset charge during the third quarter of 2011 (see Note 6) for its discontinued operations (see Note 2).

***Intangible Assets***

The Company's identifiable intangible assets consist of customer and referral relationships, trade names, trademarks, state licenses and non-compete agreements. Amortization is computed using straight-line and accelerated methods based upon the estimated useful lives of the respective assets, which range from two to 25 years.

Intangible assets with finite lives are amortized using the estimated economic benefit method over the useful life and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company recognizes an impairment loss when the estimated fair value of the intangible asset is less than the carrying value. The Company estimates the fair value of these intangible assets using the income approach. No impairment charge was recorded for the years ended December 31, 2013 or 2012.

The income approach, which the Company uses to estimate the fair value of its reporting units and intangible assets (other than goodwill), is dependent on a number of factors including estimates of future market growth and trends, forecasted revenue and costs, expected periods the assets will be utilized, appropriate discount rates and other variables. The Company bases its fair value estimates on assumptions the Company believes to be reasonable but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, the Company makes certain judgments about the selection of comparable companies used in the market approach in determining its valuation.

We also have indefinite-lived intangible assets that are not subject to amortization expense such as certificates of need and licenses to conduct specific operations within geographic markets. Our management has concluded that certificates of need and licenses have indefinite lives, as management has determined that there are no legal, regulatory, contractual, economic or other factors that would limit the useful life of these intangible assets and we intend to renew and operate the certificates of need and licenses indefinitely. The certificates of need and licenses are tested annually for impairment. No impairment was recorded in 2013 or 2012. Based on our 2011 assessment of fair value discussed above, we determined that all of the \$0.6 million allocated to discontinued operations certificates of need and licenses were impaired and recorded an impairment loss for 2011.

***Debt Issuance Costs***

The Company amortizes debt issuance costs on a straight-line method over the term of the related debt. This method approximates the effective interest method.

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**ADDUS HOMECARE CORPORATION**

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**(amounts and shares in thousands, except per share data) (Continued)**

***Workers Compensation Program***

The Company's workers' compensation program has a \$350 deductible component. The Company recognizes its obligations associated with this program in the period the claim is incurred. The cost of both the claims reported and claims incurred but not reported, up to the deductible, have been accrued based on historical claims experience, industry statistics and an actuarial analysis performed by an independent third party. The future claims payments related to the workers' compensation program are secured by letters of credit.

***Interest Income***

Legislation enacted in Illinois entitles designated service program providers to receive a prompt payment interest penalty based on qualifying services approved for payment that remain unpaid after a designated period of time. As the amount and timing of the receipt of these payments are not certain, the interest income is recognized when received and reported in the statement of operations, interest income. The Company received \$185, \$155 and \$2,263 in prompt payment interest in 2013, 2012 and 2011, respectively. While the Company may be owed additional prompt payment interest, the amount and timing of receipt of such payments remains uncertain and the Company has determined that it will continue to recognize prompt payment interest income when received.

***Interest Expense***

The Company's interest expense consists of interest costs on its credit facility and other debt instruments.

***Income Tax Expenses***

The Company accounts for income taxes under the provisions of ASC Topic 740, *Income Taxes*. The objective of accounting for income taxes is to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in its financial statements or tax returns. Deferred taxes, resulting from differences between the financial and tax basis of the Company's assets and liabilities, are also adjusted for changes in tax rates and tax laws when changes are enacted. ASC Topic 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. ASC Topic 740, also prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. In addition, ASC Topic 740 provides guidance on derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions.

***Stock-based Compensation***

The Company has two stock incentive plans, the 2006 Stock Incentive Plan (the 2006 Plan) and the 2009 Stock Incentive Plan (the 2009 Plan) that provide for stock-based employee compensation. The Company accounts for stock-based compensation in accordance with ASC Topic 718, *Stock Compensation*. Compensation expense is recognized on a graded method under the 2006 Plan and on a straight-line basis under the 2009 Plan over the vesting period of the awards based on the fair value of the options. Under the 2006 Plan, the Company historically used the Black-Scholes option pricing model to estimate the fair value of its stock based payment awards, but beginning October 28, 2009 under its 2009 Plan it began using an enhanced Hull-White Trinomial model. The determination of the fair value of stock-based payments utilizing the Black-Scholes

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**(amounts and shares in thousands, except per share data) (Continued)**

model and the Enhanced Hull-White Trinomial model is affected by Holdings' stock price and a number of assumptions, including expected volatility, risk-free interest rate, expected term, expected dividends yield, expected forfeiture rate, expected turn-over rate, and the expected exercise multiple.

***Net Income (Loss) Per Common Share***

Net income (loss) per common share, calculated on the treasury stock method, is based on the weighted average number of shares outstanding during the period. The Company's outstanding securities that may potentially dilute the common stock are stock options and restricted stock awards.

Included in the Company's calculation for the year ended December 31, 2013 were 647 stock options of which none were out-of-the money and 96 restricted stock awards with 44 included in the weighted diluted shares outstanding for 2013.

Included in the Company's calculation for the year ended December 31, 2012 were 596 stock options of which 501 were out-of-the money and therefore anti-dilutive and 57 restricted stock awards with 12 included in the weighted diluted shares outstanding for 2012.

For the year ended December 31, 2011 the Company had 10 dilutive shares but it reported a net loss and any potentially dilutive securities would be anti-dilutive, therefore, no additional shares were considered in the calculation of diluted earnings per share.

***Estimates***

The financial statements are prepared by management in conformity with GAAP and include estimated amounts and certain disclosures based on assumptions about future events. Accordingly, actual results could differ from those estimates.

***Fair Value of Financial Instruments***

The Company's financial instruments consist of cash, accounts receivable, payables and debt. The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. The carrying value of the Company's long-term debt with variable interest rates approximates fair value based on instruments with similar terms.

The Company applies fair value techniques on a non-recurring basis associated with valuing potential impairment losses related to goodwill and indefinite-lived intangible assets and also when determining the fair value of contingent considerations. To determine the fair value in these situations, the Company uses Level 3 inputs such as discounted cash flows or if available, what a market participant would pay on the measurement date.

The Company utilizes the income approach to estimate the fair value of its intangible assets derived from acquisitions. In addition, discounted cash flows are used to estimate the fair value of the Company's investment in joint ventures.

**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(amounts and shares in thousands, except per share data) (Continued)*****New Accounting Pronouncements***

The Company does not believe any recently issued, but not yet effective, accounting standards will have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

**2. Discontinued Operations**

During December 2012, in anticipation of the sale of substantially all of the assets used in its home health business (the Home Health Business), the Company reported the operating results of the Home Health Business as discontinued operations in accordance with ASC 360-10-45, *Impairment or Disposal of Long-Lived Assets*. On February 7, 2013, the Company entered into the Home Health Purchase Agreement, pursuant to which subsidiaries of LHC Group, Inc. agreed to acquire substantially all the assets of the Home Health Business in Arkansas, Nevada and South Carolina and 90% of the Home Health Business in California and Illinois, with the Company retaining 10% ownership in such locations, for cash consideration of \$20,000. The transaction was consummated effective March 1, 2013. In addition, the results of operations for an agency in Pennsylvania that was sold on December 30, 2013 and an agency in Idaho that was closed on November 30, 2012 are included in discontinued operations.

The Company has included the financial results of the Home Health Business in discontinued operations for all periods presented. Assets sold to the purchasers are presented as assets held for sale, net, on the accompanying consolidated balance sheet as of December 31, 2012. In connection with the discontinued operations presentation, certain financial statement footnotes have also been updated to reflect the impact of discontinued operations.

