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

Form 10-K

(Mark One)
[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 transition period from to

Commission File Number: 0-20372

RES-CARE, INC.

(Exact name of registrant as specified in its charter)

KENTUCKY	**61-0875371**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
9901 Linn Station Road **Louisville, Kentucky** (Address of principal executive offices)	**40223** (Zip Code)

Registrant's telephone number, including area code:

(502) 394-2100

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

None.

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

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the 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 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 periods 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 registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of 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 definition of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12-b of the Act:
Large accelerated filer:__ Accelerated filer:__ Non-accelerated filer:✓ Smaller reporting company:___

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

The number of shares outstanding of the registrant’s common stock, no par value, as of February 12, 2014 was 21,344,741.

DOCUMENTS INCORPORATED BY REFERENCE

None.

RES-CARE, INC. AND SUBSIDIARIES

FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013

Preliminary Note Regarding Forward-Looking Statements

All references in this Annual Report on Form 10-K to “ResCare”, “Company”, “our company”, “we”, “us”, or “our” mean Res-Care, Inc. and, unless the context otherwise requires, its consolidated subsidiaries. Statements in this report that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. In addition, we expect to make forward-looking statements in future filings with the Securities and Exchange Commission, in press releases, and in oral and written statements made by us or with our approval. These forward-looking statements include, but are not limited to: (1) projections of revenues, income or loss, earnings or loss per share, capital structure and other financial items; (2) statements of plans and objectives of ResCare or our management or Board of Directors; (3) statements of future actions or economic performance, including development activities; (4) statements of assumptions underlying such statements; and (5) statements about the limitations on the effectiveness of controls. Words such as "believes”, "anticipates”, "expects”, "intends”, "plans”, "targets”, and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially from those in such statements. Some of the events or circumstances that could cause actual results to differ from those discussed in the forward-looking statements are discussed in Item 1A – “Risk Factors.” Such forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date on which such statement is made.

PART I

Item 1. Business

General

Res-Care, Inc. is a human service company that provides residential, therapeutic, job training and educational supports to people with developmental or other disabilities, to elderly people who need in-home assistance, to youth with special needs and to adults who are experiencing barriers to employment. All references in this Annual Report on Form 10-K to "ResCare", "Company", "our company", "we", "us", or "our" mean Res-Care, Inc. and, unless the context otherwise requires, its consolidated subsidiaries.

Our programs include an array of services provided in both residential and non-residential settings to people with developmental or other disabilities. These services include providing limited, closed-door pharmacy related services. ResCare also offers, through drop-in or live-in services, personal care, meal preparation, housekeeping, transportation and some skilled nursing care to the elderly in their own homes. Additionally, ResCare provides services to transition welfare recipients, young people and people who have been laid off or have special barriers to employment, into the workforce and become productive employees.

At December 31, 2013, we provided services to some 61,000 persons daily in 44 states, Washington, D.C., Puerto Rico and Canada.

The Onex Transaction

On November 16, 2010, an affiliate of Onex Partners III LP ("Purchaser") purchased 21,044,765 shares of ResCare common stock in a tender offer. Upon the completion of the tender offer, affiliates of Onex Corporation (the "Onex Investors") beneficially owned 87.4% of the issued and outstanding shares of ResCare's common stock on an as-converted basis. On December 22, 2010, upon completion of a share exchange and other reorganization transactions, ResCare became a wholly owned subsidiary of Onex Rescare Holdings Corp., which in turn, is owned by the Onex Investors, certain co-investors and members of our management team. The total purchase price was $452.4 million based on 34.1 million outstanding ResCare shares (fully converted) at $13.25 per share. The purchase price allocation was finalized in 2011.

Description of Services by Segment

As of December 31, 2013, we had five reportable operating segments: (i) Residential Services, (ii) ResCare HomeCare, (iii) Education and Training Services, (iv) Workforce Services and (v) Pharmacy Services. Notes 1 and 9 of the Notes to Consolidated Financial Statements include additional information regarding our segments, including the disclosure of required financial information. The information in Notes 1 and 9 is incorporated herein by reference and should be read in conjunction with this section.

Residential Services

ResCare is the nation's largest private provider of services for individuals with cognitive, intellectual, and other developmental disabilities. Services include group homes, supported living, in-home, foster or companion care and vocational and habilitation. The programs in ResCare's Residential Services segment are based predominantly on individual support plans designed to encourage greater independence and the development or maintenance of daily living skills. These goals are achieved through tailored application of ResCare's different services including social, functional and vocational skills training and emotional and psychological counseling. ResCare also excels at assisting children find safe, secure environments through our foster care programs. ResCare's Residential Services include:

- *Disability Services*: Helping people of all ages with cognitive, intellectual, developmental and physical disabilities to develop and enhance the quality of their lives. ResCare offers individuals, families and guardians support in a variety of settings including the home, supported living arrangements, group homes and vocational and day habilitation programs.

- *Mental Health/Mental Illness*: Provide adults with serious emotional disorders or severe and persistent mental illness with comprehensive, community-based residential supports and services.

- *Acquired Brain Injury*: Providing individual-tailored options that incorporate traditional therapies into community-based skill training to people with a broad range of activities, behaviors and resources. The services are designed to help transition toward a more active, community-oriented lifestyle.

- *Youth Residential Services:* ResCare serves young people with emotional and behavioral issues or other special needs as well as juveniles in the justice system. Services offer intense supports which teach young people strategies for independent living as well as social and academic skills within residential treatment facilities, group homes and foster care settings.

- *Rest Assured*: Rest Assured is a remote monitoring and support service link between a caregiver and the client giving the clients more independence and providing a more cost effective method of providing care either 24 hours a day (seven days a week) or by the hour.

ResCare HomeCare

ResCare HomeCare provides personalized home care services to people of all ages, physical conditions and cognitive abilities. We offer professional nursing, personal care, Alzheimer's care, dementia care, homemaking, companionship and respite in the home, the hospital, long-term assisted living facilities and other places of residence. Homecare Services include:

- *Periodic In-Home Services:* Programs designed to offer periodic and customized support for individuals and primary caregivers to assist and provide respite care. These services enable individuals to return home and receive care away from large, state-run institutions.

- *Supported Living*: Services tailored to the specific needs of one, two or three individuals living in a home or an apartment in the community. Individuals may need only a few hours of staff supervision or support each week or they may require services 24 hours a day.

- *Skilled Nursing*: Provide assistance by a registered professional nurse at an individual's residence in helping an individual improve conditions and avoid a current condition from getting worse. Skilled nursing helps the individual feel better, function more independently and learn to take care of their health needs.

Education and Training Services

ResCare supports many young adults and children through services specifically tailored to meet their unique needs. We provide life-changing programs to help young people succeed in school, obtain meaningful and gainful employment and become productive members of their community. We also excel at training professionals working with children, training for potential foster and adoptive parents and other individual and family counseling and instruction. Education and Training Services include:

- *Job Corp Centers:* Operated by ResCare and administered by the United States Department of Labor ("DOL"), Job Corps is a residential, educational and training program for unemployed and undereducated youth ages 16 through 24 to enable disadvantaged youths to become responsible working adults. ResCare operates 14 Job Corps centers in six states and Puerto Rico. ResCare also provides subcontracted services at five centers. Its centers currently operate at approximately 99.4% of capacity. Each center offers training in several vocational areas depending upon the particular needs and job market opportunities in the region.

- *Educational Services:* ResCare partners with a variety of public and private entities to provide education to our youth. We offer academic choices for youth through individualized learning environments, including private, charter, online schools and other education programs.

Workforce Services

ResCare's Workforce Services matches job seekers with employers. ResCare contracts with local, city, and state governments to prepare people for work and then place them in jobs, specifically job seekers who have significant barriers to employment, have lost their job or are just entering the workforce. ResCare contracts with employers to assist them in placing job seekers as permanent employees and also employs job seekers directly to supply to employers who require temporary labor. ResCare is the expert in workforce services and, as a result, is the largest private provider of workforce services in the U.S. As of February 2014, ResCare operated approximately 334 government funded career centers in 26 states and Washington, D.C., and has begun direct employer services in four states. The government funded services include offering information on the local labor market, vocational assessments, career counseling, workshops to prepare people for success in the job market, referrals to occupational skill training for high-demand occupations, job search assistance, job placement and help with job retention and career advancement. In addition to job seekers, these centers serve the business community by providing job matching, screening, referral, and other specialized services for employers. Workforce Services include:

- *One-Stop Services*: ResCare is the leading provider of One-Stop services in the U.S. We offer comprehensive services that prepare workers for high-growth, high-demand industries.

- *Human Services*: Through Temporary Assistance for Needy Families ("TANF"), Workforce Investment Act of 1998 ("WIA"), Supplemental Nutrition Assistance Program ("SNAP"), Vocational Rehabilitation and other programs, ResCare provides case management, career assessment and planning, job search and job placement services that help individuals reach their potential and achieve economic self-sufficiency.

- *Employer Services*: Provides information, linkages and customized services connecting employers to ResCare's local career programs and job-ready graduates.

- *Subsidized Child Care*: Programs assisting parents and guardians who work, go to school or participate in training to find and afford quality child care for their children.

Pharmacy Services

Pharmacy Alternatives, LLC ("PAL") is a limited, closed-door pharmacy business focused on serving individuals with cognitive, intellectual and developmental disabilities who are receiving support and services from ResCare or other private providers. PAL is currently licensed by the state board of pharmacy and state medical programs to serve 18 states and Washington, D.C.

Operations

Residential Services

Residential Services operations are organized under geographic regions. In general, each cluster of group homes, service sites, supported living program or facility is overseen by an Executive Director. In addition, a program manager supervises a comprehensive team of professionals and community-based consultants who participate in the design and implementation of individualized programs for each individual served. Qualified mental retardation professionals ("QMRPs") and case managers work with direct support professionals involved in the programs to ensure that quality standards are met and that progress towards each individual's goals and objectives are monitored and outcomes are achieved. Individual support plans are reviewed and modified by the team as needed. The operations utilize community advisory boards and consumer satisfaction surveys to solicit input from professionals, family members and advocates, as well as from the neighboring community, on how to continue to improve service delivery and increase involvement with the neighborhood or community.

Our direct support professionals have the most frequent contact with the individuals we serve and generally are recruited from the community in which the facility or program is located. These staff members are screened to meet certain qualification requirements and receive orientation, training and continuing education.

The provision of community services is subject to complex and substantial state and federal regulations and we strive to ensure that our internal controls and reporting systems comply with Medicaid and other program requirements, policies and guidelines. We design and implement programs, often in coordination with appropriate state agencies, in order to assist the state in meeting its objectives and to facilitate the efficient delivery of quality services. With the support of our Compliance department, management and staff keep current with new laws, regulations and policy directives affecting the quality and reimbursement of the services provided.

We have developed a model of ongoing program evaluation and quality management which we believe provides critical feedback to measure the quality of our various operations. Each operation conducts its own quality assurance program using the ResCare Best in Class ("BIC") performance benchmarking system. BIC performance results are reviewed by management on an on-going basis. Management and operational goals and objectives are established for each facility and program as part of an annual budget and strategic planning process. A statistical reporting system and quarterly statement of progress provide management with relevant and timely information on the operations of each facility. Survey results from governmental agencies for each operation are recorded in a database and summary reports are reviewed by senior management. We believe the BIC system is a vital management tool to evaluate the quality of our programs and has been useful as a marketing tool to promote our programs, since it provides more meaningful information than is usually provided by routine monitoring by governmental agencies. Additionally, we demonstrate our commitment to the professional development of our employees by offering classes and training programs, as well as tuition reimbursement benefits.

ResCare HomeCare

ResCare HomeCare operations provide a wide range of innovative home care programs across 34 states. Each region is managed by a Director of Operations/General Manager with branch oversight provided by an Executive Director to ensure business and regulatory compliance. Each branch is staffed with a manager who oversees day-to-day operations specific to scheduling, hiring and sales. Our programs provide the most comprehensive and dependable services that are tailored to address the specific needs for seniors, persons with disabilities and individuals recovering from illness or injury. Our model consists of traditional home care and home health services supported by telecare and care management. We have implemented innovative programs to support our focus on complex care. The ResCare HomeCare Signature programs, Safe Discharge, Disease Management and Life Management, further support and enhance the overall wellness of our clients, and provide a proven efficient, low cost approach that reduces the need for re-hospitalization, nursing home care or expensive rehabilitation services in a facility environment.

ResCare HomeCare has become a leader in serving customers through our Respect and Care Line. This service line serves as a central contact for potential clients to access information about our services, expediting the home conference, leading to services being initiated sooner. As experts in this industry, the Respect and Care line connects all persons in need of services to services within ResCare or with community partners as appropriate.

ResCare HomeCare leadership has recognized the potential for organic growth through New Branch operation startups as well as a focused effort on new funding sources. Under the newly developed Branch-in-a-Box concept, ResCare HomeCare management is able to successfully integrate our service model in targeted communities further expanding the availability of our services. Additional growth from new funding sources through strategic partnerships and Request for Proposal ("RFP") awards expands accessibility to services for the client population.

ResCare HomeCare continues to recruit and hire quality direct care staff to provide quality services. ResCare HomeCare is able to measure success of services delivered through our business intelligence systems as well as our internal quality review processes, customer satisfaction and regulatory surveys.

Education and Training Services

As part of our Education and Training Services, we operate our Job Corps business under contracts with the DOL. We are directly responsible for the management, staffing and administration of our Job Corps centers, which are based in facilities provided by DOL. Our typical Job Corps operation consists of a three-tier management staff structure. The center director has the overall responsibility for day-to-day management at each facility and is assisted by several senior staff managers who typically are responsible for academics, vocational training, social skills, safety and security, health services and behavior management. Managers are assisted by front line supervisors who have specific responsibilities for such areas as counseling, food services, maintenance, finance, residential life, recreation, property, purchasing, human resources and transportation.

An outcome performance measurement report for each center, issued by the DOL monthly, measures two primary categories of performance: (i) education results, as measured by GED/HSD achievement and/or vocational completion and attainment of employability skills; and (ii) placements of graduates. These are then combined into an overall performance rating. The DOL ranks centers on a 100-point scale. We review performance standards reports and act upon them as appropriate to address areas where improvement is needed.

Each of our operations in our Education line of business are overseen by an Executive Director. The Executive Director is supported by staff members who are responsible for counseling, academics, safety, security, health services and behavior management.

Workforce Services

Workforce Services operates programs under contracts with local and state funding sources, such as Workforce Investment Boards, who receive federal funds allotted to states and localities – cities, counties, or consortia thereof. The physical facilities that house these programs are typically leased by us, either from private landlords or from local funding sources under resource sharing agreements. The management structure is two-tiered, with on-site staff in the field receiving technical assistance and support in operations and financial management from corporate resources. Field level program managers or project directors are responsible for day-to-day operation of their program, which may include supervising staff that provides varying combinations of assessment, counseling, case management, instruction, job development and placement, and job retention/career advancement services. Program managers, if applicable, report to a project director in the support office, who is responsible for overall management of each contract. Project directors report to a director of operations, who oversees several projects.

Basic performance measures are prescribed by the federal government and supplemented at the discretion of state and local funding sources. The U.S. Department of Labor has a standard set of “Common Measures” for its programs with similar goals, including WIA. The common measures for adults are: entered employment, average earnings, and employment retention. The common measures for youth are: literacy and numeracy gains; attainment of degree or certificate; and placement in employment or education. Methods of performance evaluation and analysis by funding sources vary by state and locality. TANF performance outcomes are based on the statutory Work Participation Rate requiring minimum hours of specific work activity for cash assistance recipients. TANF frequently will also include entered employment and retention measures. We review performance of all programs internally, on a weekly, monthly, quarterly, and annual basis.

Workforce Services began providing temporary staffing and direct placement services to employers in 2013. This line of service is business-to-business and meets the needs of employers for short-term or long-term contingent staff. We have operations in Kentucky, West Virginia, Indiana, and Washington and all operational facilities are leased or shared with other lines of business.

Pharmacy Services

We are providing pharmacy services in 18 states from seven pharmacy locations in Kentucky, Texas, Virginia, Illinois, California, Georgia and Louisiana. We are filling approximately 112 thousand prescriptions per month. Our pharmacy services are provided to consumers of ResCare operations, as well as consumers of non-affiliate providers. As one of only a few pharmacies in the nation specializing in serving people with intellectual and developmental disabilities, we offer state-of-the-art pharmaceutical systems and packaging technology designed for the population we serve.

Contracts

State Contracts. Primarily in Residential Services and ResCare HomeCare, our Medicaid operations are usually formalized through provider agreements with the state. Although our contracts generally have a stated term of one year and generally may be terminated without cause on 60 days notice, the contracts are typically renewed annually if we have complied with licensing, certification, program standards and other regulatory requirements. Serious deficiencies can result in delicensure or decertification actions by these agencies. As provider of record, we contractually obligate ourselves to adhere to the applicable federal and state regulations regarding the provision of services, the maintenance of records and submission of claims for reimbursement under Medicaid and pertinent state Medicaid Assistance programs. Pursuant to provider agreements, we agree to accept the payment received from the government entity as payment in full for the services administered to the individuals and to provide the government entity with information regarding the owners and managers of ResCare, as well as to comply with requests and audits of information pertaining to the services rendered. Provider agreements can be terminated at any time for non-compliance with the federal, state or local regulations. Reimbursement methods vary by state and service type and can be based on flat-rate, cost-based reimbursement, per person per diem, or unit-of-service basis.

Management Contracts. Private operators, generally not-for-profit providers who contract with state agencies, contract with us to manage the day-to-day operations of facilities or programs under management contracts. Most of these contracts are long-term (generally two to five years in duration, with several contracts having 30-year terms) and are subject to renewal or re-negotiation provided that we meet program standards and regulatory requirements. Most management contracts cover groups of two to sixteen facilities. Depending upon the state's reimbursement policies and practices, management contract fees are computed on the basis of a fixed fee per individual, which may include some form of incentive payment, a percentage of operating expenses (cost-plus contracts), a percentage of revenue or an overall fixed fee paid regardless of occupancy. Our management contracts also frequently provide for working capital advances to the provider of record. Historically, our Medicaid provider contracts and management contracts have been renewed or satisfactorily renegotiated.

Job Corps Contracts. Contracts for Job Corps centers are awarded pursuant to a rigorous bid process. After successfully bidding, we operate the Job Corps centers under comprehensive contracts negotiated with the DOL. The contracts cover a five-year period, consisting of an initial two-year term with a potential of three one-year renewal terms exercisable at the option of the DOL. The contracts specify that the decision to exercise an option is based on an assessment of: (i) the performance of the center as compared to its budget; (ii) compliance with federal, state and local regulations; (iii) qualitative assessments of center life, education, outreach efforts and placement record; and (iv) the overall rating received by the center. Shortly before the expiration of the five-year contract period (or earlier if the DOL elects not to exercise a renewal term), the contract is re-bid, regardless of the operator's performance. The current operator may participate in the re-bidding process. The re-bid may remain full and open, or may be set aside as a small business procurement. In situations where the DOL elects not to exercise a renewal term, however, it is unlikely that the current operator will be successful in the re-bidding process. It is our experience that high performance ratings of the current operator result in fewer competitors in the re-bidding process.

As of December 31, 2013, we operated 14 Job Corps centers under 11 separate contracts (covering the initial two-year term plus the potential three one-year renewals) with the DOL, four of which expire in 2014, four in 2015, two in 2016 and one in 2017. We expect to re-bid on contracts for the Job Corps Centers where our contracts expire in 2014. If any of our current contracts are set aside for a small business procurement, we will identify a small business operator to team with on the procurement. In addition, we intend to pursue several additional centers through the RFP process.

Workforce Services Contracts. Although Workforce Services contracts are usually funded through a bid process, including the DOL and DHHS, they are typically awarded by states and municipalities through a competitive bid process. We are typically reimbursed for direct facility and program costs related to the job training centers, allowable indirect costs, plus a fee for profit. The fee can take the form of a fixed contract amount (rate or price) or be computed based on certain performance criteria. The contracts are funded by federal agencies, including the DOL and DHHS. The contracts vary in duration, generally from 3 to 60 months, including option years.

Marketing and Development

Our marketing activities for developmental and intellectual disabilities (“DD/ID”) and in-home care focus on initiating and maintaining contacts and working relationships with state and local governments and governmental agencies responsible for the provision of the types of services offered by us, and identifying other providers who may consider a management contract arrangement or other transaction with us. Additionally, multi-channel campaigns targeting decision makers and other influential individuals detail the benefits experienced from ResCare’s services.

In our pursuit of government contracts, we contact governments and governmental agencies in geographical areas in which we operate and in others in which we have identified expansion potential. Contacts are made and maintained by both regional operations personnel and corporate development personnel, and are augmented as appropriate by other senior management. We target new areas based largely on our assessment of the need for our services, the system of reimbursement, the receptivity to out-of-state and for-profit operators, expected changes in the service delivery system (i.e., privatization or downsizing), the labor climate and existing competition.

We also seek to identify service needs or possible changes in the service delivery or reimbursement system of governmental entities that may be driven by changes in administrative philosophy, budgetary considerations, pressure or legal actions brought by advocacy groups. As needs or possible changes are identified, we attempt to work with and provide input to the responsible government personnel and to work with provider associations and consumer advocacy groups to this end. If an RFP results from this process, we then determine whether and on what terms we will respond and participate in the competitive process. We also continue to pursue further growth in job training services by submitting proposals for contracts for “one-stop” career centers and Job Corps centers as they come up for bid.

We have historically marketed our in-home care services primarily by creating awareness of our capabilities and cultivating relationships with referral sources, such as doctors and hospital discharge planners. With the recent creation of a marketing department and branding of ResCare HomeCare, a new consumer-oriented marketing strategy has been introduced. We have increased the application of metrics and research, implemented interactive initiatives, including website enhancements, and delivered targeted multi-channel campaigns to ensure growth in our home care services to seniors.

We attempt to establish relationships with other providers who may be candidates for contracts or acquisition through presentations at national and local conferences, membership in national and local provider associations and direct contact by mail, telephone or personal visits. We also identify acquisition prospects through brokers, our local management, and investment banks.

In some cases, we may be contacted directly and requested to submit proposals or become a provider in order to provide services to address specific problems. These problems may include an emergency takeover of a troubled operation or the need to develop a large number of community placements within a certain time period. Before taking over these operations, which may be financially and/or operationally troubled, the operations generally must meet specific criteria. These criteria include the ability to “tuck-in” the operations into our existing group home clusters, thereby substantially eliminating general and administrative expenses of the absorbed operations.

Referral Sources

We receive substantially all of our DD/ID clients from third-party referrals. Generally, family members of individuals with DD/ID are made aware of available residential or alternative living arrangements through a state or local case management system. Case management systems are operated by governmental or private agencies. ResCare HomeCare service referrals come from doctors, hospitals, private and workers’ compensation insurers and attorneys. In either case, where it is determined that some form of service is appropriate, a referral of one or more providers of such services is then made to family members or other interested parties.

We generally receive referrals or placements of individuals to our youth and workforce programs, other than Job Corps, through state or local agencies or entities responsible for such services. Individuals are recruited to our Job Corps programs largely through private contractors. We also have contracts directly with the DOL to recruit students to our own centers. Our reputation and prior experience with agency staff, case workers and others in positions to make referrals to us are important for building and maintaining census in our operations.

Customers

We are substantially dependent on revenues received under contracts with federal, state and local government agencies. Generally, these contracts are subject to termination at the discretion of governmental agencies and in certain other circumstances such as failure to comply with applicable regulations or quality of service issues.

Seasonality

In general, our business does not experience significant fluctuations from seasonality. Revenues and operating results attributable to workforce service contacts can fluctuate depending on the timing of contract renewal, start-up costs associated with new contracts and the achievement of performance measures. In addition, workforce services experience lower operating margins during the winter months as the number of job placements tends to be reduced during this time period. We operate certain alternative and private schools which are subject to seasonality as a result of school being out of session in parts of the second and third quarters. However, this seasonality does not have a significant impact on our consolidated results of operations.

Foreign Operations

We currently operate predominantly in the United States. We operate certain programs in Canada, through contracts with Canadian governmental agencies to provide disabilities services. Prior to June 2011, we also owned companies with operations in the Netherlands, United Kingdom and Germany. These companies were private providers of government-funded job reintegration services that include job training and job placement assistance. Operations in the European companies are now part of discontinued operations.

Competition

Our segments are subject to a number of competitive factors, including range and quality of services provided, cost-effectiveness, reporting and regulatory expertise, reputation in the community, and the location and appearance of facilities and programs. These markets are highly fragmented, with no single company or entity holding a dominant market share. We compete with other for-profit companies, as well as not-for-profit entities and governmental agencies.

With regard to Residential Services, individual states remain a provider of DD/ID services, primarily through the operation of large institutions. Not-for-profit organizations are also active in all states and range from small agencies serving a limited area with specific programs to multi-state organizations. Many of these organizations are affiliated with advocacy and sponsoring groups such as community mental health centers and religious organizations.

ResCare HomeCare faces significant competition due to the ease of entry into the home care services market. Not all states require a license to offer private pay home care services, which enables numerous small providers to participate in the market. These small providers may have the advantage of local relationships to gain and maintain business. ResCare HomeCare faces little organized competition in providing Medicaid-reimbursed home care services. Our growth strategy is to increase our private pay footprint by building local relationships and become the preferred Medicaid provider for a particular area.

For Job Corps, only a limited number of companies actively seek Job Corps contracts because the bidding process is highly specialized and technical and requires a significant investment of personnel and other resources over a period of several months. Competition for Job Corps contracts has increased as the DOL has made efforts to encourage new participants in the program, particularly small businesses, including minority-owned businesses. Management and Training Corporation, ResCare and Adams and Associates, Inc. are the three largest operators, which operate approximately one-half of the privately operated centers.

For Workforce Services, there are a small number of large for-profit service providers and many smaller providers, primarily local non-profits. This segment is one that many businesses may enter without substantial capital investment.

Certain proprietary competitors operate in multiple jurisdictions and may be well capitalized. We also compete in some markets with smaller local companies that may have a better understanding of the local conditions and may be better able to gain political and public acceptance. Such competition may adversely affect our ability to obtain new contracts and complete transactions on favorable terms. We face significant competition from all of these providers in the states in which we now operate and expect to face similar competition in any state that we may enter in the future.