The following table presents the net service revenues and earnings attributable to discontinued operations, which include the financial results for the years ended December 31, 2013, 2012 and 2011:

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net service revenues	\$ 6,462	\$ 38,822	\$ 42,995
Loss before income taxes	(1,672)	(2,752)	(17,122)
Income tax benefit	(692)	(1,099)	(6,729)
Net (loss) from discontinued operations	\$ (980)	\$ (1,653)	\$ (10,393)

The following table presents the net gain on the sale of the Home Health Business:

Gain before income taxes	\$ 15,284
Income tax expense	(6,322)
Gain on sale of Home Health Business, net of tax	8,962

The only class of assets for discontinued operations reflected as assets held for sale, net, as of December 31, 2013 and 2012 were as follows:

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	2013	2012
Property and equipment, net of accumulated depreciation and amortization	\$	\$ 245

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**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(amounts and shares in thousands, except per share data) (Continued)**

Pursuant to the Home Health Purchase Agreement, the Company has retained \$625 and \$7,123 of accounts receivable, net as of December 31, 2013 and 2012. In addition, the Company retained the related accrued expenses and accounts payable associated with the Home Health Business as of December 31, 2013 and 2012.

**3. Sale of Agency**

During February 2012, the Company completed its sale of a home health agency located in Portland, Oregon for approximately \$525 with net proceeds of approximately \$495 after the payment of closing related expenses. The Company recorded a \$495 pre-tax gain on the sale of the agency as part of continuing operations.

**4. Acquisitions**

The Company entered into two definitive acquisition agreements to acquire home and community based businesses during 2013 to further its presence in both existing states and to expand into new states. On October 17, 2013 the Company entered into an asset purchase agreement to acquire the entire home and community based business of Medi Home Private Care Division of Medical Services of America, Inc.. The acquisition included two agencies located in South Carolina which were closed effective November 1, 2013; four agencies located in Tennessee and two agencies located in Ohio which closed in January 2014. The Company also entered into an asset purchase agreement to acquire the assets of Coordinated Home Health Care, LLC a personal care business located in New Mexico on November 7, 2013. The combined purchase price for these two acquisitions was \$12.3 million at the close and a maximum of \$2.3 million in future cash based on certain performance. The purchase included sixteen offices located in Southern New Mexico. The transaction closed effective December 1, 2013. The related acquisitions costs were \$660 for the Medi Home Private Care Division of Medical Services of America, Inc. and Coordinated Home Health Care, LLC deals, and were expensed as incurred. The results of operations from these acquired entities are included in our statement of operations from the dates of the respective acquisitions.

The Company's acquisition of the assets of Coordinated Home Health Care, LLC has been accounted for in accordance with ASC Top 805, *Business Combinations* and the resultant goodwill and other intangible assets will be accounted for under ASC Topic 350 *Goodwill and Other Intangible Assets*. Assets acquired and liabilities assumed were recorded at their fair values as of December 1, 2013. The total purchase price is \$12,825 and is comprised of:

	<b>Total</b>
Cash	\$ 11,725
Contingent earn-out obligation (net of discount of \$1,125)	1,100
<b>Total purchase price</b>	<b>\$ 12,825</b>

The contingent earn-out obligation has been recorded at its fair value of \$1,100, which is the present value of the Company's obligation to up to \$2,250 based on probability-weighted estimates of the achievement of certain performance targets, as defined.

**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(amounts and shares in thousands, except per share data) (Continued)**

Under business combination accounting, the total purchase price will be allocated to Coordinated Home Health Care, LLC's net tangible and identifiable intangible assets based on their estimated fair values. Based upon our management's valuation, the total purchase price has been allocated as follows:

	<b>Total</b>
Goodwill	\$ 9,488
Identifiable intangible assets	3,300
Accounts receivable	888
Prepaid expenses	35
Furniture, fixtures and equipment	58
Deposits	15
Accounts payable	(81)
Accrued liabilities	(864)
Other liabilities	(14)
 Total purchase price allocation	 \$ 12,825

Identifiable intangible assets acquired consist of trade names and trademarks, customer relationships and non-compete agreements. The estimated fair value of identifiable intangible assets was determined by our management. It is anticipated that the net intangible and identifiable intangible assets are deductible for tax purposes.

Acquisitions completed in 2013 accounted for \$1,692 of net service revenues from continuing operations for the year ended December 31, 2013.

**5. Property and Equipment**

Property and equipment consisted of the following:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Computer equipment	\$ 2,110	\$ 1,705
Furniture and equipment	1,099	918
Transportation equipment	588	508
Leasehold improvements	1,628	1,496
Computer software	3,749	3,179
	9,174	7,806
Less accumulated depreciation and amortization	(6,540)	(5,317)
	\$ 2,634	\$ 2,489



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Computer software includes \$1,500 of internally developed software that was recognized in conjunction with the acquisition of Addus HealthCare. Depreciation and amortization expense predominantly related to computer equipment and software is reflected in general and administrative expenses and totaled \$814, \$870 and \$941 for the years ended December 31, 2013, 2012 and 2011, respectively.

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**ADDUS HOMECARE CORPORATION**

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**(amounts and shares in thousands, except per share data) (Continued)**

**6. Goodwill and Intangible Assets**

The Company's carrying value of goodwill is the residual of the purchase price over the fair value of the net assets acquired from various acquisitions including the acquisition of Addus HealthCare. In accordance with ASC Topic 350, Goodwill and Other Intangible Assets, goodwill and intangible assets with indefinite useful lives are not amortized. The Company tests goodwill for impairment at the reporting unit level on an annual basis, as of October 1, or whenever potential impairment triggers occur, such as a significant change in business climate or regulatory changes that would indicate that an impairment may have occurred.

Goodwill is required to be tested for impairment at least annually. The Company can elect to perform Step-0 an optional qualitative analysis and based on the results skip the remaining two steps. In 2013 and 2012, the Company elected to implement Step 0 and was not required to conduct the remaining two step analysis. In performing its goodwill assessment for 2013 and 2012, the Company evaluated the following factors that affect future business performance: macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, entity-specific events, reporting unit factors and company stock price. As a result of the assessment of these qualitative factors, the Company has concluded that it is more likely than not that the fair values of the reporting unit goodwill as of December 31, 2013 and 2012 exceed the carrying values of the unit. Accordingly, the first and second steps of the goodwill impairment test as described in FASB ASC 350-20-35, which includes estimating the fair values of the Company, are not considered necessary for the Company.

In 2011, the Company elected to evaluate the goodwill via the two step methodology. The first step in the evaluation of goodwill impairment involves comparing the current fair value of each reporting unit to the recorded value, including goodwill. We used the combination of a discounted cash flow model ( DCF model ) and the market multiple analysis method to determine the current fair value of each reporting unit. The DCF model was prepared using revenue and expense projections based on our current operating plan. As such, a number of significant assumptions and estimates are involved in the application of the DCF model to forecast revenue growth, price changes, gross profits, operating expenses and operating cash flows. The cash flows were discounted using a weighted average cost of capital of 14.5%, which was management's best estimate based on our capital structure and external industry data. As part of the second step of this evaluation, if the carrying value of goodwill exceeds its fair value, an impairment loss would be recognized.

In light of the then Federal and state economic and reimbursement environments and state budgetary pressures to decrease or eliminate services provided by us, we completed a preliminary assessment of the fair value of our two reporting units, home & community (continuing operations) and home health (discontinued operations), and the potential for goodwill impairment as of June 30, 2011. Our total stockholders' equity as of September 30, 2011 was significantly greater than our market capitalization, which was approximately \$43.6 million based on 10,774,886 shares of common stock outstanding as of September 30, 2011. While the market capitalization of approximately \$43.6 million was below our stockholders' equity, the market capitalization metric is only one indicator of fair value. In our opinion, the market capitalization approach, by itself, is not a reliable indicator of the value for our company.

During 2011, based on the above and updates to the Company's business projections and forecasts, and other factors, the Company determined that the estimated fair value of its discontinued operations was less than the net book value indicating that its allocated goodwill was impaired. The preliminary assessment for the continuing operations indicated that its fair value was greater than its net book value with no initial indication of goodwill impairment.

As permitted by ASC Topic 350, when an impairment indicator arises toward the end of an interim reporting period, the Company may recognize its best estimate of that impairment loss. Based on the Company's

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preliminary analysis prepared as of June 30, 2011, the Company determined that all of the \$13,076 allocated to goodwill for the discontinued operations as of September 30, 2011 was impaired and recorded a goodwill impairment loss in the third quarter of 2011.

The goodwill for the Company's continuing operations was \$60,026 and \$50,536 as of December 31, 2013 and 2012.

Summary of goodwill and related adjustments provided below:

	<b>Continuing operations</b>	<b>Discontinued operations</b>	<b>Total</b>
Goodwill, at December 31, 2011	\$ 50,695	\$	\$ 50,695
Adjustments to previously recorded goodwill	(159)		(159)
Goodwill, at December 31, 2012	\$ 50,536	\$	\$ 50,536
Additions for Acquisitions	9,650		9,650
Adjustments to previously recorded goodwill	(160)		(160)
Goodwill, at December 31, 2013	\$ 60,026	\$	\$ 60,026

Adjustments to the previously recorded goodwill are primarily credits related to amortization of tax goodwill in excess of book basis.

The Company's identifiable intangible assets consist of customer and referral relationships, trade names, trademarks, state licenses and non-compete agreements. Amortization is computed using straight-line and accelerated methods based upon the estimated useful lives of the respective assets, which range from two to 25 years.

The Company also has indefinite-lived intangible assets that are not subject to amortization expense such as certificates of need and licenses to conduct specific operations within geographic markets. The Company has concluded that certificates of need and licenses have indefinite lives, as management has determined that there are no legal, regulatory, contractual, economic or other factors that would limit the useful life of these intangible assets and the Company intends to renew and operate the certificates of need and licenses indefinitely. The certificates of need and licenses are tested annually for impairment using the cost approach. Under this method assumptions are made about the cost to replace the certificates of need. No impairment charges were recorded in the years ended December 31, 2013, 2012 or 2011.

The carrying amount and accumulated amortization of each identifiable intangible asset category consisted of the following for continuing and discontinued operations at December 31, 2013 and 2012:

	<b>Customer and referral relationships</b>	<b>Trade names and trademarks</b>	<b>State Licenses</b>	<b>Non-competition agreements</b>	<b>Total</b>
Gross balance at December 31, 2012	\$ 24,908	\$ 4,081	\$ 150	\$ 408	\$ 29,547
Accumulated amortization	(20,041)	(2,778)		(358)	(23,117)

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Net Balance at December 31, 2012	4,867	1,303	150	50	6,370
Additions for acquisitions	1,438	1,200		1,100	3,738
Gross balance at December 31, 2013	26,346	5,281	150	1,508	33,285
Accumulated amortization	(21,138)	(2,995)		(390)	(24,523)
Net Balance at December 31, 2013	\$ 5,208	\$ 2,286	\$ 150	\$ 1,118	\$ 8,762

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**(amounts and shares in thousands, except per share data) (Continued)**

Amortization expense for continuing and discontinued operations related to the identifiable intangible assets amounted to \$1,346, \$1,674, and \$2,613 for the years ended December 31, 2013, 2012 and 2011, respectively. Goodwill and state licenses are not amortized pursuant to ASC Topic 350.

The estimated future intangible amortization expense is as follows:

For the year ended December 31,	
2014	\$ 1,988
2015	1,781
2016	1,611
2017	1,122
2018	999
Thereafter	1,111
<b>Total</b>	<b>\$ 8,612</b>

**7. Details of Certain Balance Sheet Accounts**

Prepaid expenses and other current assets consist of the following:

	December 31,	
	2013	2012
Prepaid health insurance	\$ 3,192	\$ 4,062
Prepaid workers' compensation and liability insurance	1,173	1,056
Prepaid rent	455	181
Workers' compensation insurance receivable	821	953
Other	594	1,041
	<b>\$ 6,235</b>	<b>\$ 7,293</b>

Accrued expenses consisted of the following:

	December 31,	
	2013	2012
Accrued payroll	\$ 12,932	\$ 11,539
Accrued workers' compensation insurance	13,347	12,452
Accrued health insurance	3,731	3,469
Indemnification reserve (1)	3,224	

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Accrued payroll taxes	1,755	1,481
Accrued professional fees	1,319	477
Amounts due to LHCG (2)	2,196	
Accrued taxes	113	1,223
Accrued interest		51
Current portion of contingent earn-out obligation (3) (4)	1,100	689
Other	2,228	1,813
	\$ 41,945	\$ 32,717

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**(amounts and shares in thousands, except per share data) (Continued)**

- (1) As a condition of the sale of the Home Health Business to LHC Group, Inc. ( LHCG ) the Company is responsible for any adjustments to Medicare and Medicaid billings during our ownership. In connection with an internal evaluation of the Company's billing processes, it discovered documentation errors in a number of claims that it had submitted to Medicare. The Company, using its best judgment, has estimated a total of \$3,244 for billing adjustments. Consistent with applicable law, the Company voluntarily remitted approximately \$1,800 to the government in March 2014.
- (2) Amounts due to LHCG pursuant to a billing services arrangement between the Company and LHCG.
- (3) The Company acquired certain assets of Advantage Health Systems, Inc. ( Advantage ) in July 2010. The purchase agreement for the acquisition of Advantage contained a provision for earn-out payments contingent upon the achievement of certain performance targets. The sellers of Advantage disagreed with the Company's calculation of the earn-out payment and the parties agreed to have an arbitrator determine the amount of the second earn out payment. Based upon the arbitrator's ruling the final earn out payment of \$534 was made in October 2013.
- (4) The Company acquired certain assets of Coordinated Home Health Care on December 1, 2013. The purchase agreement for the acquisition contained a provision for earn-out payments. The contingent earn-out obligation has been recorded at its fair value of \$1,100, which is the present value of the Company's obligation to up to \$2,250 based on probability- weighted estimates of the achievement of certain performance targets.

The Company provides health insurance coverage to qualified union employees providing home and community based services in Illinois through a Taft-Hartley multi-employer health and welfare plan under Section 302(c)(5) of the Labor Management Relations Act of 1947. The Company's insurance contributions equal the amount reimbursed by the State of Illinois. Contributions are due within five business days from the date the funds are received from the State. Amounts due of \$3,163 and \$3,405 for health insurance reimbursements and contributions were reflected in prepaid insurance and accrued insurance at December 31, 2013 and 2012, respectively.