Professional staff retention and development is a critical factor in the successful operation of our business. The competition for talented professional personnel, such as therapists, QMRPs and experienced workforce professionals, is intense. We typically utilize a standard professional service agreement for provision of services by certain professional personnel, which is generally terminable on 30 or 60-day notice. The demands of providing the requisite quality of service to individuals with special needs contribute to a high turnover rate of direct service staff, which may lead to increased overtime and the use of outside personnel. Consequently, a high priority is placed on recruiting, training and retaining competent and caring personnel.

Government Regulation and Reimbursement

Our operations must comply with various federal, state and local statutes and regulations. Compliance with state licensing requirements is a prerequisite for participation in government-sponsored assistance programs, such as Medicaid. The following sets forth in greater detail certain regulatory considerations applicable to us:

Funding Levels. Federal and state funding for all our businesses is subject to statutory and regulatory changes, administrative rulings, interpretations of policy and governmental funding restrictions, all of which may materially increase or decrease program reimbursement. Congress has historically attempted to curb the growth of federal funding of such programs, including limitations on payments to programs under Medicaid and WIA. Although states and localities have historically increased rates to compensate for inflationary factors, some have curtailed funding due to budget deficiencies or other reasons. In response, providers may attempt to negotiate or employ legal action in order to reach a compromise settlement. Future revenues may be affected by changes in rate structures, governmental budgets, methodologies or interpretations that may be proposed or under consideration in areas where we operate.

Reimbursement Requirements. To qualify for reimbursement under Medicaid programs, facilities and programs are subject to various requirements of participation and other requirements imposed by federal and state authorities. These participation requirements relate to client rights, quality of services, physical facilities and administration. Long-term providers, like our Company, are subject to periodic unannounced inspection by state authorities, often under contract with the appropriate federal agency, to ensure compliance with the requirements of participation in the Medicaid or state program.

Licensure. In addition to Medicaid participation requirements, our facilities and programs are usually subject to licensing and other regulatory requirements of state and local authorities. These requirements relate to the condition of the facilities, the quality and adequacy of personnel and the quality of services. State licensing and other regulatory requirements vary by jurisdiction and are subject to change and interpretation.

Regulatory Enforcement. From time to time, we receive notices from regulatory inspectors that, in their opinion, there are deficiencies for failure to comply with various regulatory requirements. We review such notices and take corrective action as appropriate. In most cases, we and the reviewing agency agree upon the steps to be taken to address the deficiency, and from time to time, we or one or more of our subsidiaries may enter into agreements with regulatory agencies requiring us to take certain corrective action in order to maintain licensure. Serious deficiencies, or failure to comply with any regulatory agreement, may result in the assessment of fines or penalties and/or decertification or delicensure actions by the Center for Medicare and Medicaid Services or state regulatory agencies.

Restrictions on Acquisitions and Additions. All states in which we currently operate have adopted laws or regulations which generally require that a state agency approve us as a provider and many require a determination that a need exists prior to the addition of covered individuals or services.

Cross Disqualifications and Delicensure. In certain circumstances, conviction of abusive or fraudulent behavior with respect to one facility or program may subject other facilities and programs under common control or ownership to disqualification from participation in the Medicaid program. Executive Order 12549 prohibits any corporation or facility from participating in federal contracts if it or its principals (including but not limited to officers, directors, owners and key employees) have been debarred, suspended, or declared ineligible, or have been voluntarily excluded from participating in federal contracts. The Social Security Act also prohibits a Medicaid provider from employing any individual or having any officer, director or investor that has been excluded from participation in any federal or state health care program. In addition, some state regulators provide that all facilities licensed with a state under common ownership or controls are subject to delicensure if any one or more of such facilities are delicensed.

Environmental laws. Certain federal and state laws govern the handling and disposal of medical, infectious, and hazardous waste. Failure to comply with those laws or the regulations promulgated under them could subject an entity covered by these laws to fines, criminal penalties, and other enforcement actions.

Occupational Safety and Health Administration ("OSHA"). Federal regulations promulgated by OSHA impose additional requirements on us including those protecting employees from exposure to elements such as blood-borne pathogens. We cannot predict the frequency of compliance, monitoring, or enforcement actions to which we may be subject as those regulations are implemented, and regulations might adversely affect our operations.

Regulations Affecting Our Business

Anti-Kickback Statute

We are subject to the federal "Anti-Kickback Statute," enacted under the Social Security Act, which prohibits the knowing and willful solicitation, receipt, offer to pay, or payment of any remuneration, including a kickback, bribe, or rebate, in return for referring or to induce the referral of an individual for any item or service, or in return for purchasing, leasing or ordering or arranging for the purchase of any service or item, for which payment may be made under the Medicaid program or any other federal or state health care program. A violation of the Anti-Kickback Statute is a felony and may result in the imposition of criminal penalties, including imprisonment for up to five years and/or a fine of up to $25,000, as well as the imposition of civil penalties and/or exclusion from the Medicaid and other federal and state health care programs. Some states have also enacted laws similar to the federal Anti-Kickback Statute that restrict business relationships among health care service providers. Federal law requires that each state have an anti-kickback statute that applies to Medicaid. The Patient Protection and Affordable Care Act ("PPACA"), enacted in March 2010 as part of the health reform law, amended the Anti-Kickback Statute to provide that to obtain a conviction under the Anti-Kickback Statute, the government need not prove that an individual knew of the existence of the statute or had the specific intent to violate it.

Social Security Act/False Claims Act/Health Insurance Portability and Accountability Act of 1996

The Social Security Act, as amended by the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), provides for the mandatory exclusion of providers and related individuals from participation in the Medicaid program if the individual or entity has been convicted of a criminal offense related to the delivery of an item or service under the Medicaid program or relating to neglect or abuse of residents, or relating to a controlled substance. Further, individuals or entities may be, but are not required to be, excluded from the Medicaid program in circumstances including, but not limited to, the following: misdemeanor convictions relating to fraud; obstruction of an investigation; misdemeanor conviction relating to a controlled substance; license revocation or suspension; exclusion or suspension from a state or federal health care program; filing claims for excessive charges or unnecessary services or failure to furnish medically necessary services; or ownership or control by an individual who has been excluded from the Medicaid program, against whom a civil monetary penalty related to the Medicaid program has been assessed, or who has been convicted of a crime described in this paragraph.

Federal and state criminal and civil statutes prohibit false claims. The criminal and civil provisions of the federal False Claims Act 31 U.S.C. 3729-33 ("FCA") prohibit knowingly filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, or failing to refund overpayments or improper payments. Under PPACA provisions, overpayments must be refunded by the later of either 60 days after the overpayment is identified by the provider or the date the corresponding cost report is due. In addition, PPACA amendments provide that if an arrangement violates the Anti-Kickback Statute, any claim that results from the arrangement is a false claim. Criminal violations of the criminal FCA are considered felonies punishable by up to five years imprisonment and/or $25,000 fines. Penalties for civil violations are fines ranging from $5,500 to $11,000, plus treble damages, for each claim filed. Also, the FCA allows any individual to bring a suit, known as a *qui tam* action, alleging false or fraudulent Medicare or Medicaid claims or other violations of the statute and to potentially share in any amounts paid by the entity to the government in fines or settlement. In addition, under HIPAA, Congress enacted a criminal health care fraud statute for fraud involving a health care benefit program, which if defined to include both public and private payors. We have sought to comply with these statutes; however, we cannot assure you that these laws will ultimately be interpreted in a manner consistent with our practices or business transactions.

The DHHS, as required by HIPAA and the Health Information Technology and Clinical Health Act of 2009 ("HITECH"), has promulgated standards for the exchange of electronic health information in an effort to encourage overall administrative simplification and enhance the effectiveness and efficiency of the healthcare industry.

The DHHS, under HIPAA, has also adopted several rules mandating the use of new standards with respect to certain health care transactions and health information. For instance, the DHHS has issued a rule establishing uniform standards for common health care transactions, including health care claims information, plan eligibility, referral certification and authorization, claims status, plan enrollment and disenrollment, payment and remittance advice, plan premium payments, and coordination of benefits. The DHHS also promulgated standards and rules relating to the privacy and security of certain individually identifiable health information termed protected health information, with additional rules applying to protected health information termed protected health information, with additional rules applying to protected health information in electronic form. These standards and rules not only require our compliance with rules governing the use and disclosure and security of protected health information, but they also require us to impose those rules, by contract, on any business associate to whom we disclose information. HITECH amendments to HIPAA also bring our business associates directly under the mandate of many HIPAA regulations. Sanctions for failing to comply with the HIPAA and HITECH privacy and security provisions include enhanced criminal penalties and civil sanctions against not only covered entities, but also individuals who obtain or disclose protected health information without authorization.

Deficit Reduction Act

The Deficit Reduction Act of 2005 ("DRA"), which was signed into law on February 8, 2006, contains provisions aimed at reducing Medicaid fraud and abuse and directly affects healthcare providers that receive at least $5 million in annual Medicaid payments.

The DRA also provides resources to establish the Medicaid Integrity Program ("MIP"). Historically, the states have been primarily responsible for addressing Medicaid fraud and abuse. With the MIP, Centers for Medicare and Medicaid Services ("CMS") has become more involved in detecting and preventing Medicaid fraud and abuse. Among other things, CMS engages Medicaid Integrity Contractors ("MIC") to conduct audits, identify overpayments and educate providers on payment integrity. The DRA further provides incentives to states to enact their own false claims acts. As a result, a number of states, including some where we operate, have enacted such legislation. While we believe that our operations comply with Medicaid billing requirements, the added scrutiny that results from the DRA could have an adverse impact on our operations and financial results.

The DRA also adds certain mandatory provisions to our compliance program. Specifically, we are required to implement written policies educating our employees, agents and contractors regarding federal and state false claims acts, whistleblower protections for plaintiffs in qui tam actions and our policies and procedures for detecting fraud and abuse. While we are in compliance, this requirement, together with the MIP, could result in an increase in frivolous investigations or suits against us.

Medicare and Medicaid Recovery Audit Contractor Program

The Tax Relief and Health Care Act of 2006 made permanent the Medicare Recover Audit Contractor ("RAC") program to identify improper Medicare payments – both overpayments and underpayments, in all 50 states. RACs are paid on a contingency fee basis, receiving a percentage of the improper overpayments and underpayments they collect from providers.

RACs may review the last three years of provider claims for the following types of services: hospital inpatient and outpatient, skilled nursing facility, physician, ambulance and laboratory, as well as durable medical equipment. The RACs use proprietary software programs to identify potential payment errors in such areas as duplicate payments, fiscal intermediaries' mistakes, medical necessity and coding. RACs also conduct medical record reviews.

Section 6411 of the PPACA expanded the RAC program to include Medicare Advantage (Part C), Medicare Prescription Drug (Part D) and Medicaid claims. CMS published a final rule on September 16, 2011 requiring the individual states to implement RAC contracts in connection with each state's Medicaid program. The Medicaid RACs are to audit providers' Medicaid claims to identify and recoup overpayments to providers. States were to implement Medicaid RACs by January 1, 2012 unless an extension was granted.

Payment Error Rate Measurement Program

We are subject to the Payment Error Rate Measurement program ("PERM"). CMS implemented the PERM program to measure improper payments in the Medicaid program and the Children's Health Insurance Program ("CHIP"). Groups of states began participation in PERM in 2007. The list of states audited in 2009 includes states where we have significant operations. The new error rate calculations determined from PERM audits have not had a material adverse effect on our business, financial condition or results of operations but may have an adverse effect in the future.

Fraud Enforcement and Recovery Act 2009 ("FERA")

FERA increases funding for federal financial fraud enforcement and amends sections of the United States Criminal Code related to fraud against the government. FERA also expands liability under the FCA, which imposes liability on those who make false statements or claims for reimbursement to the government. FERA expands the scope of liability under the FCA to include: anyone who makes a false statement or claim to virtually any recipient of federal funds; and anyone who knowingly retains a government overpayment without regard to whether or not that entity used a false statement or claim to do so. FERA also expands the right of action for retaliation under the FCA. While we believe that our operations comply with Medicaid billing requirements, this could result in an increase in investigations or suits against us.

Health Care Reform

On March 23, 2010, President Obama signed PPACA into law. On March 30, 2010, the President signed into law the Reconciliation Act of 2010, which amended certain parts of PPACA and together with PPACA is the "Health Care Reform Law." The Congressional Budget Office estimated that the Health Care Reform Law will add approximately 16 million enrollees to Medicaid and CHIP, both of which are administered by the states through a combination of federal and state funding. The added cost of insuring these individuals is expected to put a strain on state budgets and could cause states to reduce funding for services that we provide, which could have an adverse impact on our operations and financial results.

There are several provisions in the Health Care Reform Law that are expected to increase investigation and prosecution of health care providers and suppliers. The Health Care Reform Law amends existing law to provide that if a claim is submitted that results from the making of false statements or representations in the receipt of a benefit or with respect to the condition or operation of an institution, facility or entity, or in violation of the Anti-Kickback Statute, in addition to penalties under the relevant criminal statute and civil monetary penalty statute, the claim is a false claim for purposes of the FCA. PPACA amended the Anti-Kickback Statute to provide that with respect to the intent requirement the government need not prove that the person (individual or entity) had knowledge of the statute or the specific intent to violate it. The Health Reform Law also gives the Office of Inspector General ("OIG") expanded authority to seek information from a provider or supplier of services for purposes of protecting the integrity of the Medicare and Medicaid programs. The Health Care Reform Law additionally permits the Secretary of DHHS in consultation with the OIG to suspend Medicaid payments to a provider or supplier if there is credible allegation of fraud and prohibits payments of Medicaid funds to a state if the state fails to suspend payments while there is a pending investigation of a credible allegation of fraud, unless in each case the Secretary or the state has good cause not to suspend the payments. The Secretary of DHHS is required to promulgate regulations regarding what is a credible allegation of fraud and what is good cause not to suspend payments. In addition, the Health Care Reform Law allocates additional funds to the Department of Justice and the OIG for enforcement activities.

Federal Trade Commission ("FTC") Red Flag Rules

The Identity Theft Red Flag and Address Discrepancy Rules require creditors that maintain certain kinds of "covered accounts" to develop and implement a written program to detect and respond to identify theft. Any health care providers that do not require full payment at the time of services fall under the rule, although the FTC has postponed the rule's application to health care providers. Although we have sought to comply with this rule, the rule could ultimately be interpreted in a manner inconsistent with our practices or business transactions.

Workforce Investment Act ("WIA")

WIA funds "labor market intermediary" services for jobseekers and employers. WIA services are delivered through One-Stop Career Centers, where clients can access a range of workforce services provided not only by WIA, but by other related social service and educational agencies, at a single location. The WIA law mandates that certain of these agencies must be present at a one-stop location, but the actual complexion of one-stops is varied. WIA also includes a locally managed program for youth facing serious barriers to employment.

WIA programs have various rules to determine the eligibility of potential service recipients. Federal WIA grants are allocated to states by a formula based on population, poverty levels and unemployment levels. States further allocate funds to local Workforce Investment Areas that, within broad federal guidelines, are negotiated between governors and local elected officials as to the number and size of a state's local service areas. While local service areas vary widely in population, urban and rural mix and funding levels, there have been few changes in the number or size of local service areas in the last ten years.

Typically, funding decisions about delivery of services within each service delivery area are made by local elected officials and Workforce Investment Boards ("WIBs"), which makes the WIA market highly decentralized. Less than one-third of the nation's 585 WIBs utilize a competitive bidding model to select third-party contractors to manage their one-stops. By statute, all WIBs must use open, competitive bidding in awarding youth contracts. In both one-stops and youth programs, we may find ourselves disadvantaged as we compete with entrenched incumbents such as community based, non-profit organizations and local education agencies. Reductions in federal WIA funding in recent years has placed pressure on local administrative budgets, leading some states and local workforce areas to take services in-house to preserve jobs in administrative agencies. We may find ourselves further disadvantaged if more WIA markets are no longer available for our participation. Furthermore, the sequestration early in 2013 in the federal budget resulted in reductions of more than five percent in WIA programs over the last half of the calendar year. While the congressional budget signed by the President in December restores most programs to approximately pre-sequestration levels in mid-2014, the lower funding levels mandated by the 2013 sequestration will continue to impact funding in the first half of 2014. In addition, the majority of our contracts have performance pay points for successfully placing our clients in employment and assisting them to retain employment. The current economic environment of slow job growth has negatively impacted our ability to achieve these placement and retention benchmarks, with a corresponding impact on our revenue.

Temporary Assistance for Needy Families ("TANF")

TANF caseloads have fallen by 65 percent since the welfare reform law was launched in 1996 and even in the face of the 2008 recession and continuing weak job growth, caseloads in most states have increased only slightly. At the same time, the budget crisis in many states is causing states to reevaluate their existing service design and program requirements, which may reduce the funding available for the training and placement services that we provide. In addition, the majority of our contracts have performance pay points for successfully placing clients in employment and assisting them to retain employment. The current economic environment has negatively impacted our ability to succeed since TANF recipients are competing for jobs with better educated and better skilled recently dislocated workers. TANF is a federal program administered by the states. The authorizing legislation for TANF expired in 2010 and has been renewed for one-year periods since that time. The program currently expires on September 30, 2014, and we do not expect TANF to be reauthorized this year. We fully expect one or more extensions will fund the program throughout 2014 and 2015. While the program will not end, we will continue to monitor the status as the situation for reauthorization could change if Congress addresses the legislation in 2014.

Potential Impacts of FY 2014 Budget Agreement and On-going Impact of 2011 Budget Control Act

Congress and the President approved a budget for federal fiscal year 2014 that eliminates the actions mandated in the Budget Control Act of 2011. Furthermore, congressional leadership expects that the budget for fiscal year 2015 will remain at approximately current levels for most programs. However, this understanding for fiscal year 2015 must be enforced through legislation in 2014. At this time, the 2011 Act will remain in effect for fiscal years 2015 through 2021 unless Congress is able to agree upon a combination of revenue enhancements and/or program reductions that meet or exceed the goals of the Act. In short, the federal budget will remain under immense pressure to reduce federal deficits through reductions in domestic spending (including Medicare) and defense spending for the next several years. We anticipate that these funding reductions would have at least a small impact on our federally funded programs under Medicaid, WIA and TANF. However, two mitigating factors make it difficult to project impacts at this time. First, the savings take place through fiscal year 2020 and are back-loaded to some degree. Second, revenue increases could offset the need for spending reductions.

Insurance

We maintain general and professional liability, automobile, workers' compensation and other business insurance coverages. We have excess general and professional liability and automobile insurance coverages. We believe insurance coverages and self-insurance reserves are adequate for our current operations. However, we cannot assure that any potential losses on asserted claims will not exceed such insurance coverages and self-insurance reserves.

Employees

As of December 31, 2013, we employed approximately 49,000 employees. As of that date, we were subject to collective bargaining agreements with approximately 6,100 of our employees. We have not experienced any work stoppages and believe we have good relations with our employees.

Available Information

ResCare files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports with the Securities and Exchange Commission ("SEC"). These reports are available at the SEC's website at http://www.sec.gov. Our reports will also be available on our website at http://www.rescare.com as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. You may also obtain electronic or paper copies of our SEC reports free of charge by contacting our communications department, 9901 Linn Station Road, Louisville, Kentucky 40223, (telephone) 502-394-2100 or communications@rescare.com.

Item 1A. Risk Factors

Risks related to our business and industry

Federal, state and local budgetary shortfalls or changes in reimbursement policies could adversely affect our revenues and profitability and collectability of receivables.

We derive a substantial amount of our revenues from federal, state and local government agencies, including state Medicaid programs and employment training programs. Our revenues therefore depend to a large degree on the size of the governmental appropriations for the services we provide. Budgetary pressures, issues with the federal government's debt ceiling, as well as economic, industry, political and other factors, could influence governments to significantly decrease or eliminate appropriations for these services, which could reduce our revenues materially. The majority of states have forecasted budget shortfalls as a result of the current economic environment. Many state governments also continue to experience shortfalls in their Medicaid budgets despite cost containment efforts. The recent health reform legislation places further demands on Medicaid budgets by mandating that states expand Medicaid eligibility. States have instituted managed care programs and future federal or state initiatives could institute managed care programs for individuals we serve that may eliminate programs or otherwise make material changes to the Medicaid program as it now exists. Future revenues may be affected by changes in rate-setting structures, methodologies or interpretations that may be proposed or are under consideration in states where we operate.

Our ability to collect accounts receivable is also subject to developments at state payor agencies, state budget pressures, economic conditions and other factors outside our control that may cause us to record higher provisions for allowances for doubtful accounts or incur bad debt write-offs, both of which could have a material adverse effect on our business, financial position, results of operations and liquidity. Changes in reimbursement procedures by the states, including engaging new agents to manage the reimbursement function, may delay reimbursement payments and create backlogs. Paying aged receivables may be a lower priority for states experiencing budgetary pressures despite our meeting applicable billing requirements. This may increase the need to pursue more aggressive collection activities, including litigation, against government agencies and other payors. Events that delay or prevent our collection of accounts receivable could have a material adverse effect on our financial condition.

Furthermore, federal, state and local government agencies generally condition their contracts with us upon a sufficient budgetary appropriation. If a government agency does not receive an appropriation sufficient to cover its contractual obligations with us, it may terminate a contract or defer or reduce our reimbursement. Previously appropriated funds could also be reduced or eliminated through subsequent legislation. The loss or reduction of reimbursement under our contracts could have a material adverse effect on our business, financial condition and operating results.

We expect the federal and state governments to continue their efforts to contain growth in Medicaid expenditures, which could adversely affect our revenues and profitability.

We derive a substantial portion of our consolidated revenues from Medicaid reimbursement, primarily through our Residential and HomeCare businesses. Medicaid programs are administered by the applicable states and financed by both state and federal funds. Medicaid spending has increased rapidly in recent years, becoming an increasingly significant component of state budgets. This, combined with slower state revenue growth and other state budget demands, has led both the federal government and many states in which we operate, to institute measures aimed at controlling the growth of Medicaid spending (and in some instances reducing it).

Historically, adjustments to reimbursement under Medicaid have had a significant effect on our revenues and results of operations. Recently enacted, pending and proposed legislation and administrative rulemaking at the federal and state levels could have similar effects on our business. Efforts to impose reduced reimbursement rates, reduced authorized services and more stringent cost controls by government and other payors are expected to continue for the foreseeable future and could adversely affect our business, financial condition and results of operations. Additionally, any delay or default by the federal or state governments in making Medicaid reimbursement payments, due to a failure to maintain credit ratings or otherwise, could have a material adverse effect on our business, financial condition and operating results.

A loss of our status as a licensed service provider in any jurisdiction could result in the termination of existing services and our inability to market our services in that jurisdiction.

We operate in numerous jurisdictions and are required to maintain licenses and certifications in order to conduct our operations in each of them. Each state and county has its own regulations, which can be complicated, and each of our service lines can be regulated differently within a particular jurisdiction. As a result, maintaining the necessary licenses and certifications to conduct our operations can be cumbersome. Our licenses and certifications could be suspended, revoked or terminated for a number of reasons, including: the failure by some of our programs or employees to properly care for clients; the failure to submit proper documentation to the government agency, including documentation supporting reimbursements for costs; the failure by our programs to abide by the applicable regulations relating to the provisions of human services; or the failure of our programs to abide by the applicable building, health and safety codes and ordinances. We have had some of our licenses or certifications suspended or terminated in the past. If we were to lose our status as a licensed provider of human services in any jurisdiction or any other required certification, we may be unable to market our services in that jurisdiction, and the contracts under which we provide services in that jurisdiction could be subject to termination. Moreover, such an event could constitute a violation of provisions of contracts in other jurisdictions, resulting in other contract terminations. Any of these events could have a material adverse effect on our reputation, business, results of operations, financial condition or ability to satisfy our obligations under our indebtedness.

Our inability to maintain and renew our existing contracts and to obtain additional contracts would adversely affect our revenues.

Each of our operating segments derives a substantial amount of revenue from contracts with government agencies. They also have contracts with non-governmental entities. Our contracts are generally in effect for a specific term, and our ability to renew or retain them depends on our operating performance and reputation, as well as other factors over which we have less or no control. In the past we have had contracts that were terminated or not renewed. We may not be successful in obtaining, renewing or retaining contracts to operate Job Corps or Workforce Services training centers. Our Job Corps contracts are re-bid, regardless of operating performance, at least every five years and our Workforce Services contracts are typically re-bid every 3-60 months. Government contracts of the operations we acquire may be subject to termination upon such an event, and our ability to retain them may be affected by the performance of prior operators. Changes in the market for services and contracts, including increasing competition, changes in the political environment, transition costs or costs to implement awarded contracts, could adversely affect the timing and/or viability of future operating or development activities. Additionally, many of our contracts are subject to state or federal government procurement rules and procedures. Changes in procurement policies that may be adopted by one or more of these agencies could also adversely affect our ability to obtain and retain these contracts. These contracts may not be renewed.

Our revenues and operating profitability depend on our reimbursement rates and timely payment.

Our revenues and operating profitability depend on our ability to maintain our existing reimbursement levels, to obtain periodic increases in reimbursement rates to meet higher costs and demand for more services, and to receive timely payment. If we do not receive or cannot negotiate increases in reimbursement rates at approximately the same time as our costs of providing services increase, or if states are not timely in their payments to us, our revenues and profitability could be materially adversely affected.

Our operations may subject us to substantial litigation.

Our management of residential, home care, training, educational and support programs for our clients has exposed and will continue to expose us to potential claims or litigation, including multi-party claims and class actions, by our clients, employees or other individuals for wrongful death, personal injury or other damages resulting from contact with our programs, personnel or other clients. Regulatory agencies have initiated and may in the future initiate administrative proceedings alleging violations of statutes and regulations arising from our programs and have imposed monetary penalties or other sanctions on us. We have been and in the future may be required to pay amounts of money to respond to regulatory investigations or, if we do not prevail, in 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 the human services industry. These lawsuits can involve significant monetary awards to private plaintiffs who successfully bring these suits as well as to the government. We are also subject to potential actions and substantial penalties under the False Claims Act brought by the Department of Justice. Finally, we are also subject to employee-related claims including wrongful discharge or discrimination, a violation of equal employment law, the Fair Labor Standards Act or state wage and hour laws, intentional tort claims and workers compensation claims. Some awards of damages or penalties may not be covered by any insurance. If our third-party insurance coverage and self-insurance reserves are not adequate to cover these claims, it could have a material adverse effect on our business, results of operations, financial condition, and ability to satisfy our obligations under our indebtedness. Even if we are successful in our defense, civil lawsuits or regulatory proceedings could also irreparably damage our reputation and have a material adverse effect on us in the future.

We depend upon the continued services of key members of our senior management team, without whom our business operations would be significantly disrupted.

Our success depends, in part, on the continued contributions of our executive officers and other key employees. Our management team has significant industry experience and would be difficult to replace. If we lose or suffer an extended interruption in the service of one or more of our senior officers, it could have a material adverse effect on our financial condition and operating results. Moreover, the market for qualified individuals is highly competitive and we may not be able to attract and retain qualified personnel to replace or succeed members of our senior management or other key employees, should the need arise.

Our information systems are critical to our business and a failure of those systems could materially harm us.

The performance of our information technology and systems is critical to our business operations. Our information systems are essential to a number of critical areas of our operations, including:

- Accounting and financial reporting;
- Billing and collecting accounts;
- Coding and compliance;
- Clinical systems, including census and incident reporting; and/or
- Records and document storage; and monitoring quality of care and collecting data on quality and compliance measures.

We depend on our ability to store, retrieve, process and manage a significant amount of information, and to provide our operations with efficient and effective accounting, census, incident reporting and scheduling systems. Our information systems require maintenance and upgrading to meet our needs, which could significantly increase our administrative expenses. Furthermore, any system failure that causes an interruption in service or availability of our critical systems could adversely affect operations or delay the collection of revenues. Even though we have implemented network security measures, our servers are vulnerable to computer viruses, break-ins, cyber attacks and similar disruptions from unauthorized tampering. The occurrence of any of these events could result in interruptions, delays, the loss or corruption of data, or cessations in the availability of systems, all of which could have a material adverse effect on our business, financial position and results of operations.

We operate in a highly competitive industry, which can adversely affect our results.

We compete with other for-profit companies, not-for-profit entities, and governmental agencies for contracts. Competitive factors may favor other providers, thereby reducing our success in obtaining contracts, which in turn would hinder our growth. Non-profit providers may be affiliated with advocacy groups, health organizations, or religious organizations that have substantial influence with legislators and government agencies. States may give preferences to non-profit organizations in awarding contracts. Non-profit providers also may have access to government subsidies, foundation grants, tax deductible contributions and other financial resources not available to us. Governmental agencies and non-profit providers may be subject to limits on liability that do not apply to us.

In some markets, smaller local companies may have a better understanding of local conditions and may have more political and public influence than we do. The competitive advantages enjoyed by other providers may decrease our ability to procure contracts and limit our revenues. Increased competition may also result in pricing pressures, loss of or failure to gain market share or loss of clients or payors, any of which could harm our business.

If the fair values of our reporting units decline, we may have to record a non-cash charge to earnings from impairment of our intangible assets.

In accordance with generally accepted accounting principles in the United States of America, goodwill and indefinite-lived intangible assets are not amortized but are reviewed for impairment on an annual basis or more frequently whenever events or changes in circumstances indicate that their carrying value may not be recoverable. We may be required to record a non-cash charge to earnings in our financial statements during the period in which any impairment of our goodwill or indefinite-lived intangible assets is determined, which could have a material adverse effect on our operating results. The goodwill impairment test is a two-part test, as described in our application of critical accounting policies. Step One of the impairment test compares the fair values of each of our reporting units to their carrying value. If the fair value is less than the carrying value for any of our reporting units, Step Two must be completed. Step Two of the impairment test compares the implied fair value of each of our reporting unit's goodwill with the carrying amount of the respective reporting unit's goodwill. If the carrying amount of a reporting unit's goodwill is greater than the implied fair value of the reporting unit's goodwill, an impairment loss must be recognized for the excess.

For our October 1, 2013 annual impairment test, all reporting units passed Step One. The ResCare HomeCare reporting unit passed Step One with a fair value that exceeded its carrying value by a 7 percent margin. This reporting unit had an allocated goodwill balance of $71.0 million as of October 1, 2013. A 100 basis point decrease in the long-term growth rate for this reporting unit would decrease the fair value in excess of carrying value to a 3 percent margin. A 100 basis point increase in the discount rate for this reporting unit would decrease the fair value to below its carrying value by $0.8 million, which would result in a Step Two analysis. Inability to meet projected results utilized in the annual impairment test could lead to a potential impairment in the future.

We may not realize the anticipated benefit of any future acquisitions and we may experience difficulties in integrating these acquisitions.

As part of our growth strategy, we intend to make selective acquisitions. Additionally, we also assess opportunities to maximize shareholder value and seek diversification through investments with other business partners. We may need additional funds to continue to take advantage of acquisition opportunities, and financing may not be available on acceptable terms or at all. Growing our business through acquisitions involves risks because with any acquisition there is the possibility that:

- we may be unable to maintain and renew the contracts of the acquired business, which if significant to that business, may require us to review alternatives such as divesting, selling or scaling back that particular business;
- unforeseen difficulties may arise when integrating the acquired operations, including information systems and accounting controls;
- operating efficiencies, synergies, economies of scale and cost reductions may not be achieved as expected;
- the business we acquire may not continue to generate income at the same historical levels on which we based our acquisition decision;
- management may be distracted from overseeing existing operations by the need to integrate the acquired business;
- we may acquire or assume unexpected liabilities, encumbered assets or contracts, or there may be other unanticipated costs;
- we may fail to retain and assimilate key employees of the acquired business;
- we may finance the acquisition by additional debt and may become highly leveraged; and
- the culture of the acquired business may not match well with our culture.

As a result of these risks, our future acquisitions may not be successful, which may have a material adverse effect on our business, financial condition and results of operations.

Our industry is subject to substantial government regulation and if we fail to comply with those regulations, we could suffer penalties or be required to make significant changes to our operations.

The human services industry, including our company, is required to comply with extensive and complex laws and regulations at each foreign country level and domestically at the federal, state and local government levels relating to, among other things:

- licensure and certification;
- adequacy and quality of health care services and employment services;
- qualifications of health care and support personnel;

- confidentiality, maintenance and security issues associated with medical or other personal records and claims processing;
- relationships with referral sources;
- operating policies and procedures;
- addition of programs and services; and
- billing for services.

Many of these laws and regulations are expansive, and we do not always have the benefit of significant regulatory or judicial interpretation of them. In the future, changing interpretations or enforcement of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our programs, equipment, personnel, services, capital expenditure programs and operating expenses.

If we fail to comply with applicable laws and regulations, we could be subject to various sanctions, including criminal penalties, civil penalties (including the loss of our licenses or contracts to operate one or more of our homes or programs) and exclusion of one or more of our homes or programs from participation in the Medicare, Medicaid and other federal and state health care programs. Similar risks would apply in each foreign country where we do business. In the past we have had some of our licenses suspended or terminated and/or one or more of our programs excluded. If allegations of noncompliance were to arise in the future in respect of a significant subsidiary or in respect of ResCare that might jeopardize its participation in Medicare or Medicaid, an adverse outcome could have a material adverse effect on our business, results of operations or liquidity.

Both federal and state government agencies have heightened and coordinated civil and criminal enforcement efforts as part of numerous ongoing investigations of health care companies. These investigations relate to a wide variety of topics, including:

- billing practices;
- quality of care;
- financial relationships with referral sources; and
- medical necessity of services provided.

Like other participants in the human services industry, we receive requests and demands for information from government agencies in connection with the regulatory or investigational authority. Such requests can include subpoenas, civil investigative demands, demand letters or search warrants for documents to assist the government in audits or investigations. In addition, under the False Claims Act, private parties have the right to bring “qui tam” whistleblower lawsuits against companies that submit false claims for payments to the government. A number of states and cities have adopted similar whistleblower and false claims provisions.

As a result of a 2012 audit report prepared by the U.S. Office of the Inspector General regarding a subcontract awarded at one of our Job Corps Centers, we received and accepted negative recommendations from the U.S. Department of Labor, Employment & Training Administration, Office of Contract Management (“OCM”). In addition, OCM recommended further investigation and consideration of possible additional remedial measures pursuant to the Federal Acquisition Regulation.

In December 2012, the DOL OIG conducted an entrance conference to discuss the initiation of an audit of ResCare’s Subcontract Awards. We have responded to requests for production and the audit is still ongoing.

Although we are engaging in mitigation efforts to avoid imposition of remedial measures, such measures could negatively affect the ability of the Company, its subsidiaries and affiliates to retain existing and secure future federal and state government contracts. The imposition of penalties pursuant to the Federal Acquisition Regulation could have a material adverse effect on our reputation, business, financial condition, liquidity and results of operations.

If downsizing, privatization and consolidation in our industry do not continue, our business may not continue to grow.

The maintenance and expansion of our operations depend on the continuation of trends toward downsizing, privatization and consolidation, and our ability to tailor our services to meet the specific needs of the populations we serve. Our success in a changing operational environment is subject to a variety of political, economic, social and legal pressures, virtually all of which are beyond our control. Such pressures include a desire of governmental agencies to reduce costs and increase levels of services; federal, state and local budgetary constraints or shortfalls; political pressure from unions or other interest groups opposed to privatization or for-profit service providers; and actions brought by advocacy groups and the courts to change existing service delivery systems. Material changes resulting from these trends and pressures could adversely affect the demand for and reimbursement of our services and our operating flexibility, and ultimately our revenues and profitability.

If we fail to establish and maintain appropriate relationships with officials of government agencies, we may not be able to successfully procure or retain government-sponsored contracts which could negatively impact our revenues.

To facilitate our ability to procure or retain government-sponsored contracts, we rely in part on establishing and maintaining appropriate relationships with officials of various government agencies. These relationships enable us to maintain and renew existing contracts and obtain new contracts and referrals. These relationships also enable us to provide informal input and advice to the government agencies prior to the development of a "request for proposal" or program for privatization of social services and enhance our chances of procuring contracts with these payors. The effectiveness of our relationships may be reduced or eliminated when the holders of various government offices or staff positions change. We also may lose key personnel who have these relationships. Any failure to establish, maintain or manage relationships with government and agency personnel may hinder our ability to procure or retain government-sponsored contracts.

Our insurance coverage and self-insurance reserves may not cover future claims.

Workers' compensation, employee health, general/professional and automobile liability insurance claims and premiums represent significant costs to us. Because we self-insure for a portion of these risks, our insurance expense depends on claims experience, our ability to control our claims experience, and in the case of workers' compensation and employee health, rising healthcare costs in general. Unanticipated additional insurance costs could adversely impact our results of operations and cash flows.

As well, changes in the market for insurance may affect our ability to obtain insurance coverage at reasonable rates. Changes in our annual insurance costs and self-insured retention limits and excess coverage availability depend in large part on the insurance market. We utilize historical data to estimate our reserves for our insurance programs. We have excess general and professional liability and automobile insurance coverages. If losses on asserted claims exceed the current insurance coverage and accrued reserves, our business, results of operations, financial condition and ability to meet obligations under our indebtedness could be adversely affected.

Events that harm our reputation with governmental agencies and advocacy groups could reduce our revenues and operating results.

Our success in obtaining new contracts and renewals of our existing contracts depends upon maintaining our reputation as a quality service provider among governmental authorities, advocacy groups for individuals with developmental disabilities and their families, and the public. We also rely on government entities to refer clients to our programs. Negative publicity, changes in public perception, the actions of clients under our care or investigations with respect to our industry, operations or policies could increase government scrutiny, increase compliance costs, hinder our ability to obtain or retain contracts, reduce referrals, discourage privatization of programs, and discourage clients from using our services. Any of these events could have a material adverse effect on our business, results of operations, financial condition or ability to satisfy our obligations under our indebtedness.

We are required to comply with laws governing the transmission, privacy and security of health information.

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and Health Information Technology and Clinical Health Act of 2009 ("HITECH") require us to comply with standards for privacy and security of health information, including the exchange of health information within our company and with third parties, such as payors, business associates and patients. HIPAA and HITECH also require us to comply with standards for transmission of health information in common health care transactions. HIPAA and HITECH requirements include standards for:

- claims information, plan eligibility, payment information and the use of electronic signatures;
- unique identifiers for providers, employers, health plans and individuals;
- protecting the privacy of health information;
- maintaining the security of health information; and
- HIPAA enforcement.

If we fail to comply with these standards, we could be subject to criminal penalties and civil sanctions, including the significantly expanded penalties enacted under HITECH.

We are required to comply with laws governing Medicaid services.

The Deficit Reduction Act of 2005 ("DRA") requires our operations to comply with Medicaid billing requirements. The DRA also mandated changes to our compliance program. While we believe that our operations are in compliance, the added scrutiny resulting from the DRA could have a material adverse effect on our operations and financial results.

We are subject to the Payment Error Rate Measurement ("PERM") program implemented to measure improper payments in the Medicaid program and the Children's Health Insurance Program ("CHIP"). If PERM audits require us to repay a material amount to states as a result of payment errors, it could have a material adverse effect on our business, financial condition or results of operations.

Increases in regulatory oversight can result in higher operating costs.

Although we believe we are operating in material compliance with established laws and regulations, federal and state regulatory agencies often have broad powers to mandate the types and levels of services we provide to individuals without providing appropriate funding. Future increased regulatory oversight could result in higher operating costs, including labor, consulting and maintenance expenditures, and historical losses.

If we cannot maintain effective controls and procedures that govern our billing and collections processes, such as maintenance of required documentation to support the services rendered, then our business, results of operations, financial condition and ability to satisfy our obligations under our indebtedness could be adversely affected.

The collection of accounts receivable is a significant management challenge and requires continual focus. The limitations of some state information systems and procedures, such as the ability to obtain timely documentation or disperse funds electronically, may limit the benefits we derive from our automated billing and collection system. We must maintain effective controls and procedures for managing our billing and collection activities, which include having required documentation as necessary if we are to collect our accounts receivable on a timely basis. An inability to do so could have a material adverse effect on our business, results of operations, financial condition and ability to satisfy our obligations under our indebtedness.

Our ability to collect accounts receivable is also subject to developments at state payor agencies and other factors outside our control. Changes in reimbursement procedures by the states, including engaging new agents to manage the reimbursement function, may delay reimbursement payments and create backlogs. Paying aged receivables may have a lower priority for states experiencing budgetary pressures despite our meeting applicable billing requirements. Events that delay or prevent our collection of accounts receivable could have a material adverse effect on our results of operations and financial condition and ability to satisfy our obligations under our indebtedness.

Labor changes could reduce our margins and profitability and adversely affect the quality of our care.

Our cost structure and ultimate operating profitability are directly related to our labor costs. Labor costs may be adversely affected by a variety of factors, including limited availability of qualified personnel in each geographic area, local competitive forces, the ineffective utilization of our labor force, changes in minimum wages or other direct personnel costs, strikes or work stoppages by employees represented by labor unions, and changes in client services models, such as the trends toward supported living and managed care. We may not be able to negotiate labor agreements on satisfactory terms with our existing or any future labor unions. If any of the employees covered by collective bargaining agreements were to engage in a strike, work stoppage or other slowdown, we could experience a disruption of our operations and/or higher ongoing labor costs, which could have a material adverse effect on our business, financial condition and results of operations.

Media coverage critical of us or our industry may harm our results.

Media coverage of the industry, including operators of programs for individuals with intellectual and other developmental disabilities, has, from time to time, included reports critical of the current trend toward privatization and of the operation of certain of these programs. Adverse media coverage about providers of these services in general, and us in particular, could lead to increased regulatory scrutiny in some areas, and could have a material adverse effect on our revenues and profitability by, among other things, adversely affecting our ability to obtain or retain contracts, discouraging government agencies from privatizing programs, increasing regulation and resulting compliance costs, or discouraging clients from using our services.

Our program expenses may fluctuate.

Our program expenses may also fluctuate from period to period, due in large part to changes in labor costs, insurance and energy costs. Labor costs are affected by a number of factors, including the availability of qualified personnel, effective management of our programs, changes in service models, state budgetary pressures, severity of weather and other natural disasters. Our annual insurance costs and self-insured retention limits can rise due to developments in the insurance market or our claims history. Significant fluctuations in our program expenses may have a material adverse effect on our business, results of operations and financial condition.

Our quarterly operating results may fluctuate significantly.

Our revenues and net income may fluctuate from quarter to quarter, in part because annual Medicaid rate adjustments may be announced by the various states at different times of the year and are usually retroactive to the beginning of the particular state’s fiscal reporting period. Generally, future adjustments in reimbursement rates in most states will consist primarily of cost-of-living adjustments, adjustments based upon reported historical costs of operations, or other negotiated changes in rates. However, many states in which we operate are experiencing budgetary pressures and certain of these states, from time to time, have initiated service reductions, or rate freezes and/or across the board rate reductions. Some reimbursement rate increases must be paid to our direct care staff in the form of wage pass-throughs. Additionally, some states have revised their rate-setting methodologies, from time to time, which has resulted in rate decreases as well as rate increases.

Expenses incurred and fees earned under government contracts are subject to scrutiny.

We derive substantially all of our revenues from federal, state and local government agencies. As a result of our participation in these government funded programs, we are often subject to governmental reviews, audits and investigations to verify our compliance with applicable laws and regulations. As a result of these reviews, audits and investigations, our government payors may be entitled to, in their discretion:

- terminate or modify our existing contracts;
- suspend or prevent us from receiving new contracts or extending existing contracts because of violations or suspected violations of procurement laws or regulations;
- impose fines, penalties or other sanctions on us;
- reduce the amount we are paid under our existing contracts;
- require us to refund amounts we have previously been paid; and/or
- subject us to exclusion from participation in Medicaid and other federal and state health care programs.

In some states, we operate on cost reimbursement contracts in which revenues are recognized at the time costs are incurred and services are rendered. These contracts provide reimbursement for direct program costs related to operations, allowable indirect costs for general and administrative costs, plus a predetermined management fee that normally includes both fixed and performance-based elements. In these states, payors audit our historical costs on a regular basis, and if it is determined that we do not have enough costs to justify our rates, our rates may be reduced, or we may be required to retroactively return fees paid to us. We cannot be assured that our rates will be maintained, or that we will be able to keep all payments made to us until an audit of the relevant period is complete.

Under certain employment training contracts, we are required to maintain certain performance measures and if those measures are not met, we may be subject to financial penalties. Further, certain employment training contracts require us to administer payments for childcare and transportation on behalf of our participants, for which we are reimbursed by the customer. These costs are subject to governmental reviews and audits to verify our compliance with the contracts.

Our revenue growth has been related to increases in the number of individuals served in each of our operating segments.

Our historical growth in revenues has been directly related to increases in the number of individuals served in each of our operating segments. This growth has depended largely upon development-driven activities, including the acquisitions of other businesses or programs, the acquisition of management contract rights to operate programs, the awarding of contracts to open new programs, start new operations or branches or to assume management of programs previously operated by governmental agencies or other organizations, and the extension or renewal of contracts previously awarded to us. Our future revenues will depend primarily upon our ability to maintain, expand and renew existing service contracts and leases, and to a lesser extent upon our ability to obtain additional contracts to provide services to the special needs populations we serve, through awards in response to requests for proposals for new programs, in connection with programs being privatized by governmental agencies, or by selected acquisitions.

We face substantial competition in attracting and retaining experienced personnel, and we may be unable to grow our business if we cannot attract and retain qualified employees.

Our success depends to a significant degree on our ability to attract and retain highly qualified and experienced social service professionals who possess the skills and experience necessary to deliver high quality services to our clients. These employees are in great demand and are likely to remain a limited resource for the foreseeable future. Contractual requirements and client needs determine the number, education and experience levels of social service professionals we hire. Our ability to attract and retain employees with the requisite experience and skills depends on several factors including, but not limited to, our ability to offer competitive wages, benefits and professional growth opportunities. The inability to attract and retain experienced personnel could have a material adverse effect on our business.

Much of our revenue is derived from state and local government and government procedures, which can be complex.

Government reimbursement, community home credentialing and client Medicaid and Medicare eligibility and service authorization procedures are often complicated and burdensome, and delays can result from, among other reasons, difficulties in timely securing documentation and coordinating necessary eligibility paperwork between agencies. These reimbursement and procedural issues occasionally cause us to have to resubmit claims several times before payment is remitted and are primarily responsible for our aged receivables. Changes in the manner in which state agencies interpret program policies and procedures, and review and audit billings and costs could have a material adverse effect on our business, results of operations, financial condition and our ability to meet obligations under our indebtedness.

The interests of our controlling stockholders may conflict with the interests of the holders of the Notes.

Following consummation of the Share Exchange in December 2010, the Onex Investors own 98% of the outstanding common stock of the holding company that owns all of the stock of ResCare. Accordingly, the Onex Investors can exercise a controlling influence over our business and affairs and have the power to determine all matters submitted to a vote of our stockholders, including the election of directors and approval of significant corporate transactions such as amendments to our certificate of incorporation, mergers and the sale of all or substantially all of our assets. The Onex Investors could cause corporate actions to be taken that conflict with the interests of the holders of our outstanding notes. Onex Corporation controls the voting of the Onex Investors. Gerald W. Schwartz, the chairman, president and chief executive officer of Onex Corporation, owns shares representing a majority of the voting rights of the shares of Onex Corporation.

Additionally, the Onex Investors are in the business of making investments in companies and may from time to time in the future acquire controlling interests in businesses that complement or directly or indirectly compete with certain portions of our business. As a result, those acquisition opportunities may not be available to us.

The federal health care reform legislation could adversely affect our financial condition or results of operations.

In March 2010, the U.S. Congress passed and the President signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, which represent significant changes to the current U.S. health care system. The legislation contains a large number of health-related provisions to take effect over several years, including imposing new requirements on employer-sponsored health plans, which may increase the cost of providing such benefits, modifying certain payment systems, reducing Medicare reimbursement rates for home health care services we provide to our clients and a number of other provisions that could reasonably be expected to impact our business.

Many of the provisions of the legislation do not take effect for an extended period of time. Further revisions to this legislation could result from its implementation. We are unable to predict at this time all of the ramifications the enacted laws, or subsequent changes, may have on our business. This legislation could have a material adverse effect on our financial condition or results of operations.

Risks related to the Notes and our indebtedness

Our level of debt could adversely affect our financial condition and our ability to operate our business and could prevent us from fulfilling our obligations under our 10.75% Senior Notes.

In addition to our 10.75% Senior Notes due 2019, we have a Senior Secured Term Note and a secured revolving credit facility, all of which require interest and principal payments. Our level of indebtedness could have important consequences to the holders of the Notes, including the following:

- making it more difficult for us to satisfy our obligations with respect to the Notes and our other debt;

- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, strategic acquisitions or other general corporate requirements;
- requiring a certain portion of our cash flows to be dedicated to debt service payments instead of to other purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our financial flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors;
- having a material adverse effect on us if we fail to comply with the covenants in the indenture governing the Notes or in the instruments governing our other debt; and
- increasing our cost of borrowing.

The revolving senior credit facility component of our senior secured credit facilities is expected to be a significant source of liquidity for our business and is scheduled to mature on April 5, 2017. The failure to extend or renew this facility could have a significant effect on our ability to invest sufficiently in our programs, fund day-to-day operations, or pursue strategic opportunities.

Subject to the limits contained in the indenture governing the Notes and our other debt instruments, we may be able to incur additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we incur additional debt, the risks related to our high level of debt could intensify.

We may not be able to generate a sufficient amount of cash flow to meet our debt service obligations, including the Notes.

Our ability to pay principal and interest or to refinance our obligations with respect to the Notes and our other debt, including our senior secured credit facilities, will depend on, among other things:

- our future financial and operating performance, which will be subject to prevailing economic and political conditions and financial, competitive, business and other factors, including the availability of financing in the banking and capital markets as well as the other risks described herein, many of which are beyond our control; and
- the future availability of borrowings under our senior secured credit facilities, which depends on, among other things, our complying with the covenants in our senior secured credit facilities.

We cannot assure you that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our new senior secured credit facilities or otherwise, in an amount sufficient to fund our liquidity needs, including the payment of principal and interest on the Notes.

If our cash flow and capital resources are insufficient to fund our debt service obligations, including the Notes, and our other commitments, we could face substantial liquidity problems and may be forced to reduce or delay scheduled expansions and capital expenditures, sell material assets or operations, obtain additional capital or restructure our debt. If we are unable to meet our debt obligations or to fund our other liquidity needs, we will need to restructure or refinance all or a portion of our debt, including the Notes, which could cause us to default on our debt obligations and impair our liquidity. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants which could further restrict our business operations. If we are required to dispose of material assets or operations, obtain additional capital or restructure our debt to meet our debt service and other obligations, we cannot provide assurance that we could take any of these actions on a timely basis, on commercially reasonable terms or at all, or that these actions would be sufficient to meet our capital requirements. In addition, the terms of our existing or future debt agreements may restrict us from implementing certain or any of these alternatives. Furthermore, the Onex Investors have no continuing obligation to provide us with debt or equity financing.

If we cannot make scheduled principal and interest payments on our debt, we will be in default and, as a result:

- our debt holders could declare all outstanding principal and interest to be due and payable; and
- we could be forced into bankruptcy or liquidation.

The indenture governing the Notes and the credit agreement governing our senior secured credit facilities impose significant operating and financial restrictions on us and our subsidiaries, which may prevent us from capitalizing on business opportunities.

The indenture governing the Notes and the credit agreement governing our senior secured credit facilities impose, and any future indebtedness of ours would likely impose, significant operating and financial restrictions on us, including restrictions on our ability to, among other things:

- incur or guarantee additional indebtedness;
- pay distributions or dividends and repurchase our stock and make other restricted payments, including without limitation, certain restricted investments;
- create or incur liens;
- enter into agreements that restrict dividends from subsidiaries;
- sell or otherwise dispose of assets, including capital stock of restricted subsidiaries;
- engage in transactions with affiliates; and
- enter into mergers, consolidations or sales of substantially all of our assets.

In addition, our senior secured credit facilities require us to maintain certain financial ratios. As a result of these covenants, we will be limited in the manner in which we conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs. Our ability to meet those financial ratios can be affected by events beyond our control, and there can be no assurance that we will meet those ratios. An adverse development affecting our business could require us to seek waivers or amendments of covenants, alternative or additional sources of financing or reductions in expenditures. We cannot assure you that such waivers, amendments or alternative or additional financings could be obtained or, if obtained, would be on terms acceptable to us.

As a result of these covenants and restrictions, we will be limited in how we conduct our business and we may be unable to raise additional debt or equity financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we may incur could include covenants that are more restrictive. We may not be able to maintain compliance with these covenants in the future. A failure to comply with the covenants contained in the credit agreement governing our senior secured credit facilities or the indenture governing the Notes could result in an event of default under either or both of those instruments, which, if not cured or waived, could have a material adverse effect on our business, financial condition or results of operations.