The Company's workers' compensation program has a \$350 deductible component. The Company recognizes its obligations associated with this program in the period the claim is incurred. The cost of both the claims reported and claims incurred but not reported, up to the deductible, have been accrued based on historical claims experience, industry statistics and an actuarial analysis performed by an independent third party. The future claims payments related to the workers' compensation program are secured by letters of credit. These letters of credit totaled \$12,411 and \$7,710 at December 31, 2013 and 2012.

As part of the terms of the acquisition of Addus HealthCare in 2006, all 2005 and prior workers' compensation claims are the obligation of the former stockholders of Addus HealthCare. Approximately \$1,039 in cash escrows and deposits were set-aside from the purchase price of Addus HealthCare as collateral for these 2005 and prior claims as of December 31, 2013. The outstanding loss reserves associated with the 2005 and prior workers' compensation policies approximated \$604 at December 31, 2013.

**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(amounts and shares in thousands, except per share data) (Continued)****8. Long-Term Debt**

Long-term debt consisted of the following:

	December 31,	
	2013	2012
Revolving credit loan	\$	\$ 16,250
Term loan		208
<b>Total</b>		<b>16,458</b>
Less current maturities		(208)
<b>Long-term debt</b>	<b>\$</b>	<b>\$ 16,250</b>

**Senior Secured Credit Facility**

The Company's credit facility provides a \$55,000 revolving line of credit expiring November 2, 2014 and includes a \$15,000 sublimit for the issuance of letters of credit and previously included a \$5,000 term loan that matured and was paid on January 5, 2013. Substantially all of the subsidiaries of Holdings are co-borrowers, and Holdings has guaranteed the borrowers' obligations under the credit facility. The credit facility is secured by a first priority security interest in all of Holdings' and the borrowers' current and future tangible and intangible assets, including the shares of stock of the borrowers.

The availability of funds under the revolving credit portion of the credit facility, as amended, is based on the lesser of (i) the product of adjusted EBITDA, as defined, for the most recent 12-month period for which financial statements have been delivered under the credit facility agreement multiplied by the specified advance multiple, up to 3.25, less the outstanding senior indebtedness and letters of credit, and (ii) \$55,000 less the outstanding revolving loans and letters of credit. Interest on the revolving line of credit and term loan amounts outstanding under the credit facility is payable either at a floating rate equal to the 30-day LIBOR, plus an applicable margin of 4.6% or the LIBOR rate for term periods of one, two, three or six months plus a margin of 4.6%. Interest on the credit facility is paid monthly on or at the end of the relevant interest period, as determined in accordance with the credit facility agreement. The Company pays a fee equal to 0.5% per annum of the unused portion of the revolving portion of the credit facility. Issued stand-by letters of credit are charged at a rate of 2.0% per annum payable monthly. The Company did not have any amounts outstanding on the credit facility as of December 31, 2013 and the total availability under the revolving credit loan facility was \$42,600.

The credit facility contains customary affirmative covenants regarding, among other things, the maintenance of records, compliance with laws, maintenance of permits, maintenance of insurance and property and payment of taxes. The credit facility also contains certain customary financial covenants and negative covenants that, among other things, include a requirement to maintain a minimum fixed charge coverage ratio, a requirement to stay below a maximum senior leverage ratio and a requirement to stay below a maximum permitted amount of capital expenditures, as well as restrictions on guarantees, indebtedness, liens, dividends, distributions, investments and loans, subject to customary carve outs, restrictions on the Company's ability to enter into transactions other than in the ordinary course of business, a restriction on the ability to consummate more than three acquisitions in any calendar year, or for the purchase price of any one acquisition to exceed \$500, in each case without the consent of the lenders, restrictions on mergers, transfers of assets, acquisitions, equipment, subsidiaries and affiliate transactions, subject to customary carve outs, and restrictions on fundamental changes and lines of business. The Company was in compliance with all of its credit facility covenants at December 31, 2013.





**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(amounts and shares in thousands, except per share data) (Continued)**

During the second quarter of 2012, the lenders under the credit facility agreed to a modified interpretation of the credit facility as it relates to the calculation of the fixed charge ratio, which provides the Company with increased flexibility in meeting this covenant. In order to obtain consent from the lender for the sale of the Home Health Business the Company agreed to work in good faith to negotiate and enter into an amendment to the credit to amend certain provisions including a reduction in the maximum revolving loan limit and revolving loan commitment.

The Company has received a commitment letter to renew the credit facility for a period of five years on essentially the same terms as the expiring facility. If executed the term of the new facility will expire in November 2, 2019.

***Subordinated Dividend Notes***

On November 2, 2009, in conjunction with the IPO, all outstanding shares of Holdings series A preferred stock were converted into an aggregate 4,077 shares of common stock at a ratio of 1:108. Total accrued and unpaid dividends on the series A preferred stock were \$13,109 as of November 2, 2009, at which time a dividend payment of \$173 was made and the remaining \$12,936 in unpaid preferred dividends were converted into dividend notes. The dividend notes are subordinated and junior to all obligations under the Company's credit facility. On November 2, 2009, the Company made a mandatory payment of \$4,000 on the dividend notes. Interest on the outstanding dividend notes accrues at a rate of 10% per annum, compounded annually. The outstanding principal amount of the dividend notes was originally payable in eight equal consecutive quarterly installments which commenced on December 31, 2009 and each March 31, June 30, September 30 and December 31 of each year thereafter until paid in full. Interest on the unpaid principal balance of the dividend notes is due and payable quarterly in arrears together with each payment of principal.

On March 18, 2010, the Company amended its subordinated dividend notes. A balance of \$7,819 was outstanding on the dividend notes as of December 31, 2009. Pursuant to the amendments, the dividend notes were amended to (i) extend the maturity date of the dividend notes from September 30, 2011 to December 31, 2012, (ii) modify the amortization schedule of the dividend notes to reduce the annual principal payment amounts from \$4,468 to \$1,250 in 2010; from \$3,351 to \$2,500 in 2011; and amended total payments in 2012 to \$4,069, and (iii) permit, based on the Company's leverage ratio, the prepayment of all or a portion of the principal amount of the dividend notes, together with interest on the principal amount. The Company repaid the subordinated dividend notes in the fourth quarter of 2012.

**9. Income Taxes**

The current and deferred federal and state income tax provision (benefit), for continuing operations are comprised of the following:

	2013	December 31, 2012	2011
Current			
Federal	\$ 2,926	\$ 3,745	\$ 2,863
State	435	792	319
Deferred			
Federal	393	196	688
State	58	74	374
Provision (benefit) for income taxes	\$ 3,812	\$ 4,807	\$ 4,244



**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(amounts and shares in thousands, except per share data) (Continued)**

The tax effects of certain temporary differences between the Company's book and tax bases of assets and liabilities give rise to significant portions of the deferred income tax assets at December 31, 2013 and 2012. The deferred tax assets consisted of the following:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Deferred tax assets		
Current		
Accounts receivable allowances	\$ 1,664	\$ 1,784
Accrued compensation	849	1,133
Accrued workers' compensation	5,365	4,593
Other	923	395
Total current deferred tax assets	8,801	7,905
Deferred tax liabilities		
Current		
Prepaid insurance	(475)	(647)
Net deferred tax assets - current	8,326	7,258
Deferred tax assets		
Long-term		
Goodwill and intangible assets		1,577
Property and equipment	52	96
Reserves	1,295	
Stock-based compensation	861	655
Total long-term deferred tax assets	2,208	2,328
Deferred tax liability		
Long-term		
Goodwill and intangible assets	(5,649)	
Total long-term deferred tax liabilities	(3,441)	
Total net deferred tax assets	\$ 4,885	\$ 9,586

Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax-planning strategies in making this assessment. Based on this assessment, management believes it is more likely than not that the Company will realize its deferred income tax assets as of December 31, 2013.