Despite our current debt levels, we and our subsidiaries may incur substantially more debt.

We may be able to incur significant additional indebtedness, including secured indebtedness, in the future. Although the credit agreement governing our senior secured credit facilities and the indenture governing the Notes contain restrictions on the incurrence of additional indebtedness by us or our subsidiaries, these restrictions are subject to a number of significant qualifications and exceptions, and any indebtedness incurred in compliance with these restrictions could be substantial. For example, subject to certain conditions, we will have the right under our senior secured credit facilities to request up to $175.0 million of additional commitments in the form of revolver availability or term loans, although the lenders under our senior secured credit facilities will not be under any obligation to provide any such additional commitments. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they face would be increased.

The Notes are unsecured and effectively subordinated to all of our secured debt.

The Notes and the related guarantees are not secured by any of our assets or the assets of our subsidiaries. The payment of our obligations under our senior secured credit facilities is secured by a security interest in substantially all of our assets and the assets of our domestic subsidiaries, including equipment, inventory and certain intangible assets, and a pledge of the capital stock of all of our domestic subsidiaries. If we become insolvent or are liquidated, or if payment under our new senior secured credit facilities or any other secured debt obligation that we may have from time to time is accelerated, our secured lenders would be entitled to exercise the remedies available to a secured lender under applicable law and would have a claim on those assets before the holders of the Notes. As a result, the Notes are effectively subordinated to our secured debt to the extent of the value of the assets securing such debt in the event of our bankruptcy or liquidation, and it is possible that there would be no assets remaining from which your claims could be satisfied or, if any assets remained, they might be insufficient to fully satisfy the claims of our Note holders.

Our ability to meet our obligations under our indebtedness depends in part on our earnings and cash flows and those of our subsidiaries and on our ability and the ability of our subsidiaries to pay dividends or advance or repay funds to us.

We conduct a portion of our operations through our subsidiaries, certain of which have not guaranteed the Notes. Consequently, our ability to service our debt depends, in part, upon the earnings from the businesses conducted by our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts to us, whether by dividends, loans, advances or other payments. The ability of our subsidiaries to pay dividends and make other payments to us depends on their earnings, capital requirements and general financial conditions and is restricted by, among other things, applicable corporate and other laws and regulations as well as, in the future, agreements to which our subsidiaries may be a party.

We may not be able to repurchase the Notes upon a change of control.

Upon a change of control as defined in the indenture governing the Notes, we will be required to make an offer to repurchase all outstanding Notes at 101% of their principal amount plus accrued and unpaid interest, unless we have previously given notice of our intention to exercise our right to redeem the Notes or unless such obligation is suspended. We may not have sufficient financial resources to purchase all of the Notes that are tendered upon a change of control offer or, if then permitted under the indenture governing the Notes, to redeem the Notes. A failure to make the applicable change of control offer or to pay the applicable change of control purchase price when due would result in a default under the indenture governing the Notes. The occurrence of a change of control would also constitute an event of default under our senior secured credit facilities and may constitute an event of default under the terms of our future indebtedness, or, if the lenders accelerate the debt under our senior secured credit facilities or other indebtedness, under the indenture governing the Notes. The terms of the credit agreement governing our senior secured credit facilities limit, and the terms of our future indebtedness may limit, our right to purchase or redeem the Notes. If any purchase or redemption of the Notes is prohibited, we may seek to obtain waivers from the required lenders under our senior secured credit facilities or holders of such other indebtedness to permit the required repurchase or redemption of the Notes, but the required lenders or holders of such indebtedness have no obligation to grant, and may refuse, such a waiver.

Holders of the Notes may not be able to determine when a change of control giving rise to their right to have the Notes repurchased has occurred following a sale of "substantially all" of our assets.

The definition of "change of control" in the indenture governing the Notes includes a phrase relating to the sale of "all or substantially all" of our assets. There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, it may be unclear as to whether a change of control has occurred and the ability of a holder of Notes to require us to repurchase its Notes as a result of a sale of less than all our assets to another person may be uncertain.

Certain significant restructuring transactions may not constitute a change of control under the indenture governing the Notes, in which case we would not be obligated to offer to repurchase the Notes.

Under the indenture governing the Notes, upon the occurrence of a change of control, we will be required to make an offer to repurchase all outstanding Notes at 101% of their principal amount plus accrued and unpaid interest, unless we have previously given notice of our intention to exercise our right to redeem the Notes or unless such obligation is suspended. However, the change of control provisions will not afford protection to holders of Notes in the event of a highly leveraged transaction that could adversely affect the Notes. For example, we could, in the future, enter into certain transactions, including acquisitions, refinancing or other recapitalizations, that would not constitute a change of control under the indenture governing the Notes, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings, and the holders would not have the right to require us to repurchase the Notes.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.

Various risks, uncertainties and events beyond our control could affect our ability to comply with the covenants, financial tests and ratios required by our senior secured credit facilities or any future financing agreements into which we may enter. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, or interest on our senior secured credit facilities or any future financing arrangements, or if we otherwise fail to comply with any of the covenants in such indebtedness and such failure is not waived by the required holders of such indebtedness, we would be in a default under those agreements. A default would permit lenders to cease to make further extensions of credit, accelerate the maturity of the debt under these agreements and foreclose upon any collateral securing that debt. In these circumstances, we might not have sufficient funds or other resources to satisfy all of our obligations, including our ability to repay our senior secured credit facilities and our obligations under the Notes. Furthermore, if our operating performance declines, we may in the future need to seek waivers from the required lenders under our senior secured credit facilities to avoid being in default. If we breach our covenants under our senior secured credit facilities and attempt to seek waivers, we may not be able to obtain waivers from the required lenders thereunder. If this occurs, we would be in default under our senior secured credit facilities and the lenders could exercise their rights described above, and we could be forced into bankruptcy or liquidation.

An active trading market for the Notes may not develop, and the absence of an active trading market and other factors may adversely impact the price of the Notes.

There is currently no public market for the Notes and an active or liquid trading market for the Notes may not develop or continue. To the extent that an active trading market does not develop, the liquidity and trading prices for the Notes may be adversely affected. The Notes may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors. In addition, a downgrade of our credit ratings by any credit rating agencies could impact the price at which the Notes trade. Our credit ratings have been and continue to be subject to regular review.

We have no plans to list the Notes on a securities exchange.

The liquidity of, and trading market for, the Notes may also be adversely affected by, among other things:

- changes in the overall market for securities similar to the Notes;
- changes in our financial performance or prospects;
- the prospects for companies in our industry generally;
- the number of holders of the Notes;
- the interest of securities dealers in making a market for the Notes; and
- prevailing interest rates.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial fluctuations in the price of securities that are similar to the Notes. Therefore, even if a trading market for the Notes develops, it may be subject to disruptions and price volatility.

An adverse rating or withdrawal of any rating of the Notes may cause their trading price to fall, may increase our future borrowing costs and may reduce our access to capital.

Ratings agencies also may lower or withdraw ratings on the Notes in the future. If rating agencies reduce or withdraw their ratings, or indicate that they may reduce or withdraw their ratings in the future, the trading price of the Notes could significantly decline. Credit ratings are not recommendations to purchase, hold or sell the Notes. Additionally, credit ratings may not reflect the potential effect of risks relating to the structure of the Notes. Furthermore, any future lowering or withdrawal of the ratings assigned to the Notes likely would make it more difficult or more expensive for us to obtain additional debt financing. If any credit rating assigned to the Notes is subsequently lowered or withdrawn for any reason, you may not be able to resell your Notes without a substantial discount.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2013, we owned approximately 80 properties and operated facilities and programs at approximately 2,200 leased properties. We lease approximately 110,000 square feet of an office building in Louisville, Kentucky, which serves as our corporate headquarters. Other facilities and programs are operated under management contracts. We believe that our properties are adequate and suitable for our business as presently conducted.

Item 3. Legal Proceedings

ResCare, or its affiliates, are parties to various legal and/or administrative proceedings arising out of the operation of our programs and arising in the ordinary course of business. We record accruals for such contingencies to the extent that we conclude it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. No estimates of the possible losses or ranges of losses in excess of amounts accrued, if any, can be made at this time because the inherently unpredictable nature of legal proceedings may be exacerbated by various factors, including: (i) the damages sought in the proceedings are unsubstantiated or indeterminate; (ii) discovery is not complete; (iii) the proceeding is in its early stages; (iv) the matters present legal uncertainties; (v) there are significant facts in dispute; (vi) there are a large number of parties (including where it is uncertain how liability, if any, will be shared among multiple defendants); or (vii) there is a wide range of potential outcomes. While we do not believe the ultimate liability, if any, for these proceedings or claims, individually or in the aggregate, in excess of amounts already provided, will have a material adverse effect on our financial condition, results of operations or cash flows or may affect our reputation, it is reasonably possible they could.

In March 2007, a lawsuit was filed in Bernalillo County, New Mexico State Court styled *Larry Selk, by and through his legal guardian, Rani Rubio v. Res-Care New Mexico, Inc., Res-Care, Inc., et al*. The lawsuit sought compensatory and punitive damages for claims of negligence, negligence per se, violations of the Unfair Practices Act and violations of the Resident Abuse and Neglect Act. On February 19, 2010, ruling on post-trial motions, the New Mexico trial court judge approved a final award of $15.5 million, plus statutory interest, in favor of plaintiffs. We, as well as the plaintiffs, appealed. A settlement was reached among all parties in the third quarter of 2013 and was approved by the court in November. The settlement was paid in November. The pretax charges recorded in connection with various legal matters, including settlement of the *Selk* matter, increased by $8.3 million in 2013 over 2012.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

There is no established public trading market for any class of common equity of the Company. ResCare is a wholly owned subsidiary of Onex Rescare Holdings Corp. We currently do not pay dividends and do not anticipate doing so in the foreseeable future.

Equity Compensation Plan Information

Plan Category	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	3,460	$ 5,268.66	350
Equity compensation plans not approved by security holders	—	—	—
Total	3,460	$ 5,268.66	350

Unregistered Sales of Equity Securities

None.

Item 6. Selected Financial Data

Selected Historical Consolidated Financial Data and Ratio of Earnings to Fixed Charges

The selected consolidated financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes.

As a result of the Onex transaction on November 16, 2010, ResCare's activity post-transaction is labeled as successor and ResCare's activity pre-transaction is labeled as predecessor.

	SUCCESSOR				PREDECESSOR	
	Year Ended Dec-13, 2013	Year Ended Dec-31, 2012	Year Ended Dec-31, 2011	Nov-16, 2010- Dec-31, 2010	Jan-1, 2010- Nov-15, 2010	Year Ended Dec-31, 2009
	(Dollars In thousands)					
Income Statement Data:						
Revenues [1]	$ 1,616,633	$ 1,599,109	$ 1,579,335	$ 195,076	$ 1,367,601	$ 1,558,559
Operating income (loss) [1]	103,723	109,159	103,900	16,054	(194,559)[2]	18,326[3]
Net income (loss)						
Income (loss) from continuing operations, net of tax	49,773	41,013	41,836	8,437	(160,500)	3,674
Income (loss) from discontinued operations, net of tax	—	—	11,156	(2,254)	(15,849)[4]	(13,966)[5]
Net income (loss)–including noncontrolling interest	49,773	41,013	52,992	6,183	(176,349)	(10,292)
Net loss–noncontrolling interest	(110)	(110)	(171)	(18)	(172)	(855)
Net income (loss)–Res-Care, Inc.	49,883	$ 41,123	$ 53,163	$ 6,201	$ (176,177)	$ (9,437)
Other Financial Data:						
Depreciation and amortization	$ 34,395	$ 33,371	$ 20,992	$ 2,315	$ 22,448	$ 26,161
Share-based compensation expense	2,917	3,836	2,383	—	6,201[6]	4,259
Facility rent [7]	68,428	65,849	64,757	8,399	57,385	61,878
Selected Historical Ratios:						
Percentage of total debt to total capitalization	*49.0%*	*53.2%*	*55.3%*	*62.6%*	—	*31.5%*
Ratio of earnings to fixed charges [8]	*2.1x*	*1.8x*	*1.7x*	*2.8x*	*(4.4)x*	*1.1x*
Balance Sheet Data:						
Working capital	$ 142,412	$ 143,042	$ 122,719	$ 61,288	$ N/A	$ 123,628
Total assets	1,086,277	1,051,958	992,258	964,952	N/A	844,940
Long-term debt, including capital leases	359,230	370,052	365,196	367,315	N/A	196,713
Total debt, including capital leases	380,037	390,799	369,825	406,602	N/A	199,757
Shareholders' equity	396,121	344,010	298,955	242,613	N/A	432,725

(1) Amounts for periods prior to 2012 have been restated, as appropriate, to exclude the effects of discontinued operations. During 2011, we ceased providing international workforce services in Europe. The results of these operations, along with related exit costs, have been classified as discontinued operations for all period presented.

(2) Operating loss for the period ended November 15, 2010 includes a charge of $250.2 million ($183.4 million net of tax) for goodwill impairment and $12.2 million ($10.6 million net of tax) of expenses related to the Onex transaction and $1.5 million ($0.9 million net of tax) relating to a legal matter settled during the period.

(3) Operating income for the year ended December 31, 2009 includes a charge of $6.5 million ($4.0 million net of tax) related to an increase in the Company's legal reserve and a $63.1 million ($38.5 million net of tax) charge for asset impairments.

(4) Discontinued operations for the period ended November 15, 2010 includes a charge of $13.0 million ($13.0 million net of tax) for goodwill impairment.

(5) Discontinued operations for the year ended December 31, 2009 includes a charge of $8.9 million ($8.6 million net of tax) for goodwill and other intangibles impairment.

(6) Share-based compensation includes $3.7 million ($2.3 million net of tax) of expense due to the acceleration of vesting related to the purchase of ResCare shares by Onex on November 15, 2010.

(7) Facility rent is defined as land and building lease expense less amortization of any deferred gain on applicable lease transactions.

(8) For the purpose of determining the ratio of earnings to fixed charges, earnings are defined as income from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense on all indebtedness and amortization of capitalized debt issuance costs and an estimate of interest within rental expense.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

This Management’s Discussion and Analysis (MD&A) section is intended to help the reader understand ResCare’s financial performance and condition. MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying notes. All references in this MD&A to “ResCare”, “Company”, “our company”, “we”, “us”, or “our” mean Res-Care, Inc. and, unless the context otherwise requires, its consolidated subsidiaries. The individual sections of MD&A are:

- *Onex Transaction* – a description of the purchase of ResCare common stock by Onex.
- *Our Business*–a general description of our business and revenue sources.
- *Application of Critical Accounting Policies*– a discussion of accounting policies that require critical judgments and estimates.
- *Results of Operations*–an analysis of our consolidated results of operations for the periods presented including analysis of our operating segments.
- *Financial Condition, Liquidity and Capital Resources*– an analysis of cash flows, sources and uses of cash and financial position.
- *Contractual Obligations and Commitments* – a tabular presentation of our contractual obligations and commitments for future periods.

Onex Transaction

On November 16, 2010, an affiliate of Onex Partners III LP (“Purchaser”) purchased 21,044,765 shares of ResCare common stock in a tender offer. Upon the completion of the tender offer, affiliates of Onex Corporation (the “Onex Investors”) beneficially owned 87.4% of the issued and outstanding shares of ResCare’s common stock on an as-converted basis. On December 22, 2010, upon completion of a share exchange and other reorganization transactions, ResCare became a wholly owned subsidiary of Onex Rescare Holdings Corp., which in turn, is owned by the Onex Investors, certain co-investors and members of our management team. The total purchase price was $452.4 million based on 34.1 million outstanding ResCare shares (fully converted) at $13.25 per share. The purchase price allocation was finalized in 2011.

Our Business

We receive revenues primarily from the delivery of residential, training, educational and support services to various populations with special needs. Our programs include an array of services provided in both residential and non-residential settings for adults and youths with intellectual, cognitive or other developmental disabilities, and youths who have special educational or support needs, are from disadvantaged backgrounds, or have severe emotional disorders, including some who have entered the juvenile justice system. We also offer, through drop-in or live-in services, personal care, meal preparation, housekeeping, transportation and some skilled nursing care to the elderly in their own homes. Additionally, we provide services to transition welfare recipients, young people and people who have been laid off or have special barriers to employment into the workforce and become productive employees.

Effective January 1, 2013, we began managing and operating our Pharmacy Services as a new reporting segment. Pharmacy Services is a limited, closed-door pharmacy business focused on serving individuals with cognitive, intellectual and developmental disabilities. The pharmacy operations were previously included with our Residential Services segment.

In addition, effective July 1, 2013, we made certain changes within our business lines to meet our future growth objectives. Some of the components and structure within certain reportable segments changed and our Youth Services segment’s name changed to Education and Training Services. The majority of our Residential Youth reporting unit moved from the Education and Training Services segment to the Residential Services segment. We also moved a small operation from our ResCare HomeCare segment to our Education and Training Services segment. Therefore, as of July 1, 2013, we changed our reportable segments to: (i) Residential Services, (ii) ResCare HomeCare, (iii) Education and Training Services, (iv) Workforce Services and (v) Pharmacy Services.

Residential Services primarily includes services for individuals with intellectual, cognitive or other developmental disabilities in our community home settings. ResCare HomeCare primarily includes periodic in-home care services to the elderly, as well as persons with disabilities. Education and Training Services consists of our Job Corps centers, alternative education programs, charter schools, training for professionals working with children, training for potential foster and adoptive parents and other individual and family counseling and instruction. Workforce Services is comprised of our domestic job training and placement programs that assist welfare recipients and disadvantaged job seekers in finding employment and improving their career prospects. Pharmacy Services is a limited, closed-door pharmacy business focused on serving individuals with cognitive, intellectual and developmental disabilities.

We evaluate performance based on profit or loss from operations before corporate expenses and other income, interest and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment revenues and transfers are not significant. As a result of these changes, the results of our segments have been retrospectively recast for all periods presented. We believe the changes in our segments will allow us to serve our customers more efficiently and allow future growth and long-term sustainability. Further information regarding our segments is included in Notes 1 and 9 of the Notes to Consolidated Financial Statements.

Revenues for our Residential Services operations are derived primarily from state Medicaid programs and other government agencies and from management contracts with private operators, generally not for profit providers, who contract with state government agencies and are reimbursed under the Medicaid programs. Our services include social, functional and vocational skills training, supported employment and emotional and psychological counseling for individuals with intellectual or other disabilities. Reimbursement varies by state and service type, and may be based on a variety of methods including flat rate, cost-based reimbursement, per person per diem, or unit of service basis based on published fee schedules. Rates are periodically adjusted based upon state budgets or economic conditions and their impact on state budgets. At programs where we are the provider of record, we are directly reimbursed under state Medicaid programs for services we provide and such revenues are affected by occupancy levels. For programs where we operate pursuant to management contracts, the management fee is negotiated with the provider of record.

Revenues for our HomeCare services are derived primarily from state Medicaid programs, Medicare, other governmental programs, commercial insurance programs and private pay agreements. We provide a range of services, both skilled and non-skilled, primarily for older people in their homes. These services are provided on an as needed basis and are reimbursed on a unit of service basis. We also provide these in-home services to seniors on a private pay basis. We are concentrating growth efforts in the home care private pay business to further diversify our revenue streams.

We operate vocational training centers under the federal Job Corps program administered by the Department of Labor (DOL) through our Education and Training Services operations. Under Job Corps contracts, we are reimbursed for direct costs of services related to Job Corps center operations, allowable indirect costs for general and administrative costs, plus a predetermined management fee. The management fee takes the form of a fixed contractual amount plus a computed amount based on certain performance criteria. All of such amounts are reflected as revenue, and all such direct costs are reflected as cost of services. Final determination of amounts due under Job Corps contracts is subject to audit and review by the DOL, and renewals and extension of Job Corps contracts are based in part on performance reviews.

We operate job training and placement programs that assist disadvantaged job seekers in finding employment and improving their career prospects through our Workforce Services operations. These programs are administered under contracts with local and state governments. We are typically reimbursed for direct costs of services related to the job training centers, allowable indirect costs plus a fee for profit. The fee can take the form of a fixed contractual amount (rate or price) or be computed based on certain performance criteria. The contracts are funded by federal agencies, including the DOL and Department of Health and Human Services.

Revenues for our Pharmacy Services operations are derived primarily from the Federal Medicare Part D plan, State Medicaid programs and other third-party payors. Revenue is recognized in the period pharmaceutical medications are shipped or at the time consultant pharmacist services are rendered.

Application of Critical Accounting Policies

Our discussion and analysis of the financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts and related disclosures of commitments and contingencies. We rely on historical experience and on various other assumptions that we believe to be reasonable under the circumstances to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. We believe the following critical accounting policies involve the more significant judgments and estimates used in the preparation of our Consolidated Financial Statements. Management has discussed the development, selection, and application of our critical accounting policies with our Audit Committee.

Valuation of Accounts Receivable

Accounts receivable consist primarily of amounts due from Medicaid programs, other government agencies and commercial insurance companies. An estimated allowance for doubtful accounts receivable is recorded to the extent it is probable and estimable that a portion or all of a particular account will not be collected. In evaluating the collectibility of accounts receivable, we consider a number of factors, including historical loss rates, age of the accounts, changes in collection patterns, the status of ongoing disputes with third-party payors, general economic conditions and the status of state budgets. Complex rules and regulations regarding billing and timely filing requirements in various states are also a factor in our assessment of the collectibility of accounts receivable. Actual collections of accounts receivable in subsequent periods may require changes in the estimated allowance for doubtful accounts. Changes in these estimates are charged or credited to the results of operations in the period of the change of estimate.

Insurance Losses

We self-insure a substantial portion of our general and professional liability, automobile, workers' compensation and health benefit risks. Provisions for losses for workers' compensation risks and health benefits are based upon actuarially-determined estimates and include an amount determined from reported claims and an amount based on past experiences for losses incurred but not reported. Estimates of workers' compensation claims reserves have been discounted using a discount rate of 3% at December 31, 2013 and 2012. Provisions for general and professional and automobile liabilities are recorded on a claims made basis, which includes estimates of fully developed losses for both reported and unreported claims. Accruals for general and professional and automobile liabilities are based on analyses performed internally by management. The liabilities are evaluated quarterly and any adjustments are reflected in earnings in the period identified. We have excess general and professional liability and automobile insurance coverages. These liabilities are necessarily based on estimates and, while we believe that the provision for loss is adequate, the ultimate liability may be more or less than the amounts recorded.

Legal Contingencies

We are party to numerous claims and lawsuits with respect to various matters. The material legal proceedings in which ResCare is currently involved are described in Item 3 of this report and Note 15 to the Consolidated Financial Statements. We provide for costs related to contingencies when a loss is probable and the amount is reasonably determinable. We confer with outside counsel in estimating our potential liability for certain legal contingencies. While we believe our provision for legal contingencies is adequate, the outcome of legal proceedings is difficult to predict and we may settle legal claims or be subject to judgments for amounts that exceed our estimates.

Valuation of Long-Lived Assets

We regularly review the carrying value of long-lived assets with respect to any events or circumstances that indicate a possible inability to recover their carrying amount. Indicators of impairment include, but are not limited to, loss of contracts, significant census declines, reductions in reimbursement levels, significant litigation and impact of economic conditions on service demands and levels. Our evaluation is based on cash flow, profitability and projections that incorporate current or projected operating results, as well as significant events or changes in the reimbursement and regulatory environment. If circumstances suggest the recorded amounts cannot be recovered, the carrying values of such assets are reduced to fair value based upon various techniques to estimate fair value.

Goodwill and Other Indefinite-Lived Intangible Assets

With respect to businesses we have acquired, we evaluate the costs of purchased businesses in excess of net assets acquired (goodwill) for impairment at least annually, unless significant changes in circumstances indicate a potential impairment may have occurred sooner. Our annual impairment test date is October 1. We are required to test goodwill on a reporting unit basis. We use a fair value approach to test goodwill for impairment and recognize an impairment charge for the amount, if any, by which the carrying amount of reporting unit goodwill exceeds its implied fair value. Fair values for goodwill are typically determined using an income approach (using discounted cash flow analysis method) or a market approach (using the guideline company method or the guideline transactions method), or it can be based on a weighted average of all or a combination of these methods. Due to limited comparability to our reporting units of the comparable guideline companies and limited financial information available surrounding the transactions for companies sold, we solely utilized the discounted cash flow analysis to establish fair values in our 2013 annual impairment test. The goodwill impairment test is a two-part test. Step One of the impairment test compares the fair values of each of our reporting units to their carrying value. If the fair value is less than the carrying value for any of our reporting units, Step Two must be completed. Step Two of the impairment test compares the implied fair value of each of our reporting unit's goodwill with the carrying amount of the respective reporting unit's goodwill. If the carrying amount of a reporting unit's goodwill is greater than the implied fair value of the reporting unit's goodwill, an impairment loss must be recognized for the excess. Fair values for indefinite-lived intangible assets are measured using the cost approach.

Discounted cash flow computations depend on a number of key assumptions 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. We base our fair value estimates on assumptions we believe to be reasonable, including recent historical performance and sales growth and margin improvement that we believe a buyer would assume when determining a purchase price for the reporting units. but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments about the selection of comparable companies used in determining market multiples in valuing our reporting units (not used in 2013 or 2012 valuations due to limited comparability of companies to our reporting units), as well as certain assumptions to allocate shared assets and liabilities to calculate values for each of our reporting units.

At December 31, 2013, we had approximately $308.4 million of goodwill and $227.0 million of other indefinite-lived intangible assets. Goodwill at December 31, 2013, reflects the excess purchase price from the acquisition as described in Note 2 of the Consolidated Financial Statements plus goodwill recorded from acquisitions completed after November 15, 2010. Other indefinite-lived intangible assets include licenses that are essential for ResCare to operate its businesses in various states and other jurisdictions. Goodwill and other indefinite-lived intangible assets are not amortized.

As noted above, goodwill is tested for impairment on an annual basis on October 1 and between annual tests if indicators of potential impairment exist. A change in our reportable segments, more fully described in Note 1 to our Notes to Consolidated Financial Statements, resulted in a change in the composition of our reporting units, which is the unit of accounting for goodwill. Accordingly, we reallocated goodwill between our reporting units using the relative fair value approach.

For our October 1, 2013 annual impairment test, we used a 2% long-term terminal growth rate for all reporting units tested. We also used 13%, 14%, 17%, 16% and 16% for our Residential Services, ResCare HomeCare, Workforce Services, Education and Training Services and Pharmacy Services reporting units, respectively, for discount rates. All reporting units passed Step One. The ResCare HomeCare reporting unit only passed Step One with a fair value that exceeded its carrying value by a 7 percent margin. The ResCare HomeCare reporting unit had a goodwill balance of $71.0 million as of October 1, 2013. A 100 basis point decrease in the long-term growth rate would decrease the fair value in excess of carrying value to a 3 percent margin. A 100 basis point increase in the discount rate for this reporting unit would decrease the fair value to below its carrying value by $0.8 million, which would result in a Step Two analysis. Inability to meet projected results utilized in the annual impairment test could lead to a potential impairment in the future.

Revenue Recognition

Overview: We recognize revenues as they are realizable and earned in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* (“SAB 104”). SAB 104 requires that revenue can only be recognized when persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable and collectibility is reasonably assured.

Residential Services: Revenues are derived primarily from state Medicaid programs and from management contracts with private operators, generally not-for-profit providers, who contract with state government agencies and are also reimbursed under the Medicaid programs. Revenues from the state Medicaid programs are recorded at rates established at or before the time services are rendered. Revenue is recognized in the period services are rendered.

ResCare HomeCare: Revenues are derived from State Medicaid programs, other government agencies, commercial insurance companies, long-term care insurance policies, as well as private pay customers. Revenues are recorded at rates established at or before the time services are rendered. Revenue is recognized in the period services are rendered.

Education and Training Services: Revenues include amounts reimbursable under cost reimbursement contracts with the Department of Labor (“DOL”) for operating Job Corps centers for education and training programs. The contracts provide reimbursement for direct facility and program costs related to operations, allowable indirect costs for general and administrative costs, plus a predetermined management fee, normally a combination of fixed and performance-based. Final determination of amounts due under the contracts is subject to audit and review by the applicable government agencies. Additional revenues are reimbursed from various state government agencies including Medicaid programs as we operate school and other training related programs in multiple states. Revenue is recognized in the period associated costs are incurred and services are rendered.

Workforce Services: Revenues are derived primarily through contracts with local and state governments funded by federal agencies. Revenue is generated from contracts which contain various pricing arrangements, including: (1) cost reimbursable, (2) performance-based, (3) hybrid, and (4) fixed price.

With cost reimbursable contracts, revenue is recognized for the direct costs associated with functions that are specific to the contract, plus an indirect cost percentage that is applied to the direct costs, plus a profit. Revenue is recognized in the period the associated costs are incurred and services are rendered.

Under a performance-based contract, revenue is generally recognized as earned based upon the attainment of a unit performance measure times the fixed unit price for that specific performance measure. Typically, there are many different performance measures that are stipulated in the contract that must be tracked to support the billing and revenue recognition. Revenues may be recognized prior to achieving a benchmark as long as reliable measurements of progress-to-date activity can be obtained, indicating that it is probable that the benchmark will be achieved. This requires judgment in determining what is considered to be a reliable measurement.

Revenues for hybrid contracts are recognized based on the specific contract language. The most common type of hybrid contract is “cost-plus,” which provide for the reimbursement of direct and indirect costs with profit tied to meeting certain performance measures. Revenues for cost-plus contracts are generally recognized in the period the associated costs are incurred with an estimate made for the performance-based portion, as long as reliable measurements of progress-to-date activity can be obtained, indicating that it is probable that the benchmark will be achieved. This requires judgment in determining what is considered to be a reliable measurement.

Revenues for fixed price contracts are generally recognized in the period services are rendered. Some fixed priced contracts may contain performance-based measures that may increase or decrease our revenue. Those adjustments are made to revenue when the performance indicators have been achieved or an estimate can be made as long as reliable measurements of progress to date activity can be obtained, indicating that it is probable that the benchmarks will be achieved. This requires judgment in determining what is considered a reliable measurement.

Pharmacy Services: Revenues are derived primarily from the Federal Medicare Part D plan, State Medicaid programs and other third-party payors. Revenue is reported at the amount ultimately expected to be received from these payors, which is net of the contractual allowance. The contractual allowance is the difference between the covered charges and the benefit plan amount. Revenue is recognized in the period pharmaceutical medications are shipped or at the time consultant pharmacist services are rendered.

Laws and regulations governing the government programs and contracts are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. For each operating segment, expenses are subject to examination by agencies administering the contracts and services. We believe that adequate provisions have been made for potential adjustments arising from such examinations. There were no material changes in the application of our revenue recognition policies during the year.

Results of Operations

	Year Ended Dec-31, 2013	Year Ended Dec-31, 2012	Year Ended Dec-31, 2011
		(Dollars In thousands)	
Revenues:			
Residential Services	$ 886,262	$ 851,279	$ 822,705
ResCare HomeCare	365,919	336,975	320,477
Education and Training Services	133,283	150,647	154,347
Workforce Services [(1)]	161,904	195,956	218,886
Pharmacy Services	69,265	64,252	62,920
Consolidated	$ 1,616,633	$ 1,599,109	$ 1,579,335
Operating income(loss):			
Residential Services	$ 111,069	$ 117,510	$ 101,694
ResCare HomeCare	28,433	23,852	23,649
Education and Training Services	10,763	11,915	13,075
Workforce Services [(1)]	17,377	12,117	18,352
Pharmacy Services	6,379	5,280	3,145
Corporate [(2)]	(70,298)	(61,515)	(56,015)
Consolidated [(2)]	$ 103,723	109,159	$ 103,900
Operating margin:			
Residential Services	12.5%	13.8%	12.4%
ResCare HomeCare	7.8%	7.1%	7.4%
Education and Training Services	8.1%	7.9%	8.5%
Workforce Services [(1)]	10.7%	6.2%	8.4%
Pharmacy Services	9.2%	8.2%	5.0%
Corporate [(2)]	(4.3%)	(3.8%)	(3.5%)
Consolidated [(2)]	6.4%	6.8%	6.6%

(1) Excludes results for international operations, which were reclassified to discontinued operations for all periods presented.

(2) Represents corporate general and administrative expenses, as well as other operating (income) and expenses related to the corporate office. The pretax charges recorded in connection with various legal matters, including settlement of the *Selk* matter, increased by $8.3 million in 2013 over 2012.

Consolidated

Consolidated revenues increased $17.5 million, or 1.1% from 2012 to 2013, while 2012 increased $19.8 million, or 1.3%, over 2011. Revenues are more fully described in the segment discussions below.

Consolidated operating income decreased $5.4 million, or 5.0%, to $103.7 million in 2013 compared to $109.2 million in 2012. Operating margin decreased to 6.4% in 2013 compared to 6.8% in 2012, due primarily to higher legal costs incurred during 2013. Consolidated operating income increased $5.3 million, or 5.1%, to $109.2 million in 2012 compared to $103.9 million in 2011. Operating margin increased to 6.8% in 2012 compared to 6.6% in 2011 due primarily to effective management of labor and controllable costs..

Net interest expense decreased $2.4 million in 2013, compared to 2012 due primarily to lower average borrowings. Net interest expense decreased $6.8 million in 2012, compared to 2011 due primarily to lower interest rates as a result of the new senior secured credit facility which closed in April 2012, which was partially offset by $1.0 million of additional interest expense related to our vehicle capital leases.

Our effective income tax rates were 29.7%, 38.6% and 32.4% in 2013, 2012 and 2011, respectively. The 2012 to 2013 change in our effective rate was favorably impacted by the renewal of the jobs tax credits. Due to the retroactive application of the tax credit to January 1, 2012, our effective tax rate for 2013 reflects not only the 2013 impact, but also $3.4 million related to 2012 and prior periods. The 2011 to 2012 change in our effective rate was negatively impacted by the expiration of jobs tax credits after 2011, an increase in our reserve for uncertain tax positions and an adjustment associated with the going private transaction costs (2011).

Residential Services

Residential Services revenues in 2013 of $886.3 million increased $35.0 million, or 4.1%, over the 2012 revenues of $851.3 million due primarily to acquisition growth of $43.9, which was partially offset by $2.2 million related to one less operating day in 2013 and net revenue contraction of $6.7 million related to quality issues and lower census. Operating margin decreased to 12.5% in 2013 from 13.8% in 2012. The reduction in margin is attributable to higher costs for wages, employee benefits and insurance, and operational investments in certain markets.

Residential Services revenues in 2012 of $851.3 million increased $28.6 million, or 3.5%, over the 2011 revenues of $822.7 million due primarily to acquisition growth. Operating margin increased to 13.8% in 2012 from 12.4% in 2011 due primarily to growth and effective management of labor and controllable costs.

ResCare HomeCare

ResCare HomeCare revenues in 2013 of $365.9 million increased $28.9 million, or 8.6%, over 2012 revenues of $337.0 million. This increase was due primarily to acquisition growth of $21.9 million and organic growth of $8.1 million, which was partially offset by $1.1 million related to one less operating day in 2013. Operating margin increased from 7.1% in 2012 to 7.8% in 2013. The improvement in margin is primarily attributable to revenue growth and effective management of expenses.

ResCare HomeCare revenues in 2012 of $337.0 million increased $16.5 million, or 5.1%, over 2011 revenues of $320.5 million. This increase was due primarily to $23.8 million from acquisition related growth which was partially offset by rate cuts, service cuts and a reduction in organic business across several states. Operating margin decreased from 7.4% in 2011 to 7.1% in 2012 due primarily to rate and service cuts of $1.1 million, $1.6 million reduction in organic business across several states and $0.8 million increase in bad debt expense, which were partially offset by $2.9 million impact from acquisitions and $0.4 million in lower marketing costs.

Education and Training Services

Education and Training Services revenues decreased $17.4 million, or 11.5%, from 2012 to 2013 due primarily to Job Corps contract loss and contract spending reductions of $10.4 million and $5.7 million, respectively, as well as census and referral declines in certain states within our other businesses for $0.6 million. Operating margin remained relatively flat from 7.9% in 2012 to 8.1% in 2013.

Education and Training Services revenues decreased $3.7 million, or 2.4%, from 2011 to 2012 due primarily to Job Corps contract loss and contract spending reductions of $1.3 million and $1.2 million, respectively, as well as lower census in certain operations. Operating margin decreased from 8.5% in 2011 to 7.9% in 2012 due primarily to lower census.

Workforce Services

Workforce Services revenues decreased $34.1 million, or 17.4% from 2012 to 2013 due primarily to net contract losses , including the WeCare contract mentioned below, of $25.0 million, contract amendments of $8.6 million and a reduction in contract performance payments of $0.5 million. Operating margins increased to 10.7% in 2013 from 6.2% in 2012 due primarily to favorable net contract changes and a reduction in health insurance costs of $2.9 million.

Workforce Services revenues decreased $22.9 million, or 10.5% from 2011 to 2012 due primarily to net contract losses of $14.1 million, contract amendments of $2.4 million and contract performance issues of $6.0 million. Operating margins decreased to 6.2% in 2012 from 8.4% in 2011 due primarily to net contract losses of $3.0 million, contract performance issues of $5.2 million, which were partially offset by overhead cost reductions of $0.8 million. In February 2012, we were informed by the New York City Human Resources Administration that our WeCARE contract had been awarded to another operator through the competitive bid process. Our performance continued under a contract extension until December 2012. Annual revenues for this contract were $28 million.

Pharmacy Services

Pharmacy Services revenues in 2013 of $69.3 million increased $5.0 million, or 7.8%, over the 2012 revenues of $64.2 million due primarily to the impact of our new pharmacy in California, which was partially offset by the change from name brand drugs to generic drugs. Operating margin increased from 8.2% in 2012 to 9.2% in the same period in 2013. The improvement in margin is attributable to lower product costs due to the change from certain name brand drugs to generic drugs.

Pharmacy Services revenues in 2012 of $64.2 million increased $1.3 million, or 2.1%, over the 2011 revenues of $62.9 million due primarily to opening new facilities. Operating margin increased from 5.0% in 2011 to 8.2% in the same period in 2012. The improvement in margin is attributable to lower product costs due to the change from certain name brand drugs to generic drugs.

Corporate

Total Corporate operating expenses represent corporate general and administrative expenses, as well as other operating income and expenses. Total corporate operating expenses increased $8.8 million, or 14.3%, from 2012 to 2013 due primarily to additional pre-tax charges of $8.3 million in connection with the settlement or development of various legal matters, as well as higher insurance costs.

Total corporate operating expenses increased $5.5 million, or 9.8%, from 2011 to 2012 due primarily to increases in insurance costs of $2.6 million, share-based compensation of $1.5 million and depreciation expense of $2.9 million, which were partially offset by lower Onex transaction costs of $1.7 million.

Discontinued Operations

The discontinued operations relate to the international Workforce Services segment's closure of the operations in Germany and the Netherlands in the first quarter of 2011 and the sale of the United Kingdom operations on July 1, 2011. Total exit costs of $0.8 million were recorded in the first quarter of 2011. For the sale of the operations in the United Kingdom, we recorded a charge in other expenses of $2.2 million in the second quarter of 2011 to adjust assets and liabilities to their net realizable value. We had no net income or loss from discontinued operations in 2013 or 2012. Net income from discontinued operations was $11.2 million for 2011. The 2011 net income includes tax benefits of $19.8 million. During the third quarter of 2011, a U.S. tax election was made which changed the tax status and triggered the recognition of tax basis associated with international operations.

Financial Condition, Liquidity and Capital Resources

Total assets increased $34.3 million, or 3.3%, in 2013 over 2012. This increase was primarily related to additional goodwill and intangible assets from 2013 acquisitions.

Cash and cash equivalents were $30.0 million at December 31, 2013, compared to $50.1 million at December 31, 2012. Cash provided by operating activities for 2013 was $61.3 million compared to $80.3 million for 2012 and $72.6 million for 2011. The decrease from 2012 to 2013 was primarily due to the payment of various legal settlements during 2013.

Days revenue in net accounts receivable were 50 days at December 31, 2013, and 49 days at December 31, 2012 and December 31, 2011. Net accounts receivable at December 31, 2013 increased to $241.9 million, compared to $228.4 million at December 31, 2012 and $221.1 million at December 31, 2011. The increase in net accounts receivable from 2012 to 2013 and from 2011 to 2012 is primarily due to acquisition growth.

Our capital requirements relate primarily to our plans to expand through selective acquisitions and the development of new and expansion of existing facilities and programs, and our need for sufficient working capital for general corporate purposes. Since budgetary pressures and other forces are expected to limit increases in reimbursement rates and service levels, our ability to continue to grow at the current rate depends in large part on our acquisition activity and our success in building additional home care brands, billing excess capacity in our Residential and Education and Training Services lines and making appropriate investments in complementary lines of business. We have historically satisfied our working capital requirements, capital expenditures and scheduled debt payments from our operating cash flow and borrowing under our revolving credit facility.

Capital expenditures were $20.6 million for the year ended December 31, 2013, compared to $15.5 million for the year ended December 31, 2012. We invested $41.7 million ($39.3 million in cash, $1.1 million in seller notes and $1.3 million in settled seller obligations to company) on acquisitions in 2013. We invested $33.1 million ($30.7 million in cash and $2.4 million in seller notes) on acquisitions in 2012. For 2011, we invested $27.9 million ($23.1 million in cash and $2.1 million in seller notes and $2.7 million in settled seller obligations to company) on acquisitions.

Our financing activities for 2013 included payments of $14.7 million on long-term debt, including $13.1 million related to the new term loan (the "Term Loan A"). We also had $7.2 million of payments on capital lease obligations, which were primarily related to the vehicle capital leases disclosed in Note 12.

Our financing activities for 2012 included proceeds of $175 million related to the new term loan (the "Term Loan A") and the payoff of $172.1 million related to the old term loan (the "Term Loan B"), both of which are discussed below. During 2012, we have paid $4.0 million in debt issuance costs resulting from the new senior secured credit facility (the "Credit Agreement") we entered into on April 5, 2012. We also had $6.0 million of payments on capital leases obligations, which were primarily related to the vehicle capital leases disclosed in Note 12.

On December 22, 2010, we issued $200 million of 10.75% senior notes due January 15, 2019 in a private placement to qualified institutional buyers under the Securities Act of 1933. The 10.75% senior notes, which had an issue price of 100% of the principal amount, are unsecured obligations ranking equal to existing and future debt and are subordinate to existing and future secured debt. The 10.75% senior notes are jointly, severally, fully and unconditionally guaranteed by our domestic subsidiaries.

On April 5, 2012, we entered into a new senior secured credit facility (the “Credit Agreement”) in an aggregate principal amount of $375 million, which replaced our 2010 senior secured revolving credit facility and the senior secured term loan (the “Term Loan B”). The Credit Agreement consists of a term loan (the “Term Loan A”) in an aggregate principal amount of $175 million and a revolving credit facility (the “Revolving Facility”) in an aggregate principal amount of $200 million. The Term Loan A and the Revolving Facility each mature on April 5, 2017. The Term Loan A will amortize in an aggregate annual amount equal to a percentage of the original principal amount of the Term Loan A as follows: (i) 5% during each of the first two years after funding, (ii) 10% during the third year after funding and (iii) 15% during each of the final two years of the term. The balance of the Term Loan A is payable at maturity. Pricing for the Term Loan A will be variable, at the London Interbank Offer Rate (LIBOR) plus a spread, which is currently 275 basis points. LIBOR is defined as having no minimum rate. The spread varies between 225 and 300 basis points depending on our total leverage ratio. The proceeds of the Term Loan A were used to repay the Company’s prior Term Loan B and pay certain related fees and expenses. The proceeds of the Revolving Facility may be used for working capital and for other general corporate purposes permitted under the Credit Agreement, including certain acquisitions and investments. The Credit Agreement also provides that, upon satisfaction of certain conditions, the Company may increase the aggregate principal amount of loans outstanding thereunder by up to $175 million, subject to receipt of additional lending commitments for such loans. The loans and other obligations under the Credit Agreement are (i) guaranteed by Onex Rescare Holdings Corp. (“Holdings”) and substantially all of its subsidiaries (subject to certain exceptions and limitations) and (ii) secured by substantially all of the assets of the Company, Holdings and substantially all of its subsidiaries (subject to certain exceptions and limitations). The Credit Agreement contains various financial quarterly covenants that require us to maintain specific ratios with respect to interest coverage and leverage. The Credit Agreement also contains covenants relating to capital expenditures and Excess Cash Flows which are to be completed annually. The Excess Cash Flow calculation is defined in the Credit Agreement. A cash flow recapture can be required based on the Company’s leverage ratio and ending cash balance at year end. Any recaptured amount derived from the calculation is used to pre pay the Company’s Term Loan A. The new agreement continues to provide for the exclusion of charges incurred with the resolution of certain legal proceedings provided in Note 16 to Notes to the Condensed Consolidated Financial Statements, as well as any non-cash impairment charges, in the calculation of certain financial covenants.

We recorded a loss on extinguishment of debt of $7.1 million in the three months ended June 30, 2012 associated with termination of the 2010 senior secured revolving credit facility and the Term Loan B prepayment. Loss on extinguishment of debt consists principally of write-offs of unamortized deferred debt issuance costs and original issue discount.

Our obligations under capital leases are $20.2 million and $17.7 million as of December 31, 2013 and December 31,2012, respectively. These primarily relate to vehicle capital leases which are disclosed further in Note 12. The current portion of these lease obligations was $6.5 million and $6.0 million as of December 31, 2013 and December 31, 2012, respectively.

As of December 31, 2013, we had irrevocable standby letters of credit in the principal amount of $43.3 million issued primarily in connection with our insurance programs. As of December 31, 2013, we had $156.7 million available under the amended and restated Revolving Facility, with no outstanding balance. Outstanding balances bear interest at 2.75% over the LIBOR at our option. As of December 31, 2013, the weighted average interest rate was not applicable as there were no outstanding borrowings. Letters of credit had a borrowing rate of 2.88% as of December 31, 2013. The commitment fee on the unused balance was 0.50%. The margin over LIBOR and the commitment fee is determined quarterly based on our leverage ratio, as defined by the Revolving Facility.

Our Revolving Facility contains a total leverage ratio and an interest coverage ratio. As of December 31, 2013, the maximum leverage ratio allowed under the facility was 4.50. That maximum allowable leverage steps down to 4.25 at March 31, 2014, to 4.00 at September 30, 2015 and to 3.75 at March 31, 2016 and the end of each fiscal quarter thereafter. As of December 31, 2013, the minimum interest coverage ratio allowed under the facility was 2.25. That minimum allowable interest coverage steps up to 2.5 at March 31, 2014, to 2.75 at September 30, 2015 and to 3.00 at December 31, 2016 and the end of each fiscal quarter thereafter. As of December 31, 2013, our leverage ratio was 2.3 and our interest coverage ratio was 5.1. We believe we will continue to be in compliance with our debt covenants over the next twelve months. Our ability to achieve the thresholds provided for in the financial covenants largely depends upon the maintenance of continued profitability and/or reductions of amounts borrowed under the facility, and continued cash collections.

Operating funding sources for 2013 were approximately 68% through Medicaid reimbursement, 7% from the DOL and 25% from other payors. For 2012 and 2011, the funding sources were approximately 66%, 8% and 26%, respectively. We believe our sources of funds through operations and available through our credit facility will be sufficient to meet our working capital, planned capital expenditure and scheduled debt repayment requirements for the next twelve months.

As described in Item 3. Legal Proceedings on Page 31 of this report, we settled the *Selk* litigation in the third quarter of 2013 and paid the settlement amount in November 2013.

Contractual Obligations and Commitments

Information concerning our contractual obligations and commercial commitments follows (in thousands):

Contractual Obligations	Payments Due by Period Twelve Months Ending December 31,				
	Total	2014	2015-2016	2017-2018	2019 and Thereafter
Long-term Debt	$ 359,797	$ 14,291	$ 49,183	$ 96,323	$ 200,000
Capital Lease Obligations	20,240	6,516	9,530	4,123	71
Operating Leases	209,292	66,445	90,652	39,355	12,840
Fixed interest payments on Long-term Debt and Capital Lease Obligations(1)	110,473	21,769	43,483	43,429	1,792
Total Contractual Obligations(2)	$ 699,802	$ 109,021	$ 192,848	$ 183,230	$ 214,703

(1) Excludes any interest payments on our variable rate debt.

(2) This amount excludes $1.7 million of unrecognized tax benefits, as we are unable to reasonably estimate the timing of these cash flows.

Other Commercial Commitments	Total Amounts Committed	Amount of Commitments Expiring per Period Twelve Months Ending December 31,			
		2014	2015-2016	2017-2018	2019 and Thereafter
Standby Letters-of-Credit	$ 43,342	$ 43,342	—	—	—
Surety Bonds	$ 3,090	$ 3,039	$ 43	$ 8	$ —

We had no significant off-balance sheet transactions or interests in 2013.

New Accounting Pronouncements Not Yet Adopted

See Note 1 to the Notes to Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The market risk inherent in our financial instruments and positions represents the potential loss arising from adverse changes in interest rates. While we are exposed to changes in interest rates as a result of any outstanding variable rate debt, we do not currently utilize any derivative financial instruments related to our interest rate. Our senior secured credit facility, which has an interest rate based on margins over LIBOR or prime, tiered based upon leverage calculations, had no outstanding balance as of December 31, 2013 and 2012.

Item 8. Financial Statements and Supplementary Data

Refer to pages F-1 through F-34.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

ResCare's management, under the supervision and with the participation of the Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2013. Based on that evaluation, the CEO and CFO concluded that ResCare's disclosure controls and procedures are effective in timely making known to them material information required to be disclosed in the reports filed or submitted under the Securities Exchange Act. There were no changes in ResCare's internal control over financial reporting during the fourth quarter of 2013 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

Limitations on the Effectiveness of Controls

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, that breakdowns can occur because of simple errors or mistakes, and that controls can be circumvented by the acts of individuals or groups. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, 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. Based on our evaluation under the framework in *Internal Control – Integrated Framework (1992)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Set forth below is information regarding the directors and executive officers of Res-Care, Inc.

Name	Age	Position
James H. Bloem	63	Chairman of the Board
David L. Braddock	69	Director
William E. Brock	83	Director
Steven B. Epstein	70	Director
Robert E. Hallagan	70	Director
Olivia F. Kirtley	63	Director
Robert M. Le Blanc	47	Director
Ralph G. Gronefeld, Jr.	55	Director, President and Chief Executive Officer
Patrick G. Kelley	49	Chief Operating Officer
D. Ross Davison	52	Chief Financial Officer
Roderick D. Purdy	57	Chief Human Resources Officer
Steven S. Reed	52	Chief Legal Officer and Secretary

James H. Bloem has served as a director since October 2007 and as Chairman of the Board since March 2011. Mr. Bloem retired as Chief Financial Officer and Senior Vice President of Humana Inc. on December 31, 2013 after serving in that position since February 2001. He remains an advisor to Humana. Before joining Humana, Mr. Bloem served as a senior executive with Perrigo Company, a manufacturer of over-the-counter pharmaceuticals, personal care and nutritional products, and with Herman Miller, Inc., a manufacturer of office furniture and furniture systems. An attorney and certified public accountant, Mr. Bloem also is a director of Actavis, Plc., an Ireland-based pharmaceutical company. As the retired chief financial officer of a Fortune 100 company in the healthcare industry, Mr. Bloem provides a hands-on management perspective for the board and the audit committee, and is a resource for our senior officers.

Dr. David L. Braddock has served as a director since 2004. He is Senior Associate Vice President of the University of Colorado's four campus system and Executive Director of the Coleman Institute for Cognitive Disabilities. He reports directly to the President of the University. The Coleman Institute's mission is to catalyze and integrate advances in science, engineering and technology to promote the quality of life and independent living of people with cognitive disabilities. As a faculty member, he holds the Coleman-Turner Endowed Chair in Cognitive Disability in the CU School of Medicine’s Department of Psychiatry, and he maintains an active nationwide research program through projects such as the "State of the States in Developmental Disabilities," a federally funded research, dissemination and technical assistance effort supported continuously by the federal government for 35 years. He is a member of the boards of Special Olympics International and the Coleman Colorado Foundation, and is the former President of the American Association on Intellectual and Developmental Disabilities. A preeminent expert in the field of developmental disabilities, Dr. Braddock’s knowledge of current best practices in our industry is a valuable resource for establishing our program objectives and compliance policies.