A reconciliation of the statutory federal tax rate of 35.0% to the effective income tax rate, for continuing operations, for the years ended December 31, 2013, 2012, and 2011 is summarized as follows:

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	<b>For the Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Federal income tax at statutory rate	35.0%	34.0%	34.0%
State and local taxes, net of federal benefit	5.2	5.9	5.3
Jobs tax credits, net (1)	(6.8)	(7.5)	(8.2)
Nondeductible meals and entertainment	0.4	(0.8)	0.7
Other	(8.3)	2.5	1.7
Effective income tax rate	25.5%	34.1%	33.5%

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**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(amounts and shares in thousands, except per share data) (Continued)**

- (1) Included in the jobs tax credit for the year ended December 31, 2012 was a one-time benefit of a 2.4% reduction from the Company's statutory tax rate for the jobs tax credits earned in 2012 but not recorded until 2013. The Federal employment opportunity tax credits were reinstated in 2013 and were not an allowable deduction in 2012.

The Company is subject to taxation in the jurisdictions in which it operates. The Company continues to remain subject to examination by U.S. federal authorities for the years 2009 through 2013 and for various state authorities for the years 2009 through 2013. As part of the acquisition of Addus HealthCare in 2006, the selling stockholders agreed to assume and indemnify the successor for any federal or state tax liabilities prior to the acquisition date.

The total amount of unrecognized tax benefits under ASC Topic 740 at December 31, 2013 was \$115. If recognized, the entire amount would favorably impact the effective tax rate in future periods. Interest and penalties related to income tax liabilities are recognized in interest expense and general and administrative expenses, respectively. The Company does not anticipate a material change in its liabilities for uncertain tax positions during the next 12 months.

A summary of the activities associated with the Company's reserve for unrecognized tax benefits is as follows:

	<b>Unrecognized Tax Benefits</b>
Balance at December 31, 2011	\$ 115
Increases related to current year tax positions	
Balance at December 31, 2012	\$ 115
Increases related to current year tax positions	
Balance at December 31, 2013	\$ 115

**10. Stock Options and Restricted Stock Awards*****Stock Options***

The 2006 Plan provides for the grant of non-qualified stock options to directors and eligible employees, as defined in the 2006 Plan. A total of 899 of Holdings' shares of common stock were reserved for issuance under the 2006 Plan. The number of options to be granted and the terms thereof were approved by Holdings' board of directors. The option price for each share of common stock subject to an option may be greater than or equal to the fair market value of the stock at the date of grant. The stock options generally vest ratably over a five year period and expire 10 years from the date of grant, if not previously exercised.

In September 2009, the Company's board of directors and stockholders adopted and approved the 2009 Plan. The 2009 Plan provides for the grant of 750 incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, deferred stock units, restricted stock units, other stock units and performance shares.



Table of Contents**ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(amounts and shares in thousands, except per share data) (Continued)

A summary of stock option activity and weighted average exercise price is as follows:

	For The Year Ended December 31,					
	2013		2012		2011	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	596	\$ 8.11	775	\$ 7.69	588	\$ 8.63
Granted	177	10.93	36	4.49	229	5.33
Exercised	(94)	9.09	(5)	4.53		
Forfeited/Cancelled	(32)	7.89	(209)	6.02	(42)	7.93
Outstanding, end of period	647	\$ 8.80	596	\$ 8.11	775	\$ 7.69

The following table summarizes stock options outstanding and exercisable at December 31, 2013:

Exercise Price	Options	Outstanding	Weighted Average Exercise Price	Options	Exercisable	Weighted Average Exercise Price
		Weighted Average Remaining Contractual Life in Years			Weighted Average Remaining Contractual Life in Years	
\$4.06 \$5.93	143	7.4	\$ 4.59	74	7.2	\$ 4.64
\$9.26 \$23.22	504	5.4	9.93	324	3.3	9.36
	647	5.8	\$ 8.80	398	4.1	\$ 8.48

The Company historically used the Black-Scholes option pricing model to estimate the fair value of its stock based payment awards under its 2006 Plan, but beginning October 28, 2009 under its 2009 Plan it began using an enhanced Hull-White Trinomial model. The determination of the fair value of stock-based payments utilizing the Black-Scholes model and the Enhanced Hull-White Trinomial model is affected by Holdings stock price and a number of assumptions, including expected volatility, risk-free interest rate, expected term, expected dividends yield, expected forfeiture rate, expected turn-over rate, and the expected exercise multiple. Holdings did not have a history of market prices of its common stock as it was not a public company prior to the IPO, and as such management estimates volatility based on the volatilities of a peer group of publicly traded companies. The expected term of options is based on the Company's estimate of when options will be exercised in the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of the Company's awards. The dividend assumption is based on the Company's history and expectation of not paying dividends. The expected turn-over rate represents the expected forfeitures due to employee turnover and is based on historical rates experienced by the Company. The expected exercise multiple represents the mean ratio of the stock price to the exercise price at which employees are expected to exercise their options.





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(amounts and shares in thousands, except per share data) (Continued)

The weighted-average estimated fair value of employee stock options granted as calculated using the Black-Scholes model and the Enhanced Hull-White Trinomial model and the related assumptions follow:

	For the Year Ended December 31,					
	2013		2012		2011	
	Grants		Grants		Grants	
Weighted average fair value	\$5.14		\$2.09		\$2.54	
Risk-free discount rate	2.07%	2.96%	1.59%	1.95%	3.17%	
Expected life	6.0	6.25 years	6.0	6.5 years	6.0	6.5 years
Dividend yield						
Volatility	47%		42%	51%	42%	51%
Expected turn-over rate	5%		5%		5%	
Expected exercise multiple	2.2		2.2		2.2	

Stock option compensation expense, for continuing and discontinued operations, totaled \$276, \$181 and \$254 for the three years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013, there was \$885 of total unrecognized compensation cost that is expected to be recognized over a period of five years.

The intrinsic value of vested and outstanding stock options was \$5,570 and \$6,936, respectively as of December 31, 2013. The intrinsic value of stock options exercised during the year ended December 31, 2013 was \$288. There were 94 stock options exercised of which 67 were issued as part of a cashless exchange and 15 stock options exercised of which 5 were issued as part of a cashless exchange in 2013 and 2012, respectively.

**Restricted Stock Awards**

In 2013, management awarded 63 shares of restricted stock awards under the 2009 Plan with a weighted average grant date fair value of \$9.61 per share. As of December 31, 2013, \$472 of unearned compensation related to unvested awards of restricted stock will be recognized over the remaining vesting terms of the awards.

The following table summarizes the status of unvested restricted stock awards outstanding at December 31, 2013, 2012 and 2011:

	For The Year Ended December 31,					
	2013		2012		2011	
	Restricted Stock Awards	Weighted Average Grant Date Fair Value	Restricted Stock Awards	Weighted Average Grant Date Fair Value	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Unvested restricted stock awards	42	\$ 4.80	21	\$ 5.95	6	\$ 6.85
Awarded	63	9.61	44	4.48	24	5.63
Vested	(32)	4.65	(20)	5.14	(8)	5.64
Forfeited	(3)	5.32	(3)	5.93	(1)	5.93

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Unvested restricted stock awards at December 31,	70	\$	9.13	42	\$	4.80	21	\$	5.95
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The fair market value of restricted stock awards that vested during the year ended December 31, 2013 was \$573.