William E. Brock has served as a director since 2006. He is chairman of The Brock Offices, a firm specializing in international trade, investment and human resources which he founded in 1988. From 1985 to 1987, Mr. Brock served as the U.S. Secretary of Labor, and from 1981 to 1985, as the U.S. Trade Representative. He served as Chairman of the Republican National Committee from 1977 to 1981 and previously as a Member of the U.S. House of Representatives from 1963 to 1971 and as U.S. Senator for the State of Tennessee from 1971 to 1977. Mr. Brock serves as a Counselor and Trustee of the Center for Strategic and International Studies, and as a director of On Assignment, Inc. and Strayer Education, Inc. In addition to his broad experience as a federal legislator, cabinet secretary and international trade official, Senator Brock has been a sponsor of and advocate for national workforce training programs.

Steven B. Epstein was appointed to the board of directors in March 2011. Mr. Epstein is the founder and senior healthcare partner of the law firm of Epstein Becker & Green, P.C., Washington D.C., where he has specialized in the practice of health care law for more than 40 years and serves as a legal advisor to healthcare entities throughout the U.S. The board believes

Mr. Epstein's experience in and knowledge of healthcare will be valuable in overseeing a business that currently derives more than 60% of its revenues from Medicaid. Mr. Epstein also serves as a director of Accumen, Catamaran Corporation, Restorix, Discovery Health (and subsidiaries), Haights Cross Communications, MedExpress, National Compliance Solutions, Inc., Solis Women's Health, Street Law, Inc. and OrthoSensor, Inc.. He serves as an advisor to several private equity firms. In addition, he is chairman of the Columbia Law School Board of Visitors.

Ralph G. Gronefeld, Jr., a certified public accountant, has been ResCare's President and Chief Executive Officer since June 2006, and a director since November 2006. From 2002 through 2007, Mr. Gronefeld served as President of the Community Services Group after serving as Executive Vice President-Operations of that division from 2001 and as ResCare's Chief Financial Officer from 1998 until 2001. He previously served as Executive Vice President of Operations for the Division for Youth Services and Vice President responsible for ResCare's Alternative Youth Services and Youthtrack subsidiaries. Mr. Gronefeld joined ResCare in June 1995 as Director of Internal Audit. From July 1995 through March 1996, he served as interim senior administrator for ResCare's west region in its Division for Persons with Disabilities. Mr. Gronefeld is a member of the United States Department of Labor Advisory Committee on Job Corps, a director and member of the Executive Committee of the Health Enterprises Network, and a member of the Bellarmine University Rubel School of Business Executive Advisory Board.

Robert E. Hallagan has served as a director since 2004. Mr. Hallagan is vice chairman of board leadership services for Korn/Ferry International, a provider of executive human capital solutions, ranging from corporate governance and CEO recruitment to executive search, middle-management recruitment and Leadership Development Solutions (LDS). From 1997 to 2007, he served as Vice Chairman of Heidrick & Struggles, an executive search firm with over 1,300 search professionals in 57 offices. From 1991 to 1997 he served as the firm's President and Chief Executive Officer. Mr. Hallagan is co-founder and former Chairman of the Center For Board Leadership, a joint venture with the National Association of Corporate Directors. With his background with national executive search firms and board leadership organizations, Mr. Hallagan brings expertise in human resources, executive compensation policy and corporate governance.

Olivia F. Kirtley, a certified public accountant, has served as a director since 1998. Ms. Kirtley has served as a business consultant on strategic and corporate governance issues during the past five years. Ms. Kirtley brings extensive experience, expertise and insight to our Board in the areas of audit and corporate governance. In addition to her expertise in audit and tax issues developed in part as a senior manager at Ernst & Whinney (predecessor to Ernst & Young LLP), Ms. Kirtley also brings corporate management experience from her tenure at Vermont American Corporation, including the positions of Treasurer, Vice President and Chief Financial Officer at that company. She has served as Chair of the American Institute of Certified Public Accountants, Chair of the AICPA Board of Examiners, and as a current U.S. member of the Board and Deputy President of the International Federation of Accountants. Ms. Kirtley has served as a director of U.S. Bancorp since 2006 (including as the chair of its audit committee and a member of its governance, compensation and executive committees) and as a director of Papa Johns International, Inc., an international pizza company, since 2003 (including as the chair of its audit committee and a member of its compensation committee).

Robert M. Le Blanc has served as a director since 2004. He is a Senior Managing Director of Onex Corporation and has led all of Onex' acquisitions in the healthcare sector, including the acquisitions and subsequent realizations of Emergency Medical Services Corporation, Center for Diagnostic Imaging and Magellan Health Services; and the acquisitions of Carestream Health, Skilled Healthcare Group and ResCare. He also led the acquisitions of USI Insurance Services and The Warranty Group. Mr. Le Blanc is the Lead Director of Magellan Health Services, a provider of behavioral healthcare services. He also serves as a director of Skilled Healthcare Group, The Warranty Group, Carestream Health, USI Insurance Services, Cypress Insurance, First Berkshire Hathaway Life and Connecticut Children's Medical Center. Before joining Onex in 1999, Mr. Le Blanc worked for Berkshire Hathaway for seven years and for five years prior to that he worked with General Electric in a variety of positions including corporate finance and corporate strategy. With his experience in governance for a wide range of businesses, Mr. Le Blanc has brought knowledge of developments in management practices and corporate governance that can be applied to improve our organization, as well as expertise in evaluating acquisition prospects.

Executive Officers of ResCare

The executive officers of ResCare are Ralph G. Gronefeld, Jr., whose experience is described above, Patrick G. Kelley, D. Ross Davison, Roderick D. Purdy and Steven S. Reed.

Mr. Kelley has served as Chief Operating Officer since June 2009. He rejoined ResCare in January 2008 as President of the Community Services Group, which is ResCare's largest operating group. Previously, Mr. Kelley was employed by ResCare for more than 19 years, previously serving as Senior Vice President from 2003 to 2006, Vice President of Operations of ResCare's Central Region from 1999 to 2003, and as regional vice president for 12 states. From April 2006 to December 2007 he served as President of a division of The Rawlings Company, an insurance claims recovery company.

Mr. Davison was named Chief Financial Officer on March 31, 2013, after serving as interim Chief Financial Officer since October 2012. Mr. Davison served as ResCare's Treasurer from 2002 until 2007 and rejoined the Company in 2009. He served as chief financial officer of Great Escape Theatres, a movie theatre operator, from 2007 to 2008, and of Blackhawk Development, a commercial real estate firm, from 2008 until 2009. Before first joining ResCare in 2002, Mr. Davison served as chief financial officer of PJ America, a restaurant franchisee from 1996 to 2002, and spent 11 years with Arthur Andersen LLP. Mr. Davison is a director of Big Brothers, Big Sisters of Louisville, Kentucky.

Mr. Purdy joined ResCare as Chief Human Resources Officer in September 2011. He previously served as Vice President of Human Resources at Kimberly-Clark from 2007 until 2011. Mr. Purdy began his career at General Electric in 1982, where he served for 12 years. He subsequently held human resources positions of increasing responsibility at Aetna, Prudential Healthcare, Pfizer/Warner, Cadbury Schweppes and Kimberly-Clark. Mr. Purdy is a director of the Urban League of Louisville, Kentucky.

Mr. Reed was named ResCare's Chief Legal Officer on April 15, 2013. Before his appointment, Mr. Reed practiced law at Reed Wicker, LLC, Louisville, Kentucky, where he was Managing Member. Mr. Reed was United States Attorney for the Western District of Kentucky from 1999 to 2001 and an Assistant U.S. Attorney for the same district from 1993 to 1999. Mr. Reed served on the Board of Trustees of the University of Kentucky from 1994 to 2006, including as Chair. He is a director of Baptist Health of Kentucky, a non-profit network of healthcare services. Mr. Reed was a ResCare director from 2003 until his appointment as Chief Legal Officer.

Board Committees

The five standing committees of ResCare's board of directors are its audit committee, executive compensation committee, corporate governance and nominating committee, mergers and acquisitions committee, and ethics and compliance committee. Copies of the charters of each of the standing committees of our board of directors are available upon request.

Audit committee. The audit committee currently consists of Ms. Kirtley, Mr. Hallagan, Sen. Brock and Mr. Bloem, and it is chaired by Ms. Kirtley. The audit committee has responsibility for, among other things, the quality of our financial reporting and internal control processes, our independent auditor's performance and qualification and the performance or our internal audit function. ResCare's board of directors has determined that (1) all of the members of the audit committee are "independent" within the meaning of the rules of the NASDAQ Stock Market and the rules of the Securities and Exchange Commission under the Sarbanes-Oxley Act and (2) all qualify as "audit committee financial experts" within the meaning of the SEC rules.

Executive compensation committee. The compensation committee currently consists of Messrs. Hallagan, Le Blanc and Brock, and it is chaired by Mr. Hallagan. The compensation committee has responsibility for, among other things, review and approval of executive compensation, review and approval of equity compensation and review and approval of ResCare's compensation philosophy, strategy and principles.

Corporate governance and nominating committee. The corporate governance committee currently consists of Ms. Kirtley and Messrs. Epstein, Le Blanc and Braddock, and it is chaired by Mr. Epstein. The corporate governance committee has responsibility for, among other things, review of corporate governance guidelines and oversight of the evaluation of the effectiveness of ResCare's board of directors and its committees.

Mergers and acquisitions committee. The mergers and acquisitions committee currently consists of Messrs. Le Blanc, Brock and Gronefeld. The mergers and acquisitions committee assists management in developing and implementing a strategic plan for ResCare's acquisitions, strategic relationships, investments and growth activities and assists the board in reviewing, evaluating and approving such activities.

Ethics and compliance committee. The ethics and compliance committee assists the board of directors in monitoring the effectiveness of ResCare's corporate compliance program. Dr. Braddock and Messrs. Hallagan and Epstein currently serve as members of the ethics and compliance committee, which Dr. Braddock chairs.

Section 16(a) Beneficial Ownership Reporting Compliance

Not applicable.

Code of Ethics

We have adopted a code of ethics applicable to directors, officers and employees, which is included with our Code of Conduct and is posted on our website at http://www.rescare.com. If we amend or waive any of the provisions of the Code of Conduct applicable to our directors, executive officers or senior financial officers, we intend to disclose the amendment or waiver on our website. We will provide to any person without charge, upon request, a copy of the Code of Conduct. You can request a copy by contacting our communications department, 9901 Linn Station Road, Louisville, Kentucky, 40223, (telephone) 502-394-2100 or communications@rescare.com.

Nomination Procedures

Since becoming a wholly owned subsidiary of ResCare Holdings, ResCare no longer maintains procedures for shareholders to recommend nominees to the board of directors.

Item 11. Executive Compensation

Compensation Discussion and Analysis

Compensation Program Objectives

ResCare's business goal is to provide quality health and human services to people with special needs, while at the same time enhancing long-term shareholder value. We believe that the compensation of our executives should reflect the value the company attributes to their skills, experience, loyalty to the company and adherence to its mission. The compensation should serve as an incentive for the executives to remain with the company and to strive to achieve goals and objectives that contribute to the quality of services we provide to the people we serve and to long-term shareholder value in the company. We also believe that our executive compensation program should be mindful of ResCare's mission, the people we serve and our mission-driven employees.

ResCare is unique in the human services industry because of the scope and variety of the services it provides. ResCare serves people with intellectual, cognitive, developmental or physical disabilities, mental illness, acquired brain injury, youth with emotional or behavioral challenges, adults with economic and other barriers to productive employment, and the elderly who need support services in order to remain in their own homes as long as possible. ResCare employees, particularly its direct care employees, work in industries that rely for the most part on government funding, which does not compensate such important work highly. Our leadership team includes executives who have been with the Company for many years, are knowledgeable about the business, and strongly support its mission. We have also recruited executives who offer valuable experience from outside the human services industry.

ResCare's executive compensation program has been designed to support the objectives of promoting high quality service and strong operating and financial performance, while also taking into consideration ResCare's mission and its employees and constituents. Specifically, the intent and objectives of our compensation program are to:

- provide incentives and rewards that are based on individual, group and company-wide performance in achieving quality of service and financial goals as identified in ResCare's strategic business plan;

- provide sufficient value to attract and retain talented employees on a long-term basis; and
- link the interests of executives with the long-term performance of the Company by making equity-based awards a significant element of executive compensation.

Historically, we have entered into employment contracts with executive officers as well as other key employees as part of our effort to recruit and retain high quality employees. Our employment contracts for the named executive officers are individually negotiated and approved by the executive compensation committee and provide the framework for each executive's compensation package. During 2011, we entered into new employment agreements with our executive officers to reflect the acquisition of ResCare by an affiliate of Onex Partners III LP at the end of 2010. We may revisit our practice of entering into employment agreements with our senior executives in connection with a recently completed organization-wide evaluation of our compensation, benefits, programs, practices and policies, described below.

The talent and compensation committee provides overall guidance for our executive compensation policies and determines the amounts and elements of the compensation packages for executives. The committee generally solicits recommendations from our chief executive officer with respect to establishing compensation policies for the organization, establishing company and individual performance goals, and making compensation decisions for executive officers other than himself. The committee reviews the total package including all forms of compensation and benefits and the potential total future value of the compensation decisions made.

In determining the compensation for our executives, we take into account several considerations that relate to the specific nature of our business:

- The complexity of our business and its highly regulated nature. ResCare currently operates in 44 states, Washington DC, Puerto Rico and Canada. Our Job Corps operations are subject to United States Department of Labor requirements and federal government contract regulation, our workforce development operations are subject to both federal and local regulations and criteria, and the residential services group operates in multiple states, each of which has its own reimbursement system and regulations. The people ResCare serves are some of the most vulnerable and regulations concerning their care are extensive. States operate on annual budgets that affect the reimbursement environment in which ResCare operates. ResCare's executives must understand the complexities of the various regulatory systems and be able to manage operations within them.

- The special needs of the people we serve. As described above, ResCare serves people with many different special needs including those with developmental disabilities, those from disadvantaged backgrounds, the elderly, and people seeking assistance overcoming barriers to employment. These are vulnerable populations who are served by our dedicated employees, and we do not want our executives' compensation to be excessively disproportionate to the compensation of people in our operations, especially those who provide the direct services to the people we serve.
- The experience, skills and commitment of our leadership team. Many of our executives have been with the Company for significant lengths of time, including both periods of economic growth and recessions, and have acquired an understanding of its operations and the complexities of its business. Their skills and experience contributed greatly to the past growth of our Company, and they have demonstrated their commitment to the company during more difficult times. We want to retain their skills to continue the momentum and reward their loyalty and service.

Our compensation packages for senior executives provide that performance-based cash compensation can be earned only if the company attains a minimum net income threshold. Giving priority to the achievement of company performance measures encourages a collaborative focus on corporate goals and performance.

The individual performance goals for cash incentive compensation reward quality of service, compliance and effective risk management as well as financial performance. A portion of the cash incentive compensation that our CEO and business unit leaders can earn depends on the achievement of quality assurance goals under our "Best in Class" performance benchmarking system. Similarly, the performance goals for our financial and risk management executives include effectiveness of internal control, compliance assessment, and addressing identified risks. We also include the achievement of quality, compliance and risk management measures at the regional and local levels in the incentive compensation program for our regional managers.

Our objective is to have market competitive compensation programs that enable ResCare to attract and maintain talented executives and employees. In 2012, management engaged Mercer, with the concurrence of the Talent and Compensation

Committee, to conduct an organization-wide analysis of our compensation, benefits, programs, practices and policies for use in future compensation decisions, including executive officer compensation. In 2013, we completed a comprehensive organization-wide evaluation of ResCare's compensation, benefits, programs, practices and policies, using the findings of the Mercer study. Based on our evaluation, we modified some elements of our compensation programs and policies for employees other than executive officers. Except for its 2012 analysis, neither Mercer, Inc. nor any of its affiliates has provided any services to ResCare or ResCare's affiliates, either prior to, or since we engaged Mercer, Inc.

Components of Executive Compensation

The three primary components of ResCare's executive compensation are base salary, annual cash incentive and long-term equity-based incentive compensation. Following ResCare's acquisition by an affiliate of Onex Partners III LP, our equity-based compensation has been in the form of options to purchase stock in Onex Rescare Holdings Corp. ("ResCare Holdings"), the entity that owns 100% of the shares of ResCare. The employment contracts also provide for additional benefits that do not involve material cost but which we also describe elsewhere in this annual report. ResCare does not provide material perquisites to its executive officers.

For attraction and retention purposes, the employment agreements for our executives provide for approximately equal amounts of base salary and cash incentive compensation. The incentive compensation can be earned only if the Company attains 90% of a budgeted level of earnings before interest, income taxes, depreciation and amortization ("EBITDA"), and the executive attains performance goals related to these individual responsibilities. The budgeted level of EBITDA is generally set at 10% higher than the Company's EBITDA for the prior fiscal year so that the thresholds to earn incentive compensation are challenging to achieve. The equity-based component consists of grants of stock options that can be exercised only if milestones in equity value per share are achieved. These awards are described in greater detail below. The compensation under these packages increases reasonably and rationally rather than quickly and in large intervals; salary increases are gradual, incentive compensation is based on annually established goals, and stock options can be exercised only if the Company achieves performance goals.

For 2013, the mix of compensation earned by each named executive officer was as follows:

Executive	Base Salary as % of Total Compensation[1]	Annual Cash Incentives as % of Total Compensation	Long Term Equity as % of Total Compensation[2]
Ralph G. Gronefeld, Jr.	81.5%	18.5%	0.0%
Patrick G. Kelley	87.0%	13.0%	0.0%
D. Ross Davison [3]	17.6%	8.0%	74.4%
Roderick D. Purdy	51.3%	9.2%	39.5%
Steven S. Reed [4]	69.1%	30.9%	0.0%

(1) As used in this chart, "Total Compensation" includes the sum of base salary, actual annual cash incentive, and grant-date value of equity awards.

(2) Long-term equity in the form of stock options was granted to Mr. Davison and Mr. Purdy in 2013. See "*Equity-based Incentive Compensation*," below.

(3) Mr. Davison assumed the position of Interim Chief Financial Officer on October 9, 2012. He was subsequently appointed Chief Financial Officer effective March 31, 2013.

(4) On April 15, 2013, the Company appointed Mr. Reed as Chief Legal Officer and Secretary. For purposes of this chart, director fees paid to Mr. Reed before his appointment are not included in Total Compensation.

Base Salaries

The base salaries of ResCare's named executive officers were established through the negotiation of employment agreements with them. Base salaries are intended to be market competitive, not market leaders, and take into account the considerations discussed above. Salaries are based on the responsibilities of senior officers to head significant business units or functions and the objectives of our compensation program discussed elsewhere in this section.

At the end of 2013, the base annual salaries for our named executive officers were as follows:

• Ralph G. Gronefeld, Jr.	$ 440,000
• Patrick G. Kelley	400,000
• D. Ross Davison	300,000
• Roderick D. Purdy	250,000
• Steven S. Reed	250,000

In 2011, when we completed new employment agreements with our named executives for terms through the end of 2015, our executive compensation committee did not conduct an analysis of peer group performance or executive compensation. The employment agreements we entered into with Mr. Davison and Mr. Reed in 2013 provided for compensation comparable to their predecessors in the positions of Chief Financial Officer and Chief Legal Officer. As described above, Mercer conducted an organization-wide analysis of our compensation, benefits, programs, practices and policies in 2012 that may be considered in future decisions regarding executive officer compensation.

Non-Equity Incentive Compensation

Our non-equity or cash incentive compensation is designed to support the Company's strategic business plan and to reward achievement of individual, group, and company-wide quality of service, operational and financial goals. The Talent and Compensation Committee annually establishes financial and non-financial performance measures with threshold and maximum performance targets for our named executive officers, in consultation with the CEO.

In 2011, our non-equity incentive compensation plan was modified to reflect our status as a private company. Payment of cash incentive awards now depends upon the company achieving a budgeted level of EBITDA instead of net income as it had been before 2011. The board of directors and management intend to continue to set the financial performance target at a level that is realistically achievable but challenging for the Company to attain.

Currently our named executive officers are eligible to earn cash incentive compensation equal to up to 100% of salary. Seventy percent of the cash incentive compensation is based upon the Company's achievement of 100% of the EBITDA target to encourage a collaborative focus on corporate goals and performance. Thirty percent is based upon the achievement of individual performance goals related to business units or functions for which the named executive officer has direct responsibility. The Company must attain 90% of the EBITDA target before the named executive officers become eligible to receive cash incentive awards for achieving individual performance goals established annually by the Talent and Compensation Committee.

The Company' EBITDA target for 2013 was $158.3 million, which was not attained. However, EBITDA for the year exceeded 90% of the target amount, the threshold for the named executive officers to be eligible for cash incentive awards based on individual performance under the non-equity incentive cash plan. In addition, the Talent and Compensation Committee also awarded discretionary incentive bonuses to Mr. Gronefeld for progress made in organic growth and talent management, to Mr. Kelley for improved performance in Workforce Services and identification of organic growth opportunities in Residential Services, and to Mr. Reed for his successful transition into the Chief Legal Officer role. The individual performance goals under the non-equity incentive cash plan and the discretionary bonus award are described in greater detail under *Employment Agreements*, below.

Our cash incentive plan also allows for longer-term cash incentive awards for officers other than senior management. Eligible officers can earn a “super bonus” equal to from 10% to 25% of salary (depending on position) if the Company attains an EBITDA target for 2013. Members of senior management who received awards of Extra Stock Options under our equity-based incentive compensation program (described below) are not eligible for the “super bonus” incentive.

Equity-based Incentive Compensation

Our equity-based compensation program is intended to allow members of ResCare’s management to share any gains in the value of equity in ResCare Holdings. The Onex Rescare Holdings Corp. Stock Option Plan provides for awards of options to purchase stock of ResCare Holdings equal to 8% of the outstanding equity of ResCare Holdings (or approximately 7.5% on a fully diluted basis). The option plan authorizes two different pools of stock options, each having separate vesting and exercise requirements. Primary Stock Options equal 6.5% of the outstanding equity, and Extra Stock Options equal 1.5% of the outstanding equity. Except for a percentage of the reserved for future grants to new employees, all of the authorized options were issued to members of ResCare’s management and its directors on April 1, 2011. In general, the vesting and exercise requirements of the two classes of options allow option recipients to realize an economic return on their options only if the value of ResCare Holdings appreciates significantly.

Primary Stock Options vest 20% per year from December 22, 2010 (the date of the Onex acquisition) for the initial grants in April 2011 and from the grant date for subsequent grants. The exercise price is $5,000 per share for the initial grants, based on the valuation of ResCare Holdings on December 22, 2010. For subsequent grants, the exercise price will be the valuation of ResCare Holdings on the grant date. Primary Stock Options may be exercised only if the growth in equity value per share at the time of exercise exceeds a 10% annual compound annual growth rate from the date of the Onex acquisition. In determining whether the growth milestone has been achieved, the equity value per share of ResCare Holdings is valued at (i) the share price in a public market following an initial public offering; (ii) the valuation implied by an offering to buy ResCare Holdings, or (iii) 5.5 times EBITDA for the trailing twelve month period.

Extra Stock Options vest immediately upon grant, but can be exercised only if the equity value per share exceeds three times the equity value per share on the date of the Onex acquisition. The valuation method is the same as that for Primary Stock Options.

In April 2011, Messrs. Gronefeld and Kelley received initial grants of both Primary Stock Options and Extra Stock Options. At that time, Mr. Davison and Mr. Reed received initial grants of Primary Stock Options, Mr. Davison as a senior financial officer and Mr. Reed as an independent director. Mr. Purdy received grants of both Primary Stock Options and Extra Stock Options on March 15, 2012**,** following the commencement of his employment with ResCare in September 2011. He received additional Primary Stock Options and Extra Stock Options in 2013 to reflect his designation as an executive officer in 2012. Mr. Davison received grants of both Primary Stock Options and Extra Stock Options on March 31, 2013**,** upon his appointment as Chief Financial Officer.

Section 162(m) of the Internal Revenue Code as amended provides generally that the compensation paid by publicly held companies to the chief executive officer and the four most highly paid senior executive officers (other than the chief executive officer) in excess of $1 million per executive will be deductible by ResCare only if paid pursuant to a qualifying performance-based compensation plan approved by ResCare shareholders. The Onex Rescare Holdings Corp. Stock Option Plan includes performance criteria intended to have Primary Stock Options and Extra Stock Options qualify as performance-based compensation for purposes of Section 162(m).

Change of Control and Severance Provisions

The employment agreements with our executives generally provide that if an executive’s employment is terminated without cause, or if the executive’s employment agreement is not extended by the Company, then the executive’s base salary will continue for a period of twelve months, and the executive will receive any earned but unpaid incentive bonus for any calendar year ending before or at termination. The employment agreements for Mr. Gronefeld and Mr. Kelley entitle them to receive twice their base salary in monthly installments during the period between the date of termination and March 15 of the following year. Mr. Gronefeld and Mr. Kelley are also entitled to receive lump sum payments if terminated without cause. The lump sum payment is equal to up to three times base salary in the case of Mr. Gronefeld, and equal to two times base salary in the case of Mr. Kelley. Mr. Gronefeld is also entitled to receive such a payment if he terminates his employment for good reason within two years after a change of control occurs. ResCare has employment agreements with many of its management employees throughout the Company, and all the agreements contain a severance provision under which the employee receives base salary from three to six months after termination. We believe it is appropriate to include these protections for our executives to further our objectives of retaining key executives, and we concluded that the severance provisions were reasonable to help assure the executives that they would be treated fairly in the event of a change of control. Particularly in the case of a change of control, the executive officers could be at risk if a new owner would make significant changes in the direction of the Company to which these executives are committed, toward which they have been working and on which their performance is based. We believe these severance provisions are not excessive and are fair to our executives. The change of control and severance provisions are described more fully in the discussion of employment agreements following the Summary Compensation Table and are shown in the table entitled "Potential Payments upon Termination or Change of Control," below.

We do not provide our executives with tax gross-up protection if the benefits provided upon or following a change of control result in excise taxes under Section 280G of the Internal Revenue Code.

Talent and Compensation Committee Report

The executive compensation committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussion, the committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

Talent and Compensation Committee
Robert E. Hallagan, Chair
William E. Brock
Robert M. Le Blanc

Summary Compensation Table

The following table provides information concerning compensation awarded to or earned during the years ended December 31, 2013, 2012 and 2011, by our named executive officers.