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**(amounts and shares in thousands, except per share data) (Continued)**

Restricted stock award compensation expense, for continuing and discontinued operations, totaled \$239, \$160 and \$77 for the three years ended December 31, 2013, 2012 and 2011, respectively.

Shares available under the 2006 Plan and the 2009 Plan were 546 and 853, respectively, as of December 31, 2013. The Company does not plan on issuing any further grants under the 2006 Plan.

**11. Operating Leases and Related Party Transactions**

The Company leases its branch office space under various operating leases that expire at various dates through 2019. In addition to rent, the Company is typically responsible for taxes, maintenance, insurance and common area costs. A number of the office leases also contain escalation and renewal option clauses. Total rent expense on these office leases was \$2,925, \$3,380 and \$3,495 for continuing and discontinued operations for the years ended December 31, 2013, 2012, and 2011, respectively. In connection with the sale of the Home Health Business, the Company entered into subleases for all or a portion of 13 of the Company's leased properties and assigned nine leases to the purchasers. Assigned leases are not included in the schedule below.

The Company leases its corporate office space from a former member of its board of directors, who is also a stockholder of the Company, under the terms of an operating lease that expired in June 2013; this lease agreement is being operated on a month to month basis. Rental expense relating to this lease amounted to \$483, \$486 and \$409 for the years ended December 31, 2013, 2012 and 2011, respectively.

During 2011, the Company entered into a lease for its telecom system under a five year operating lease that expires in May 2016. Total expense on the telecom lease for continuing and discontinued operations was \$379, \$285 and \$62 for the years ended December 31, 2013, 2012 and 2011, respectively. The Company has entered into a lease for a new corporate headquarters with a third party and it expects to occupy the new space in or around May of 2014.

The following is a schedule of the future minimum payments, exclusive of taxes and other operating expenses, required under the Company's operating leases. The payments owed with respect to the subleased properties have not been excluded from the table below because the Company remains liable for payments in the event that the sublessee does not make the required payment to the landlord.

	<b>Rent Amount</b>
2014	\$ 2,964
2015	2,656
2016	2,306
2017	1,680
2018	1,395
Thereafter	5,928
<b>Total</b>	<b>\$ 16,929</b>

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**ADDUS HOMECARE CORPORATION**

**AND SUBSIDIARIES**

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**(amounts and shares in thousands, except per share data) (Continued)**

**12. Stockholder s Equity**

***2009 Stock Incentive Plan***

In September 2009, the Company s board of directors and stockholders adopted and approved the 2009 Plan. The 2009 Plan when established provided for the grant of 750 incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, deferred stock units, restricted stock units, other stock units and performance shares. In May 2013, the Company s Board of Directors and stockholders approved an increase in the number of incentive stock options to 1,500 which was approved by the stockholders at the 2013 Annual Meeting.

**13. Segment Data**

The Company has historically segregated its results into two distinct reporting segments: the home & community segment and the home health segment. As a result of the sale of the Home Health Business, the Company has reported the operating results for the Home Health Business as discontinued operations. Therefore, all of the Company s operations are reported as one operating segment.

**14. Employee Benefit Plans**

The Company s 401(k) Retirement Plan covers all non-union employees. The 401(k) plan is a defined contribution plan that provides for matching contributions by the Company. Matching contributions are discretionary and subject to change by management. Under the provisions of the 401(k) plan, employees can contribute up to the maximum percentage and limits allowable under the Internal Revenue Code of 1986. The Company provided a matching contribution, equal to 6.0% of the employees contributions, totaling \$46, \$44, and \$49 for continuing and discontinued operations for the year ended December 31, 2013, 2012, and 2011, respectively.

**15. Commitments and Contingencies**

***Legal Proceedings***

The Company is a party to legal and/or administrative proceedings arising in the ordinary course of its business. It is the opinion of management that the outcome of such proceedings will not have a material effect on the Company s financial position and results of operations.

***Employment Agreements***

The Company has entered into employment agreements with certain members of senior management. The terms of these agreements are up to four years and include non-compete and nondisclosure provisions, as well as provide for defined severance payments in the event of termination.

**16. Significant Payors**

A substantial portion of the Company s net service revenues and accounts receivables are derived from services performed for federal, state and local governmental agencies. One state governmental agency represented 59%, 57% and 51% of the Company s net service revenues for 2013, 2012, and 2011, respectively.

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The related receivables due from Medicare and the state agency represented 1% and 66% of the Company's accounts receivable at December 31, 2013, respectively, and 7% and 69% of the Company's accounts receivable at December 31, 2012, respectively.

**17. Concentration of Cash**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash. The Company maintains cash with financial institutions which, at times, may exceed federally insured limits. The Company believes it is not exposed to any significant credit risk on cash.

**18. Unaudited Summarized Quarterly Financial Information**

The following is a summary of the Company's unaudited quarterly results of operations (amounts and shares in thousands, except per share data):

	Year Ended December 31, 2013				Year Ended December 31, 2012			
	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Net service revenues	\$ 69,882	\$ 67,306	\$ 65,755	\$ 62,998	\$ 63,775	\$ 61,211	\$ 60,440	\$ 58,889
Gross profit	18,102	17,226	16,613	15,798	17,537	15,683	15,807	15,024
Operating income from continuing operations	3,476	4,263	3,980	3,742	5,261	3,867	3,217	3,318
Net income from continuing operations	3,124	2,770	2,582	2,687	3,503	2,204	1,835	1,746
Earnings (loss) from discontinued operations	(2,239)	(203)	(150)	10,574	242	(407)	(371)	(1,117)
Net income (loss)	\$ 885	\$ 2,567	\$ 2,432	\$ 13,261	\$ 3,745	\$ 1,797	\$ 1,464	\$ 629
Average shares outstanding:								
Basic	10,826	10,787	10,785	10,778	10,772	10,761	10,761	10,756
Diluted	11,075	11,071	11,016	10,845	10,807	10,773	10,785	10,760
Income (loss) per common share:								
Basic net income per share								
Continuing operations	\$ 0.29	\$ 0.26	\$ 0.24	\$ 0.25	\$ 0.33	\$ 0.20	\$ 0.17	\$ 0.16
Discontinued operations	(0.21)	(0.02)	(0.01)	0.98	0.02	(0.03)	(0.03)	(0.10)
Basic net income per share	\$ 0.08	\$ 0.24	\$ 0.23	\$ 1.23	\$ 0.35	\$ 0.17	\$ 0.14	\$ 0.06
Diluted net income per share								
Continuing operations	\$ 0.28	\$ 0.25	\$ 0.23	\$ 0.25	\$ 0.33	\$ 0.20	\$ 0.17	\$ 0.16
Discontinued operations	(0.20)	(0.02)	(0.01)	0.98	0.02	(0.03)	(0.03)	(0.10)
Diluted net income per share	\$ 0.08	\$ 0.23	\$ 0.22	\$ 1.23	\$ 0.35	\$ 0.17	\$ 0.14	\$ 0.06



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**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(amounts and shares in thousands, except per share data) (Continued)

**ADDUS HOMECARE CORPORATION**

**AND SUBSIDIARIES**

**VALUATION AND QUALIFYING ACCOUNTS**

**SCHEDULE II**

(in thousands)

	Balance at beginning of period	Additions/ charges	Deductions*	Balance at end of period
<b>Allowance for doubtful accounts</b>				
Year ended December 31, 2013				
Allowance for doubtful accounts	\$ 4,466	3,020	3,346	\$ 4,140
Year ended December 31, 2012				
Allowance for doubtful accounts	\$ 7,189	2,877	5,600	\$ 4,466
Year ended December 31, 2011				
Allowance for doubtful accounts	\$ 6,723	4,275	3,809	\$ 7,189

\* Write-offs, net of recoveries



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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Document</b>
3.1	Amended and Restated Certificate of Incorporation of Addus HomeCare Corporation dated as of November 2, 2009 (filed on November 20, 2009 as Exhibit 3.1 to Addus HomeCare Corporation's Quarterly Report on Form 10-Q and incorporated by reference herein)
3.2	Amended and Restated Bylaws of Addus HomeCare Corporation (filed on September 21, 2009 as Exhibit 3.5 to Amendment No. 2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
4.1	Form of Common Stock Certificate (filed on October 2, 2009 as Exhibit 4.1 to Amendment No. 4 to the Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
4.2	Registration Rights Agreement, dated September 19, 2006, by and among Addus HomeCare Corporation, Eos Capital Partners III, L.P., Eos Partners SBIC III, L.P., Freeport Loan Fund LLC, W. Andrew Wright, III, Addus Term Trust, W. Andrew Wright Grantor Retained Annuity Trust, Mark S. Heaney, James A. Wright and Courtney E. Panzer (filed on July 17, 2009 as Exhibit 4.2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.1	Separation and General Release Agreement, dated as of September 20, 2009, between Addus HealthCare, Inc. and W. Andrew Wright, III (filed on September 21, 2009 as Exhibit 10.1(b) to Amendment No. 2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.2	Amended and Restated Employment and Non-Competition Agreement, dated May 6, 2008, between Addus HealthCare, Inc. and Mark S. Heaney (filed on July 17, 2009 as Exhibit 10.2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.3	Amendment to the Amended and Restated Employment and Non-Competition Agreement, dated September 30, 2009, between Addus HealthCare, Inc. and Mark S. Heaney (filed on October 2, 2009 as Exhibit 10.2(a) to Amendment No. 4 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.4	Employment Agreement, dated November 29, 2010, by and between Addus HealthCare, Inc. and Dennis Meulemans (filed on December 1, 2010 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated by reference herein)
10.5	Amended and Restated Employment and Non-Competition Agreement, dated August 27, 2007, between Addus HealthCare, Inc. and Darby Anderson (filed on July 17, 2009 as Exhibit 10.4 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.6	Amendment to the Amended and Restated Employment and Non-Competition Agreement, dated September 30, 2009, between Addus HealthCare, Inc. and Darby Anderson (filed on October 2, 2009 as Exhibit 10.4(a) to Amendment No. 4 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.7	Addus HealthCare, Inc. Home Health and Home Care Division Vice President and Regional Director Bonus Plan (filed on July 17, 2009 as Exhibit 10.10 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.8	Addus HealthCare, Inc. Support Center Vice President and Department Director Bonus Plan (filed on July 17, 2009 as Exhibit 10.11 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)

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<b>Exhibit Number</b>	<b>Description of Document</b>
10.9	Addus Holding Corporation 2006 Stock Incentive Plan (filed on July 17, 2009 as Exhibit 10.12 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.10	Director Form of Option Award Agreement under the 2006 Stock Incentive Plan (filed on July 17, 2009 as Exhibit 10.13 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.11	Executive Form of Option Award Agreement under the 2006 Stock Incentive Plan (filed on July 17, 2009 as Exhibit 10.14 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.12	Form of Indemnification Agreement (filed on July 17, 2009 as Exhibit 10.16 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.13	License Agreement, dated March 24, 2006, between McKesson Information Solutions, LLC and Addus HealthCare, Inc. (filed on August 26, 2009 as Exhibit 10.17 to Amendment No. 1 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.14	Contract Supplement to the License Agreement, dated March 24, 2006 (filed on August 26, 2009 as Exhibit 10.17(a) to Amendment No. 1 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.15	Contract Supplement to the License Agreement, dated March 28, 2006 (filed on August 26, 2009 as Exhibit 10.17(b) to Amendment No. 1 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.16	Amendment to License Agreement, dated March 28, 2006, between McKesson Information Solutions, LLC and Addus HealthCare, Inc. (filed on August 26, 2009 as Exhibit 10.17(c) to Amendment No. 1 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.17	Lease, dated April 1, 1999, between W. Andrew Wright, III and Addus HealthCare, Inc. (filed on July 17, 2009 as Exhibit 10.18 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.18	First Amendment to Lease, dated as of April 1, 2002, between W. Andrew Wright, III and Addus HealthCare, Inc. (filed on July 17, 2009 as Exhibit 10.18(a) to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.19	Second Amendment to Lease, dated as of September 19, 2006, between W. Andrew Wright, III and Addus HealthCare, Inc. (filed on July 17, 2009 as Exhibit 10.18(b) to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.20	Third Amendment to Lease, dated as of September 1, 2008, between W. Andrew Wright, III and Addus HealthCare, Inc. (filed on July 17, 2009 as Exhibit 10.18(c) to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.21	Addus HomeCare Corporation 2009 Stock Incentive Plan (filed on September 21, 2009 as Exhibit 10.20 to Amendment No. 2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.22	Form of Incentive Stock Option Award Agreement under the 2009 Stock Incentive Plan (filed on September 21, 2009 as Exhibit 10.20(a) to Amendment No. 2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)
10.23	Form of Restricted Stock Award Agreement under the 2009 Stock Incentive Plan (filed on September 21, 2009 as Exhibit 10.20(b) to Amendment No. 2 to Addus HomeCare Corporation's Registration Statement on Form S-1 and incorporated by reference herein)