Name and Principal Position (a)	Year (b)	Salary (c)	Bonus [(1)] (d)	Option Awards [(2)] (f)	Non-Equity Incentive Plan Compensation [(3)] (g)	All Other Compensation (i)	Total (j)
Ralph G. Gronefeld, Jr.	2013	$ 441,018	$ 100,000	$ —	$ —	$ —	$ 541,018
President and Chief	2012	441,018	—	—	233,700	—	674,718
Executive Officer	2011	441,018	—	2,507,812	413,600	—	3,362,430
Patrick G. Kelley	2013	400,016	60,000	—	—	—	460,016
Chief Operating Officer	2012	400,016	—	—	212,000	—	612,016
	2011	400,016	—	1,696,092	376,000	—	2,472,108
D. Ross Davison	2013	263,602	75,000	1,113,542	45,000	—	1,497,144
Chief Financial Officer [(4)]	2012	175,000	—	—	29,531	—	204,531
Roderick Purdy	2013	250,011	—	192,146	45,000	—	487,157
Chief Human Resources Officer [(5)]	2012	250,011	—	457,750	132,500	—	840,261
Steven S. Reed *Chief Legal Officer and Corporate Secretary* [(6)]	2013	167,636	37,500	—	37,500	22,500	265,136
David S. Waskey	2013	250,011	—	—	—	31,731	281,742
Former General Counsel	2012	250,011	—	—	117,500	—	367,511
and Chief Compliance Officer [(7)]	2011	225,011	—	517,784	220,000	—	987,795

(1) The Talent and Compensation Committee awarded discretionary cash bonuses to Messrs. Gronefeld, Kelley and Reed for 2013. See Employment Agreements – Non-Equity Incentive Compensation, below.

(2) The amounts in column (f) show the grant date fair value of the one-time grant of options to each named executive pursuant to the Onex Rescare Holdings Corp. Stock Option Plan, computed in accordance with FASB ASC Topic 718.

(3) Non-equity incentive compensation paid to the executive officers is based on attainment of performance goals for the fiscal year approved by the executive compensation committee of the board of directors and as otherwise provided in their employment agreements.

(4) The Company paid Mr. Davison a one-time bonus of $75,000 in 2013 upon successfully completing his assigned duties as Interim Chief Financial Officer, including an audit of the Company’s 2012 financial statements without significant adjustments or deficiencies and the annual budgeting process.

(5) Mr. Purdy joined the Company in September 2011 and was designated as an executive officer in 2012.

(6) The amount in column (i) represents fees paid to Mr. Reed for service as an independent director through the date of his appointment as Chief Legal Officer in April 2013.

(7) The amount in column (i) represents the settlement for paid time off upon Mr. Waskey’s retirement, which was effective December 31, 2013.

Grants of Plan-Based Awards Table

The following table shows the incentive plan awards granted to our named executive officers for 2013. ResCare attained EBITDA equal to at least 90% of the EBITDA target for 2013, which is required before our executives can earn cash incentive compensation based upon the attainment of individual performance goals.

Name	Grant Date[(1)]	Estimated Future Payouts Under Non-Equity Incentive Plan Awards[(2)]		Estimated Future Payouts Under Equity Incentive Plan Awards	All Other Option Awards: Number of Shares Underlying Options (#)	Exercise Price of Option Awards ($/share)	Grant Date Fair Value of Option Awards ($)
		Threshold ($)	Target ($)	Threshold (#)			
Ralph G. Gronefeld, Jr.	—	$ 66,000	$ 440,000	—	—	$ —	$ —
Patrick G. Kelley	—	60,000	400,000	—	—	—	—
D. Ross Davison	3/31/13	45,000	300,000	285	—	6,630	1,113,542
Roderick D. Purdy	2/19/13	30,000	250,000	48	—	6,630	192,146
Steven S. Reed	—	37,500	250,000	—	—	—	—
David S. Waskey	—	—	—	—	—	—	—

(1) Cash incentive compensation is granted as of the date approved by the Talent and Compensation Committee.

(2) The amounts shown in the "Threshold" column assumes that the 90% of the Company's EBITDA target has been attained. Under the executives' employment agreements, there are no payments of non-equity incentive compensation unless the Company meets or exceeds 90% of its annual EBITDA target as established by the Talent and Compensation Committee. If the Company attains the threshold EBITDA target, the executive would receive incentive compensation only if he also attains one or more individual performance targets. The amount shown assumes the attainment of one individual target representing the smallest percentage of salary. The target payout is 100% of the executive's base salary, which is the maximum cash incentive compensation paid if all target criteria are met. Actual cash incentive compensation may range between the threshold and the target amounts. Personal performance targets are described in the discussion of the executives' employment agreements below.

Employment and Other Agreements

Employment agreements with named executive officers

ResCare has employment agreements with all of its named executive officers. The agreements are substantially similar to each other and were approved by the executive compensation committee of the board of directors. Following the acquisition of our company by an affiliate of Onex Partners III LP in the fourth quarter of 2010, we entered into new employment agreements with each of our executive officers effective January 1, 2011. We entered into employment agreements with Mr. Purdy and Mr. Reed upon the commencement of their employment, and into a new agreement with Mr. Davison upon his appointment as Chief Financial Officer.

Term. The agreements for the executives are for terms expiring on December 31, 2015. All of the agreements may be renewed for successive one-year terms at the company's option with the executive officer's consent.

Base Salary. Under their employment agreements, the base annual salaries for our named executive officers in effect at the end of 2013 were:

- $440,000 for Mr. Gronefeld;
- $400,000 for Mr. Kelley;
- $300,000 for Mr. Davison;
- $250,000 for Mr. Purdy; and
- $250,000 for Mr. Reed.

Base salaries may be adjusted from time to time for changes in the executive's responsibilities or for market conditions.

In November 2012, Mr. Davison was appointed to serve as the Company's Interim Chief Financial Officer. For assuming this additional responsibility, the Company agreed to pay Mr. Davison a one-time bonus of $75,000 in 2013 upon successfully completing assigned interim duties including an audit of the Company's 2012 financial statements without significant adjustments or deficiencies and the annual budgeting process.

Cash Incentive Compensation. Each of the executive officers is eligible to receive annual cash incentive compensation based upon the attainment of both company performance criteria and individual performance criteria. Before any executive could earn cash incentive compensation, ResCare must meet or exceed 90% of its annual EBITDA target, as determined by the board of directors. In determining actual EBITDA, the executive compensation committee may, in its sole discretion, make good faith adjustments to reflect non-recurring or unusual items, including, without limitation, to give effect on a pro forma basis to any acquisition of stock or assets by the company. The individual performance criteria reward the attainment of strategic objectives by the business unit managed by each executive. The criteria are established annually by the executive compensation committee and ResCare's management team.

Our named executive officers are eligible to earn cash incentive compensation equal to up to a 100% of salary. The named executive officers earn cash incentive compensation equal to 70% of base salary if the Company attains its EBITDA target for the year, which encourages a collaborative focus on corporate goals and performance. If the Company attains 90% of its EBITDA target for the year, the named executives become eligible to earn cash incentive compensation of up to 30% of base salary, based upon the achievement of individual performance goals related to business units or functions for which each named executive officer has direct responsibility.

The individual performance goals for 2013 for the named executive officers were as follows:

Mr. Gronefeld's goals were to (i) increase organic growth by 2% or more; and (ii) develop the Company's operational talent and leadership measured by performance reviews and improved operating results. Although Mr. Gronefeld was determined not to have achieved these goals, he was awarded a $100,000 discretionary incentive bonus based on progress made in organic growth and talent management.

Mr. Kelley's goals were to (i) implement a process to validate the accuracy of scores under the Company's "Best in Class" performance benchmarking system; and (ii) ensure achievement of organic growth targets for each business segment. Although Mr. Kelley was determined not to have achieved these goals, he was awarded a $60,000 discretionary incentive bonus based on improved performance in Workforce Services and identification of organic growth opportunities in Residential Services.

Mr. Davison's goals were to (i) execute the transition to the chief financial officer function and re-align other departmental functions to improve quality and reduce costs; and (ii) assist in ramping up the acquisition program and analyzing healthcare claims history. Mr. Davison was determined to have achieved the second of these two goals, for which he earned cash incentive compensation of $45,000.

Mr. Purdy's goals were to (i) implement recommendations for company-wide modifications to the compensation structure and system; and (ii) implement the talent management program, including succession planning and improving the quality of hires. Mr. Purdy was determined to have achieved the second of these two goals, for which he earned cash incentive compensation of $45,000.

Mr. Reed's goals were to (i) successfully resolve material litigation; and (ii) develop models for reorganizing administration of the legal department, including metrics for measuring effectiveness and contribution to the organization. Mr. Reed was determined to have achieved the first of these two goals, for which he earned cash incentive compensation of $37,500. In addition, he was awarded a $37,500 discretionary incentive bonus based on a successful transition into the Chief Legal Officer role.

Mr. Waskey's was not entitled to cash incentive compensation for 2013 due to his retirement.

Termination. If Mr. Gronefeld's or Mr. Kelley's employment is terminated by ResCare without cause, or if the employment agreement expires and the company elects not to renew it, or, in the case of Mr. Gronefeld, if he terminates his employment for good reason as defined in his agreement, then the executive would be entitled to receive twice his then-current full base salary payable in equal monthly installments from the date of termination until March 15 of the calendar year following termination. Each of Messrs. Davison, Purdy and Reed would be entitled to receive his base salary for 12 months after termination of employment without cause by ResCare. Each of them would also be entitled to receive his base salary for an additional 12 months if ResCare elects not to renew his employment agreement. If any executive voluntarily terminates his employment, or elects not to renew the employment agreement at the end of its term, he will receive his salary through the date of termination. In all cases except voluntary termination, Mr. Gronefeld would also be entitled to receive any earned but unpaid incentive bonus for a calendar year ending before or at termination, plus the prorated portion any earned but unpaid incentive bonus for the current calendar year through the date of termination. In all cases except voluntary termination, the other executives would be entitled to receive any earned but unpaid incentive bonus for a calendar year ending before or at termination.

If employment is terminated because of disability, upon expiration of such executive's paid time off and emergency leave reserve, both as defined in the executives' employment agreements, each named executive officer will continue to receive base salary until the earlier of the termination of the agreement or the commencement of disability benefits under the benefit plan. In addition, if the agreement terminates because of commencement of disability benefits and the disability benefits do not equal 100% of base salary, the executive will receive the difference between base salary and the disability payment until the agreement terminates due to disability as provided in the agreement. The executive would also receive any earned but unpaid incentive bonus for a calendar year ending before termination.

If, Mr. Gronefeld's employment is terminated within two years after a change in control, either by ResCare without cause or by Mr. Gronefeld for good reason as defined in his agreement, he is entitled to receive either the unpaid amount of his then-current base salary for the balance of the term of the agreement or three times his then-current base salary, whichever is greater. In the cases of Mr. Kelley and Mr. Davison, if employment is terminated by the company without cause within two years after a change of control, each would be entitled to receive a lump sum payment equal to two times his then current base salary. Messrs. Gronefeld, Kelley and Davison are also entitled to receive any earned but unpaid incentive bonus for a calendar year ending before termination and a pro-rated incentive bonus for the current year through the date of termination.

Restrictive covenants. Each named executive officer agrees not to compete with ResCare during employment and for a stated period of time after termination of his employment: 24 months in the cases of Messrs. Gronefeld and Kelley, and 12 months in the cases of Messrs. Davison, Purdy and Reed. Each named executive officer also agrees to maintain confidentiality of ResCare's information and not to disparage ResCare or its employees.

Other provisions. The company has agreed to pay for Mr. Gronefeld the portion of reasonable and customary costs of an annual executive physical at the Mayo Clinic or other comparable facility that is not paid by health insurance.

Outstanding Equity Awards at Fiscal Year-End

The following table shows current holdings of stock options by the named executive officers.

	Option Awards[(1)]			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price ($)	Option Expiration Date
Ralph G. Gronefeld, Jr.	429	285	$ 5,000	12/22/2020
	—	95	5,000	12/22/2020
Patrick G. Kelley	285	191	5,000	12/22/2020
	—	71	5,000	12/22/2020
D. Ross Davison	15	9	5,000	12/22/2020
	—	71	6,630	3/31/2023
	—	214	6,630	3/31/2023
Roderick D. Purdy	14	57	5,000	3/15/2022
	—	48	5,000	3/15/2022
	—	48	6,630	3/19/2023
Steven S. Reed	36	26	5,000	12/22/2020
	—	—	—	—
David S. Waskey	—	—	—	—
	—	—	—	—

(1) The named executives other than Mr. Reed received two option grants. The first, larger number is the number of Primary Stock Options; the second is the number of Extra Stock Options. Primary Stock Options vest 20% per year, from either the grant date or December 22, 2010 (the date of the Onex acquisition) for the grants in April 2011. Extra Stock Options vest immediately upon grant. The terms of each class of options are described under "Equity-Based Incentive Compensation" in the Compensation Discussion and Analysis.

Option Exercises and Stock Vested

None of the named executive officers exercised options during 2013. There are currently no outstanding stock awards.

	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)
Ralph G. Gronefeld, Jr.	—	—
Patrick G. Kelley	—	—
D. Ross Davison	—	—
Roderick D. Purdy	—	—
Steven S. Reed	—	—
David S. Waskey	—	—

Potential Payments upon Termination or Change of Control

The following table provides information about payments or benefits that would be due to the named executive officers under the terms of their current employment agreements if the applicable agreement is terminated or there is a change of control of the company. These amounts assume payment of cash incentive compensation at 100% of targeted incentive compensation, which equals 100% of base salary for 2013, and termination or a change of control on December 31, 2013.

The employment agreements define a change of control as (i) any event or series of events which have the effect of any "person" other than (x) Onex Corporation, Onex Partners III LP or any of their respective affiliates or any group including any of the foregoing and (y) any trustee or other fiduciary holding securities of ResCare under any employee benefit plan of ResCare, becoming the beneficial owner, directly or indirectly, of securities of ResCare representing 50% of more of the combined voting power of the Company's then outstanding capital stock; (ii) any merger, consolidation, share exchange, recapitalization or other transaction in which any person other than Onex Corporation, Onex Partners III LP or any of their respective affiliates or any group including any of the foregoing becomes the beneficial owner of securities of ResCare representing 50% or more of the combined voting power of ResCare's then outstanding capital stock; (iii) all or substantially all of the business of ResCare is disposed of pursuant to a partial or complete liquidation, sale of assets, or otherwise. Provided, however, that if the executive compensation committee believes an award will constitute "deferred compensation" pursuant to Internal Revenue Code Section 409A, the committee may provide that "change of control" for that award will have the meaning given in guidance from the Internal Revenue Service construing that term for purposes of allowable triggers for payment of deferred compensation.

Payments Under Termination	Non-Renewal by Company	Involuntary Not-For-Cause Termination (No Change of Control)	Involuntary Not-For-Cause Termination (Change of Control)	Disability
Severance (2013 Base Salary and Target Bonus)				
Ralph G. Gronefeld, Jr.	$ 1,320,000	$ 1,320,000 [1]	$ 1,760,000	$ 440,000
Patrick G. Kelley	800,000	800,000	1,200,000	400,000
D. Ross Davison	300,000	300,000	900,000	300,000
Roderick D. Purdy	250,000	250,000	250,000	250,000
Steven S. Reed	250,000	250,000	250,000	250,000
Stock Options [2]				
Ralph G. Gronefeld, Jr.	—	—	2,507,812	2,507,812
Patrick G. Kelley	—	—	1,696,092	1,696,092
D. Ross Davison	—	—	1,157,689	1,157,689
Roderick D. Purdy	—	—	649,896	649,896
Steven S. Reed	—	—	192,436	192,436
Total				
Ralph G. Gronefeld, Jr.	1,320,000	1,320,000	4,267,812	2,947,812
Patrick G. Kelley	800,000	800,000	2,896,092	2,096,092
D. Ross Davison	300,000	300,000	2,057,689	1,457,689
Roderick D. Purdy	250,000	250,000	899,896	899,896
Steven S. Reed	250,000	250,000	442,436	442,436

———————

(1) If Mr. Gronefeld voluntarily terminates his employment for Good Reason, as provided in his employment agreement discussed above, he would receive the same amounts as shown in the table for Involuntary Not-for-Cause Termination (no change of control).

(2) Values of unexercised and unvested options automatically vest upon the change of control. Under the executive officers' employment agreements, regardless of the manner of termination of an executive officer's employment, he is entitled to receive the following amounts earned during his employment:

- Base salary until date of termination;
  - Earned but unpaid cash incentive compensation for the calendar year preceding termination (except termination for cause in which case no incentive compensation for the calendar year in which employment is terminated shall be paid);
  - Unused paid time off;
  - Amounts accrued and vested in the Company's 401k plan; and
  - Vested Primary Stock Options may be exercised within three months after termination of employment other than for cause, in which case any unexercised options are forfeited. Extra Stock Options are forfeited following termination of employment for any reason.

Compensation committee interlocks and insider participation

None of the executive officers of ResCare has served as a member of the board of directors or compensation committee of another entity that had one or more of its executive officers serving as a member of the board of directors of ResCare.

Director compensation

Under ResCare's current director compensation policy, which was adopted when ResCare was publicly held, non-employee directors receive an annual cash retainer of $36,000, meeting fees of $2,500 for each board meeting attended, and meeting fees of $1,000 for each committee meeting attended (except for audit committee and special committee meetings, for which the fee is $2,500 per meeting attended). James H. Bloem, Chairman of the Board, receives an additional annual cash retainer of $30,000. Olivia F. Kirtley receives an additional annual cash retainer of $24,000 for serving as Chairman of the Audit Committee. David Braddock, Chairman of the Ethics and Compliance Committee, Robert E. Hallagan, Chairman of the Executive Compensation Committee, Robert Le Blanc, Chairman of the Mergers and Acquisitions Committee, and Steven B. Epstein, Chairman of the Corporate Governance and Nominating Committee, each receive an additional annual cash retainer of $18,000 for serving as committee chairs. Directors who are employees of ResCare do not receive additional compensation for service on the Board or its committees.

In addition to cash compensation, each of the non-employee directors other than Mr. Le Blanc received a one-time grant of 62 Primary Stock Options in 2011.

Fiscal 2013 Director Compensation Table

The following table shows compensation paid or awarded to our non-employee directors for the year ended December 31, 2013. Ralph G. Gronefeld, the Company's President and Chief Executive Officer, is not included in this table because he is an employee of the Company and thus receives no compensation for his service as a director. Steven S. Reed, who resigned as a director upon his appointment as Chief Legal Officer in April 2013, is also not included. Mr. Gronefeld's and Mr. Reed's compensation from the Company is reported in the Summary Compensation Table.

Name	Fees Earned or Paid in Cash	Stock Awards [3]	Total
James H. Bloem	$ 93,500	$ —	$ 93,500
David L. Braddock [1]	77,000	—	77,000
William E. Brock	80,500	—	80,500
Steven B. Epstein	70,000	—	70,000
Robert Hallagan	82,500	—	82,500
Olivia F. Kirtley	89,500	—	89,500
Robert M. Le Blanc [2]	—	—	—

(1) The fees for Dr. Braddock are paid to University Physicians, Inc., the Colorado University faculty practice plan of which Dr. Braddock is a member.

(2) The director fees for Mr. Le Blanc are paid to Onex Partners Management LP. Mr. Le Blanc declined the options awarded to non-employee directors in 2011 based on the policies of his employer.

(3) No stock option awards were granted in 2013.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

ResCare is a wholly owned subsidiary of Onex Rescare Holdings Corp. ("ResCare Holdings"). The following table sets forth information with respect to the beneficial ownership of ResCare Holdings voting and non-voting common stock as of February 18, 2014 by:

- each person who is known by us to beneficially own 5% or more of the total number of voting and non-voting shares of common stock of ResCare Holdings;
- each of our directors;
- each of our named executive officers; and
- all directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. Unless otherwise indicated, each of the shareholders listed below has sole voting and investment power over the shares.

Name of Beneficial Owner	Number of Shares Beneficially Owned[(1)]	Percent of Class [(2)]
DIRECTORS AND NAMED EXECUTIVE OFFICERS		
James H. Bloem	36	*
David L. Braddock, Ph.D.	36	*
William E. Brock	36	*
Steven B. Epstein	76	*
Robert E. Hallagan	36	*
Olivia F. Kirtley	36	*
Robert M. Le Blanc	— [(3)]	—
Ralph G. Gronefeld, Jr.	1,099	2.3%
Patrick G. Kelley	294	*
D. Ross Davison	17	*
Roderick D. Purdy	14	*
Steven S. Reed	36	*
All directors and executive officers as a group (12 persons) [(4)]	1,716	3.6%
OTHER SECURITY HOLDERS WITH MORE THAN 5% OWNERSHIP		
Onex Corporation	46,550 [(5)]	97.7%

* Less than 1%.

(1) Includes 36 exercisable stock options for each of Messrs. Bloem, Braddock, Brock, Epstein, Hallagan, and Ms. Kirtley. Includes the following number of exercisable stock options for the named executive officers: Mr. Gronefeld – 429; Mr. Kelley – 285; Mr. Davison – 15; Mr. Purdy – 14; and Mr. Reed – 36.

(2) Percentage of common stock, including both voting and non-voting shares. See footnote 4.

(3) Mr. Le Blanc is a managing director of Onex Corporation. These shares are shown as beneficially owned by Onex Corporation.

(4) Each of our named executive officers granted Onex Partners III LP an irrevocable proxy with respect to all matters submitted to the stockholders of ResCare Holdings for a vote or written consent. See “Certain Relationships and Related Person Transactions—Stockholders agreement” below.

(5) Includes shares owned by the following affiliates of Onex Corporation: Onex Partners LP, Onex Partners III LP, Onex American Holdings II LLC, ResCare Executive Investco LLC, Rescare EI II LLC, Onex Advisor III LLC, Onex Partners III PV LP, Onex Partners III Select LP, and Onex Partners III GP LP. Onex Corporation may be deemed to own beneficially the shares held by these affiliates. The address of Onex Corporation is 161 Bay Street, Toronto, Ontario M5J 2S1 Canada. The address for each of Onex Partners LP, Onex Partners III LP, Onex US Principals LP, Onex Partners III PV LP, Onex Partners III Select LP, and Onex Partners III GP LP is c/o Onex Investment Corporation, 712 Fifth Avenue, New York, New York 10019. The address for each of Onex American Holdings II LLC, Onex US Principals LP, ResCare Executive Investco LLC, Rescare EI II LLC, and Onex Advisor III LLC is c/o Onex Corporation, 421 Leader Street, Marion, Ohio 43302.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Related Person Transaction Policy

The Related Person Transaction Policy was adopted by the board of directors to provide guidance to executive officers and directors in recognizing and addressing actual and apparent conflicts of interest that may arise when an executive officer or director has or could have a direct or indirect material interest in a transaction with ResCare in which the executive officer or director participates or could be seen as participating. The policy also sets forth the guidelines under which certain transactions must be reviewed and approved or ratified by a committee of independent directors and the related disclosure requirements.

The policy defines a "related person" as any (i) director or executive officer of ResCare; (ii) nominee for director; (iii) immediate family members of any director, executive officer or nominee; or a beneficial owner (other than a financial institution) of more than 5% of ResCare's voting securities.

The audit committee reviews and approves transactions with ResCare in which a related person has or could have a direct or indirect material interest. The following transactions are not deemed to create a direct or indirect material interest for a related person and therefore are not reviewed and do not require approval or ratification:

- Transactions not in the ordinary course of business involving less than $10,000 when aggregated with all similar transactions with the same related person;
- Transactions in the ordinary course of business involving amounts that do not exceed $120,000;
- Transactions where the related person's interest derives solely from his or her service as a director of another corporation that is a party to the transaction;
- Transactions where the related person's interest derives solely from his or her direct or indirect ownership of another person that is a party to the transaction (other than as a general partner), which ownership interest is less than a 10% equity interest;
- Transactions where the related person's interest derives solely from his or her service as a director or officer of a not-for-profit organization or charity that receives donations from ResCare that are made in accordance with the company's matching gift program that is available on the same terms to all employees;
- Executive compensation arrangements approved by the Talent and Compensation Committee;
- Director compensation arrangements approved by the Corporate Governance and Nominating Committee; and
- Transactions available to all employees generally.

Certain Relationships and Related Person Transactions

Management agreement

The Company is party to an Amended and Restated Management Services Agreement with Onex Partners Manager LP, an affiliate of Onex Partners III LP. Under this agreement, Onex Partners Manager has been retained to provide consulting services in exchange for an annual advisory fee of $650,000. Robert Le Blanc is managing director of Onex Partners Manager LP.

Stockholders agreement

All of the stockholders of ResCare Holdings, including the Onex Investors and certain of our directors and executive officers, are parties to a stockholders agreement pursuant to which (i) Onex Partners III LP has the right to elect each member of our board of directors, (ii) each stockholder, other than the Onex Investors, granted Onex Partners III LP an irrevocable proxy with respect to all matters submitted to the stockholders for a vote or written consent, (iii) the stockholders agreed to drag-along, tag-along and other rights with respect to the transfer of their shares and (iv) the Onex Investors have customary demand registration rights, and all of the stockholders have customary "piggy-back" registration rights, with respect to the registration of their shares.

Finance

U.S. Bank National Association, a subsidiary of U.S. Bancorp, is a member of the lender group under the Company's senior secured credit facility, holding approximately 9.3% of the outstanding indebtedness thereunder. Mrs. Olivia Kirtley, a member of the Company's Board of Directors, is also a member of U.S. Bancorp's board of directors. This credit facility was negotiated on an arm's length basis with no involvement by Mrs. Kirtley.

Consulting Services

Dr. David L. Braddock, a member of the Company's Board of Directors, provides consulting services to the Company under the terms of a consultation agreement with an organization affiliated with the University of Colorado, of which Dr. Braddock is a member. The payments to the organization in 2013 were $26,192, of which Dr. Braddock receives a portion.

Korn/Ferry International, was engaged to assist in personal recruitment for various positions. Robert Hallagan, the vice chairman of board leadership services for Korn/Ferry International, is a member of the Company's Board of Directors. Payments for these services totaled $78,181 in 2013.

Legal

Epstein, Becker & Green, P.C. (EBG), provides legal services to the Company from time to time. Steven Epstein, a founder and shareholder of EBG, is a member of the Company's Board of Directors. Payments for these services totaled $6,971 in 2013.

Director Independence

The board of directors of ResCare is currently composed of nine directors. Although we do not currently have securities listed on a national securities exchange or on an inter-dealer quotation system, we have selected the independence standards of NASDAQ to determine which of our directors qualify as independent. Using the independence standards promulgated by NASDAQ, our board of directors has determined that Ms. Kirtley, Dr. Braddock and Messrs. Bloem, Brock, Hallagan and Reed are independent directors. The Board has determined that the relationships described in this proxy statement for Dr. Braddock, Ms. Kirtley and Mr. Reed are immaterial and do not affect the independence of these directors.