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<b>Exhibit Number</b>	<b>Description of Document</b>
10.24	Loan and Security Agreement, dated as of November 2, 2009, by and among Addus HealthCare, Inc., Addus HealthCare (Idaho), Inc., Addus HealthCare (Indiana), Inc., Addus HealthCare (Nevada), Inc., Addus HealthCare (New Jersey), Inc., Addus HealthCare (North Carolina), Inc., Benefits Assurance Co., Inc., Fort Smith Home Health Agency, Inc., Little Rock Home Health Agency, Inc., Lowell Home Health Agency, Inc., PHC Acquisition Corporation and Professional Reliable Nursing Service, Inc., as borrowers, Fifth Third Bank, as agent, the financial institutions that are or may from time to time become parties thereto, and Addus HomeCare Corporation, as guarantor (filed on November 5, 2009 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated by reference herein)
10.25	Consent and Amendment No. 1 to the Loan and Security Agreement, dated as of March 18, 2010, by and among Addus HealthCare, Inc., Addus HealthCare (Idaho), Inc., Addus HealthCare (Indiana), Inc., Addus HealthCare (Nevada), Inc., Addus HealthCare (New Jersey), Inc., Addus HealthCare (North Carolina), Inc., Benefits Assurance Co., Inc., Fort Smith Home Health Agency, Inc., Little Rock Home Health Agency, Inc., Lowell Home Health Agency, Inc., PHC Acquisition Corporation and Professional Reliable Nursing Service, Inc., as borrowers, Fifth Third Bank, as agent, the financial institutions that are or may from time to time become parties thereto, and Addus HomeCare Corporation, as guarantor (filed on March 18, 2010 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated by reference herein)
10.26	Joinder, Consent and Amendment No. 2 to Loan and Security Agreement, dated as of July 26, 2010, by and among Addus HealthCare, Inc., Addus HealthCare (South Carolina), Inc., Addus HealthCare (Idaho), Inc., Addus HealthCare (Indiana), Inc., Addus HealthCare (Nevada), Inc., Addus HealthCare (New Jersey), Inc., Addus HealthCare (North Carolina), Inc., Benefits Assurance Co., Inc., Fort Smith Home Health Agency, Inc., Little Rock Home Health Agency, Inc., Lowell Home Health Agency, Inc., PHC Acquisition Corporation and Professional Reliable Nursing Service, Inc., as borrowers, Fifth Third Bank, as agent, the financial institutions that are or may from time to time become parties thereto, and Addus HomeCare Corporation, as guarantor (filed on July 27, 2010 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated by reference herein)
10.27	Joinder, Consent and Amendment No. 3 to the Loan and Security Agreement, dated as of March 24, 2011, by and among Addus HealthCare, Inc., Addus HealthCare (Idaho), Inc., Addus HealthCare (Indiana), Inc., Addus HealthCare (Nevada), Inc., Addus HealthCare (New Jersey), Inc., Addus HealthCare (North Carolina), Inc., Benefits Assurance Co., Inc., Fort Smith Home Health Agency, Inc., Little Rock Home Health Agency, Inc., Lowell Home Health Agency, Inc., PHC Acquisition Corporation and Professional Reliable Nursing Service, Inc., Addus HealthCare (South Carolina), Inc., Addus HealthCare (Delaware), Inc., as borrowers, Fifth Third Bank, as agent, the financial institutions that are or may from time to time become parties thereto, and Addus HomeCare Corporation, as guarantor (filed on May 25, 2011 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated herein by reference)
10.28	Amendment No. 4 to Loan and Security Agreement, dated as of July 26, 2011, effective as of June 30, 2011, by and among Addus HealthCare, Inc., Addus HealthCare (Idaho), Inc., Addus HealthCare (Indiana), Inc., Addus HealthCare (Nevada), Inc., Addus HealthCare (New Jersey), Inc., Addus HealthCare (North Carolina), Inc., Benefits Assurance Co., Inc., Fort Smith Home Health Agency, Inc., Little Rock Home Health Agency, Inc., Lowell Home Health Agency, Inc., PHC Acquisition Corporation, Professional Reliable Nursing Service, Inc., Addus HealthCare (South Carolina), Inc., Addus HealthCare (Delaware), Inc., as borrowers, Fifth Third Bank, as agent, the financial institutions from time to time parties thereto, and Addus HomeCare Corporation, as guarantor (filed on July 29, 2011 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated herein by reference)

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<b>Exhibit Number</b>	<b>Description of Document</b>
10.29	Amendment No. 2 to Employment and Non-Competition Agreement, dated November 17, 2011, by and between Addus HealthCare, Inc. and Mark S. Heaney (filed on November 23, 2011 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated herein by reference)
10.30	Amendment No. 5 to Loan and Security Agreement, dated as of March 2, 2012, by and among Addus HealthCare, Inc., Addus HealthCare (Idaho), Inc., Addus HealthCare (Indiana), Inc., Addus HealthCare (Nevada), Inc., Addus HealthCare (New Jersey), Inc., Addus HealthCare (North Carolina), Inc., Benefits Assurance Co., Inc., Fort Smith Home Health Agency, Inc., Little Rock Home Health Agency, Inc., Lowell Home Health Agency, Inc., PHC Acquisition Corporation, Professional Reliable Nursing Service, Inc., Addus HealthCare (South Carolina), Inc., Addus HealthCare (Delaware), Inc., as borrowers, Fifth Third Bank, as agent, the financial institutions from time to time parties thereto, and Addus HomeCare Corporation, as guarantor (filed on March 16, 2012 as Exhibit 10.41 to Addus HomeCare Corporation's Annual Report on Form 10-K and incorporated herein by reference)
10.31	Summary of Independent Director Compensation Policy (filed on March 16, 2012 as Exhibit 10.42 to Addus HomeCare Corporation's Annual Report on Form 10-K and incorporated herein by reference)
10.32	The Executive Nonqualified Excess Plan Adoption Agreement, by Addus HealthCare, Inc., dated April 1, 2012 (filed on April 5, 2012 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated by reference herein)
10.33	The Executive Nonqualified Excess Plan Document, dated April 1, 2012 (filed on April 5, 2012 as Exhibit 99.2 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated herein by reference)
10.34	Employment Agreement, effective June 18, 2012, by and between Addus Healthcare, Inc. and Inna Berkovich (filed on June 20, 2012 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated herein by reference)
10.35	Asset Purchase Agreement, dated as of February 7, 2013, by and among Addus HealthCare, Inc., its subsidiaries identified therein, LHC Group, Inc. and its subsidiaries identified therein (filed on March 6, 2013 as Exhibit 99.1 to Addus HomeCare Corporation's Current Report on Form 8-K and incorporated by reference herein)
21.1	Subsidiaries of the Addus HomeCare Corporation (filed on March 28, 2011 as Exhibit 22.1 to Addus HomeCare Corporation's Annual Report on Form 10-K and incorporated herein by reference)
23.1	Consent of BDO USA, LLP, Independent Registered Public Accounting Firm*
31.1	Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

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<b>Exhibit Number</b>	<b>Description of Document</b>
101	The following materials from Addus HomeCare Corporation's Annual Report on Form 10-K for the years ended December 31, 2013, formatted in Extensive Business Reporting Language (XBRL), (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

\* Filed herewith

\*\* Furnished herewith

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**CORPORATE INFORMATION**

**Executive Officers**

**Mark S. Heaney**  
*President and Chief Executive Officer*

**Dennis B. Meulemans**  
*Chief Financial Officer, Vice President and Secretary*

**Inna Berkovich**  
*Chief Information Officer*

**Darby P. Anderson**  
*Senior Vice President*

**Tammy Spialek**  
*Vice President of Human Resources*

**Board of Directors**

**Mark S. Heaney** Chairman, President & CEO

**Mark L. First** Lead Independent Director

*Chairman Nominating and Corporate*

*Governance Committee*

*Member Compensation Committee*

**Simon A. Bachleda**

*Member Compensation Committee*

**R. Dirk Allison**

*Chairman Audit Committee*

*Member Nominating and Corporate*

*Governance Committee*

**Michael Earley**

*Member Audit Committee*

**Steven I. Geringer**

*Chairman Compensation Committee*

*Member Audit Committee*

**Independent Auditor**

**BDO USA, LLP**

233 N. Michigan Ave., Suite 2500

Chicago, IL 60601

**Legal Counsel**

**Winston & Strawn LLP**

200 Park Avenue

New York, NY 10166

**Form 10-K**

Additional copies of this Annual Report and Form 10-K filed with the Securities and Exchange Commission are available, without charge, upon request from the Company.

**Annual Meeting**

The annual meeting of stockholders will be held on June 18, 2014 at 10:00 AM (central) at our headquarters at 2300 Warrenville Road,

Downers Grove, Illinois.

**Transfer Agent**

**Nasdaq® Symbol**

**Computershare Investor Services**

ADUS

2 North LaSalle Street

Chicago, IL 60602

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