Under the NASDAQ rules, we are considered a "controlled company" because more than 50% of the voting power for the election of our directors is held by Onex Rescare Holdings Corp. Accordingly, even if we were a listed company, we would not be required by NASDAQ rules to maintain a majority of independent directors on our board of directors, nor would we be required to maintain a compensation committee or a nominating committee comprised entirely of independent directors.

Item 14. Principal Accounting Fees and Services

The following table (in thousands) presents fees for professional services rendered by PricewaterhouseCoopers LLP for the audit of the company's annual financial statements for 2013 and 2012 and fees billed for other services rendered by PricewaterhouseCoopers LLP.

	2013	2012
Audit fees	$ 975	$ 942
Audit-related fees	—	—
Total audit and audit-related fees	975	942
Tax fees	2	25
All other fees	—	—
Total fees	$ 977	$ 967

Audit fees include fees for the audit of the annual consolidated financial statements, reviews of the condensed consolidated financial statements included in our quarterly reports, and statutory audits. Tax fees included international tax compliance and consultation services.

The audit committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any preapproval is detailed as to the particular service or category of services and is subject to a specific budget.

PART IV

Item 15. Exhibits and Consolidated Financial Statement Schedules.

(a)(1) Index to Consolidated Financial Statements and Financial Statement Schedules:

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[1] All other financial statement schedules have been omitted, as the required information is inapplicable or the information is presented in the financial statements or related notes.

(a)(2) Index to Exhibits

Exhibit	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation of Res-Care, Inc. dated December 18, 1992, incorporated by reference to Exhibit 3.2 to Res-Care, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006.
3.2	Articles of Amendment to Amended and Restated Articles of Incorporation of Res-Care, Inc. dated May 29, 1997, incorporated by reference to Exhibit 3.1 to Res-Care, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006.
3.3	Articles of Amendment to Res-Care, Inc.'s Articles of Incorporation dated June 23, 2004, incorporated by reference to Exhibits 3(i) and 4 to Res-Care, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
3.4	Amended and Restated Bylaws of Res-Care, Inc., incorporated by reference to Exhibit 4.5 to Res-Care, Inc.'s Registration Statement on Form S-8 filed November 27, 2000 (Reg. No. 333-50726).
3.5	Articles of Incorporation of Accent Health Care, Inc., incorporated by reference to Exhibit 3.5 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.6	Bylaws of Accent Health Care, Inc., incorporated by reference to Exhibit 3.6 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.7	Articles of Incorporation of All Ways Caring Services, Inc., incorporated by reference to Exhibit 3.7 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.8	Bylaws of All Ways Caring Services, Inc., incorporated by reference to Exhibit 3.8 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.9	Articles of Incorporation of Alternative Choices, Inc., incorporated by reference to Exhibit 3.4 to the Registrant's Form S-4 (Reg. No. 333-131590).

Exhibit	Description of Exhibit
3.10	Bylaws of Alternative Choices, Inc., incorporated by reference to Exhibit 3.5 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.11	Certificate of Incorporation of Alternative Youth Services, Inc., incorporated by reference to Exhibit 3.6 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.12	Bylaws of Alternative Youth Services, Inc., incorporated by reference to Exhibit 3.7 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.13	Articles of Organization of Arbor E&T, LLC, incorporated by reference to Exhibit 3.8 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.14	Operating Agreement of Arbor E&T, LLC, incorporated by reference to Exhibit 3.9 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.15	Certificate of Incorporation of Arbor PEO, Inc., incorporated by reference to Exhibit 3.15 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.16	Bylaws of Arbor PEO, Inc., incorporated by reference to Exhibit 3.16 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.17	Articles of Incorporation of B.W.J Opportunity Centers, Inc., incorporated by reference to Exhibit 3.10 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.18	Bylaws of B.W.J Opportunity Centers, Inc., incorporated by reference to Exhibit 3.11 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.19	Articles of Incorporation of Baker Management, Inc., incorporated by reference to Exhibit 3.12 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.20	Bylaws of Baker Management, Inc., incorporated by reference to Exhibit 3.13 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.21	Articles of Incorporation of Bald Eagle Enterprises, Inc., incorporated by reference to Exhibit 3.14 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.22	Bylaws of Bald Eagle Enterprises, Inc., incorporated by reference to Exhibit 3.15 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.23	Articles of Incorporation of Bolivar Developmental Training Center, Inc., incorporated by reference to Exhibit 3.16 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.24	Bylaws of Bolivar Developmental Training Center, Inc., incorporated by reference to Exhibit 3.17 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.25	Articles of Incorporation of Braley & Thompson, Inc., incorporated by reference to Exhibit 3.25 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.26	Bylaws of Braley & Thompson, Inc., incorporated by reference to Exhibit 3.26 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.27	Certificate of Incorporation of Capital TX Investments, Inc., incorporated by reference to Exhibit 3.18 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.28	Bylaws of Capital TX Investments, Inc., incorporated by reference to Exhibit 3.19 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.29	Articles of Incorporation of Careers in Progress, Inc., incorporated by reference to Exhibit 3.20 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.30	Bylaws of Careers in Progress, Inc., incorporated by reference to Exhibit 3.21 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.31	Certificate of Incorporation of CATX Properties, Inc., incorporated by reference to Exhibit 3.22 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.32	Bylaws of CATX Properties, Inc., incorporated by reference to Exhibit 3.23 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.33	Articles of Incorporation of CNC/Access, Inc., incorporated by reference to Exhibit 3.24 to the Registrant's Form S-4 (Reg. No. 333-131590).

Exhibit	Description of Exhibit
3.34	Bylaws of CNC/Access, Inc., incorporated by reference to Exhibit 3.25 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.35	Certificate of Incorporation of Community Advantage, Inc., incorporated by reference to Exhibit 3.26 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.36	Bylaws of Community Advantage, Inc., incorporated by reference to Exhibit 3.27 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.37	Articles of Incorporation of Community Alternatives Home Care, Inc., incorporated by reference to Exhibit 3.37 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.38	Bylaws of Community Alternatives Home Care, Inc., incorporated by reference to Exhibit 3.38 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.39	Certificate of Incorporation of Community Alternatives Illinois, Inc., incorporated by reference to Exhibit 3.28 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.40	Bylaws of Community Alternatives Illinois, Inc., incorporated by reference to Exhibit 3.29 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.41	Certificate of Incorporation of Community Alternatives Indiana, Inc., incorporated by reference to Exhibit 3.30 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.42	Bylaws of Community Alternatives Indiana, Inc., incorporated by reference to Exhibit 3.31 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.43	Certificate of Incorporation of Community Alternatives Kentucky, Inc., incorporated by reference to Exhibit 3.32 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.44	Bylaws of Community Alternatives Kentucky, Inc., incorporated by reference to Exhibit 3.33 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.45	Articles of Incorporation of Community Alternatives Missouri, Inc., incorporated by reference to Exhibit 3.34 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.46	Bylaws of Community Alternatives Missouri, Inc., incorporated by reference to Exhibit 3.35 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.47	Articles of Incorporation of Community Alternatives Mobile Nursing, Inc., incorporated by reference to Exhibit 3.47 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.48	Bylaws of Community Alternatives Mobile Nursing, Inc., incorporated by reference to Exhibit 3.48 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.49	Certificate of Incorporation of Community Alternatives Nebraska, Inc., incorporated by reference to Exhibit 3.36 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.50	Bylaws of Community Alternatives Nebraska, Inc., incorporated by reference to Exhibit 3.37 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.51	Certificate of Incorporation of Community Alternatives New Mexico, Inc., incorporated by reference to Exhibit 3.51 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.52	Bylaws of Community Alternatives New Mexico, Inc., incorporated by reference to Exhibit 3.52 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.53	Certificate of Incorporation of Community Alternatives Pharmacy, Inc., incorporated by reference to Exhibit 3.38 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.54	Bylaws of Community Alternatives Pharmacy, Inc., incorporated by reference to Exhibit 3.39 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.55	Certificate of Incorporation of Community Alternatives Texas Partner, Inc., incorporated by reference to Exhibit 3.40 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.56	Bylaws of Community Alternatives Texas Partner, Inc., incorporated by reference to Exhibit 3.41 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.57	Certificate of Incorporation of Community Alternatives Virginia, Inc., incorporated by reference to Exhibit 3.42 to the Registrant's Form S-4 (Reg. No. 333-131590).

Exhibit	Description of Exhibit
3.58	Bylaws of Community Alternatives Virginia, Inc., incorporated by reference to Exhibit 3.43 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.59	Articles of Incorporation of Community Alternatives of Washington, D.C., Inc., incorporated by reference to Exhibit 3.44 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.60	Bylaws of Community Alternatives of Washington, D.C., Inc., incorporated by reference to Exhibit 3.45 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.61	Articles of Organization of Creative Networks, L.L.C., incorporated by reference to Exhibit 3.46 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.62	Operating Agreement of Creative Networks, L.L.C., incorporated by reference to Exhibit 3.47 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.63	Articles of Incorporation of EduCare Community Living—Normal Life, Inc., incorporated by reference to Exhibit 3.48 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.64	Bylaws of EduCare Community Living—Normal Life, Inc., incorporated by reference to Exhibit 3.49 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.65	Articles of Incorporation of EduCare Community Living-Texas Living Centers, Inc., incorporated by reference to Exhibit 3.50 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.66	Bylaws of EduCare Community Living-Texas Living Centers, Inc., incorporated by reference to Exhibit 3.51 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.67	Certificate of Incorporation of EduCare Community Living Corporation-America, incorporated by reference to Exhibit 3.52 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.68	Bylaws of EduCare Community Living Corporation-America, incorporated by reference to Exhibit 3.53 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.69	Articles of Incorporation of EduCare Community Living Corporation-Gulf Coast, incorporated by reference to Exhibit 3.54 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.70	Bylaws of EduCare Community Living Corporation-Gulf Coast, incorporated by reference to Exhibit 3.55 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.71	Articles of Incorporation of EduCare Community Living Corporation-Missouri, incorporated by reference to Exhibit 3.56 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.72	Bylaws of EduCare Community Living Corporation-Missouri, incorporated by reference to Exhibit 3.57 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.73	Articles of Incorporation of EduCare Community Living Corporation-Nevada, incorporated by reference to Exhibit 3.58 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.74	Bylaws of EduCare Community Living Corporation-Nevada, incorporated by reference to Exhibit 3.59 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.75	Articles of Incorporation of EduCare Community Living Corporation-New Mexico, incorporated by reference to Exhibit 3.60 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.76	Bylaws of EduCare Community Living Corporation-New Mexico, incorporated by reference to Exhibit 3.61 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.77	Articles of Incorporation of EduCare Community Living Corporation-North Carolina, incorporated by reference to Exhibit 3.62 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.78	Bylaws of EduCare Community Living Corporation-North Carolina, incorporated by reference to Exhibit 3.63 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.79	Articles of Incorporation of EduCare Community Living Corporation-Texas, incorporated by reference to Exhibit 3.64 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.80	Bylaws of EduCare Community Living Corporation-Texas, incorporated by reference to Exhibit 3.65 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.81	Partnership Agreement of EduCare Community Living Limited Partnership, incorporated by reference to Exhibit 3.66 to the Registrant's Form S-4 (Reg. No. 333-131590).

Exhibit	Description of Exhibit
3.82	Articles of Incorporation of Employ-Ability Unlimited, Inc., incorporated by reference to Exhibit 3.67 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.83	Regulations of Employ-Ability Unlimited, Inc., incorporated by reference to Exhibit 3.68 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.84	Articles of Incorporation of Franklin Career College Incorporated, incorporated by reference to Exhibit 3.84 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.85	Bylaws of Franklin Career College Incorporated, incorporated by reference to Exhibit 3.85 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.86	Articles of Incorporation of General Health Corporation, incorporated by reference to Exhibit 3.69 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.87	Bylaws of General Health Corporation, incorporated by reference to Exhibit 3.70 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.88	Articles of Incorporation of Habilitation Opportunities of Ohio, Inc., incorporated by reference to Exhibit 3.71 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.89	Regulations of Habilitation Opportunities of Ohio, Inc., incorporated by reference to Exhibit 3.72 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.90	Articles of Incorporation of Health Services Personnel, Inc., incorporated by reference to Exhibit 3.73 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.91	Bylaws of Health Services Personnel, Inc., incorporated by reference to Exhibit 3.74 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.92	Articles of Incorporation of Hydesburg Estates, Inc., incorporated by reference to Exhibit 3.75 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.93	Bylaws of Hydesburg Estates, Inc., incorporated by reference to Exhibit 3.76 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.94	Articles of Incorporation of Individualized Supported Living, Inc., incorporated by reference to Exhibit 3.77 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.95	Bylaws of Individualized Supported Living, Inc., incorporated by reference to Exhibit 3.78 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.96	Articles of Incorporation of J. & J. Care Centers, Inc., incorporated by reference to Exhibit 3.79 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.97	Bylaws of J. & J. Care Centers, Inc., incorporated by reference to Exhibit 3.80 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.98	Articles of Incorporation of Job Ready, Inc., incorporated by reference to Exhibit 3.98 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.99	Bylaws of Job Ready, Inc., incorporated by reference to Exhibit 3.99 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.100	Articles of Incorporation of Normal Life Family Services, Inc., incorporated by reference to Exhibit 3.81 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.101	Bylaws of Normal Life Family Services, Inc., incorporated by reference to Exhibit 3.82 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.102	Articles of Incorporation of Normal Life of California, Inc., incorporated by reference to Exhibit 3.83 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.103	Bylaws of Normal Life of California, Inc., incorporated by reference to Exhibit 3.84 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.104	Articles of Incorporation of Normal Life of Central Indiana, Inc., incorporated by reference to Exhibit 3.85 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.105	Bylaws of Normal Life of Central Indiana, Inc., incorporated by reference to Exhibit 3.86 to the Registrant’s Form S-4 (Reg. No. 333-131590).

Exhibit	Description of Exhibit
3.106	Articles of Incorporation of Normal Life of Georgia, Inc., incorporated by reference to Exhibit 3.87 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.107	Bylaws of Normal Life of Georgia, Inc., incorporated by reference to Exhibit 3.88 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.108	Partnership Agreement of Normal Life of Indiana (general partnership), incorporated by reference to Exhibit 3.89 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.109	Articles of Incorporation of Normal Life of Lafayette, Inc., incorporated by reference to Exhibit 3.90 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.110	Bylaws of Normal Life of Lafayette, Inc., incorporated by reference to Exhibit 3.91 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.111	Articles of Incorporation of Normal Life of Lake Charles, Inc., incorporated by reference to Exhibit 3.92 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.112	Bylaws of Normal Life of Lake Charles, Inc., incorporated by reference to Exhibit 3.93 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.113	Articles of Incorporation of Normal Life of Louisiana, Inc., incorporated by reference to Exhibit 3.94 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.114	Bylaws of Normal Life of Louisiana, Inc., incorporated by reference to Exhibit 3.95 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.115	Articles of Incorporation of Normal Life of Southern Indiana, Inc., incorporated by reference to Exhibit 3.96 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.116	Bylaws of Normal Life of Southern Indiana, Inc., incorporated by reference to Exhibit 3.97 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.117	Articles of Incorporation of Normal Life, Inc., incorporated by reference to Exhibit 3.98 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.118	Bylaws of Normal Life, Inc., incorporated by reference to Exhibit 3.99 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.119	Articles of Incorporation of P.S.I. Holdings, Inc., incorporated by reference to Exhibit 3.100 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.120	Regulations of P.S.I. Holdings, Inc., incorporated by reference to Exhibit 3.101 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.121	Certificate of Incorporation of PeopleServe, Inc., incorporated by reference to Exhibit 3.102 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.122	Bylaws of PeopleServe, Inc., incorporated by reference to Exhibit 3.103 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.123	Articles of Organization of Pharmacy Alternatives, LLC, incorporated by reference to Exhibit 3.104 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.124	Operating Agreement of Pharmacy Alternative, LLC, incorporated by reference to Exhibit 3.105 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.125	Certificate of Incorporation of RAISE Geauga, Inc., incorporated by reference to Exhibit 3.106 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.126	Regulations of RAISE Geauga, Inc., incorporated by reference to Exhibit 3.107 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.127	Certificate of Incorporation of Res-Care Alabama, Inc., incorporated by reference to Exhibit 3.108 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.128	Bylaws of Res-Care Alabama, Inc., incorporated by reference to Exhibit 3.109 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.129	Certificate of Incorporation of Res-Care Arkansas, Inc., incorporated by reference to Exhibit 3.129 to the Registrant's Form S-4 (Reg. No. 333-173527).

Exhibit	Description of Exhibit
3.130	Bylaws of Res-Care Arkansas, Inc., incorporated by reference to Exhibit 3.130 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.131	Certificate of Incorporation of Res-Care California, Inc., incorporated by reference to Exhibit 3.110 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.132	Bylaws of Res-Care California, Inc., incorporated by reference to Exhibit 3.111 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.133	Certificate of Formation of Res-Care DTS International, LLC, incorporated by reference to Exhibit 3.112 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.134	Limited Liability Company Agreement of Res-Care DTS International, LLC, incorporated by reference to Exhibit 3.113 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.135	Certificate of Incorporation of Res-Care Europe, Inc., incorporated by reference to Exhibit 3.135 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.136	Bylaws of Res-Care Europe, Inc., incorporated by reference to Exhibit 3.136 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.137	Certificate of Incorporation of ResCare Finance, Inc., incorporated by reference to Exhibit 3.136 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.138	Bylaws of ResCare Finance, Inc., incorporated by reference to Exhibit 3.137 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.139	Certificate of Incorporation of Res-Care Florida, Inc., incorporated by reference to Exhibit 3.114 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.140	Bylaws of Res-Care Florida, Inc., incorporated by reference to Exhibit 3.115 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.141	Certificate of Incorporation of Res-Care Idaho, Inc., incorporated by reference to Exhibit 3.141 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.142	Bylaws of Res-Care Idaho, Inc., incorporated by reference to Exhibit 3.142 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.143	Certificate of Incorporation of Res-Care Illinois, Inc., incorporated by reference to Exhibit 3.116 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.144	Bylaws of Res-Care Illinois, Inc., incorporated by reference to Exhibit 3.117 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.145	Certificate of Incorporation of Res-Care International, Inc., incorporated by reference to Exhibit 3.118 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.146	Bylaws of Res-Care International, Inc., incorporated by reference to Exhibit 3.119 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.147	Certificate of Incorporation of Res-Care Iowa, Inc., incorporated by reference to Exhibit 3.147 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.148	Bylaws of Res-Care Iowa, Inc., incorporated by reference to Exhibit 3.148 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.149	Certificate of Incorporation of Res-Care Kansas, Inc., incorporated by reference to Exhibit 3.120 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.150	Bylaws of Res-Care Kansas, Inc., incorporated by reference to Exhibit 3.121 to the Registrant’s Form S-4 (Reg. No. 333-131590).
3.151	Certificate of Incorporation of Res-Care Michigan, Inc., incorporated by reference to Exhibit 3.151 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.152	Bylaws of Res-Care Michigan, Inc., incorporated by reference to Exhibit 3.152 to the Registrant’s Form S-4 (Reg. No. 333-173527).
3.153	Certificate of Incorporation of Res-Care New Jersey, Inc., incorporated by reference to Exhibit 3.122 to the Registrant’s Form S-4 (Reg. No. 333-131590).

Exhibit	Description of Exhibit
3.154	Bylaws of Res-Care New Jersey, Inc., incorporated by reference to Exhibit 3.123 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.155	Certificate of Incorporation of Res-Care New Mexico, Inc., incorporated by reference to Exhibit 3.124 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.156	Bylaws of Res-Care New Mexico, Inc., incorporated by reference to Exhibit 3.125 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.157	Certificate of Incorporation of Res-Care Ohio, Inc., incorporated by reference to Exhibit 3.126 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.158	Bylaws of Res-Care Ohio, Inc., incorporated by reference to Exhibit 3.127 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.159	Certificate of Incorporation of Res-Care Oklahoma, Inc., incorporated by reference to Exhibit 3.128 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.160	Bylaws of Res-Care Oklahoma, Inc., incorporated by reference to Exhibit 3.129 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.161	Certificate of Incorporation of ResCare Pennsylvania Health Management Services, Inc., incorporated by reference to Exhibit 3.161 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.162	Bylaws of ResCare Pennsylvania Health Management Services, Inc., incorporated by reference to Exhibit 3.162 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.163	Certificate of Incorporation of ResCare Pennsylvania Home Health Associates, Inc., incorporated by reference to Exhibit 3.163 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.164	Bylaws of ResCare Pennsylvania Home Health Associates, Inc., incorporated by reference to Exhibit 3.164 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.165	Certificate of Incorporation of Res-Care Premier, Inc., incorporated by reference to Exhibit 3.130 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.166	Bylaws of Res-Care Premier, Inc., incorporated by reference to Exhibit 3.131 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.167	Certificate of Incorporation of Res-Care Training Technologies, Inc., incorporated by reference to Exhibit 3.132 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.168	Bylaws of Res—Care Training Technologies, Inc., incorporated by reference to Exhibit 3.133 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.169	Certificate of Incorporation of Res—Care Washington, Inc., incorporated by reference to Exhibit 3.134 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.170	Bylaws of Res—Care Washington, Inc., incorporated by reference to Exhibit 3.135 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.171	Certificate of Incorporation of Res-Care Wisconsin, Inc., incorporated by reference to Exhibit 3.171 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.172	Bylaws of Res-Care Wisconsin, Inc., incorporated by reference to Exhibit 3.172 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.173	Articles of Organization of Rest Assured, LLC, incorporated by reference to Exhibit 3.173 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.174	Operating Agreement of Rest Assured, LLC, incorporated by reference to Exhibit 3.174 to the Registrant's Form S-4 (Reg. No. 333-173527).
3.175	Articles of Incorporation of Rockcreek, Inc., incorporated by reference to Exhibit 3.138 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.176	Bylaws of Rockcreek, Inc., incorporated by reference to Exhibit 3.139 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.177	Certificate of Incorporation of RSCR California, Inc., incorporated by reference to Exhibit 3.140 to the Registrant's Form S-4 (Reg. No. 333-131590).

Exhibit	Description of Exhibit
3.178	Bylaws of RSCR California, Inc., incorporated by reference to Exhibit 3.141 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.179	Articles of Incorporation of RSCR Inland, Inc., incorporated by reference to Exhibit 3.142 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.180	Bylaws of RSCR Inland, Inc., incorporated by reference to Exhibit 3.143 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.181	Certificate of Incorporation of RSCR West Virginia, Inc., incorporated by reference to Exhibit 3.144 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.182	Bylaws of RSCR West Virginia, Inc., incorporated by reference to Exhibit 3.145 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.183	Articles of Incorporation of Skyview Estates, Inc., incorporated by reference to Exhibit 3.146 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.184	Bylaws of Skyview Estates, Inc., incorporated by reference to Exhibit 3.147 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.185	Articles of Incorporation of Southern Home Care Services, Inc., incorporated by reference to Exhibit 3.148 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.186	Bylaws of Southern Home Care Services, Inc., incorporated by reference to Exhibit 3.149 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.187	Articles of Incorporation of Tangram Rehabilitation Network, Inc., incorporated by reference to Exhibit 3.150 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.188	Bylaws of Tangram Rehabilitation Network, Inc., incorporated by reference to Exhibit 3.151 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.189	Certificate of Incorporation of Texas Home Management, Inc., incorporated by reference to Exhibit 3.152 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.190	Bylaws of Texas Home Management, Inc., incorporated by reference to Exhibit 3.153 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.191	Certificate of Incorporation of The Academy for Individual Excellence, Inc., incorporated by reference to Exhibit 3.154 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.192	Bylaws of The Academy for Individual Excellence, Inc., incorporated by reference to Exhibit 3.155 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.193	Articles of Incorporation of The Citadel Group, Inc., incorporated by reference to Exhibit 3.156 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.194	Bylaws of The Citadel Group, Inc., incorporated by reference to Exhibit 3.157 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.195	Certificate of Incorporation of THM Homes, Inc., incorporated by reference to Exhibit 3.158 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.196	Bylaws of THM Homes, Inc., incorporated by reference to Exhibit 3.159 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.197	Articles of Incorporation of Upward Bound, Inc., incorporated by reference to Exhibit 3.160 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.198	Bylaws of Upward Bound, Inc., incorporated by reference to Exhibit 3.161 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.199	Articles of Incorporation of VOCA Corp., incorporated by reference to Exhibit 3.162 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.200	Regulations of VOCA Corp., incorporated by reference to Exhibit 3.163 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.201	Articles of Incorporation of VOCA Corporation of America, incorporated by reference to Exhibit 3.164 to the Registrant's Form S-4 (Reg. No. 333-131590).

Exhibit	Description of Exhibit
3.202	Regulations of VOCA Corporation of America, incorporated by reference to Exhibit 3.165 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.203	Articles of Incorporation of VOCA Corporation of Florida, incorporated by reference to Exhibit 3.166 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.204	Bylaws of VOCA Corporation of Florida, incorporated by reference to Exhibit 3.167 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.205	Articles of Incorporation of VOCA Corporation of Indiana, incorporated by reference to Exhibit 3.168 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.206	Bylaws of VOCA Corporation of Indiana, incorporated by reference to Exhibit 3.169 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.207	Articles of Incorporation of VOCA Corporation of Maryland, incorporated by reference to Exhibit 3.170 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.208	Bylaws of VOCA Corporation of Maryland, incorporated by reference to Exhibit 3.171 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.209	Certificate of Incorporation of VOCA Corporation of New Jersey, incorporated by reference to Exhibit 3.172 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.210	Bylaws of VOCA Corporation of New Jersey, incorporated by reference to Exhibit 3.173 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.211	Articles of Incorporation of VOCA Corporation of North Carolina, incorporated by reference to Exhibit 3.174 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.212	Bylaws of VOCA Corporation of North Carolina, incorporated by reference to Exhibit 3.175 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.213	Articles of Incorporation of VOCA Corporation of Ohio, incorporated by reference to Exhibit 3.176 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.214	Regulations of VOCA Corporation of Ohio, incorporated by reference to Exhibit 3.177 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.215	Articles of Incorporation of VOCA Corporation of West Virginia, Inc., incorporated by reference to Exhibit 3.178 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.216	Bylaws of VOCA Corporation of West Virginia, Inc., incorporated by reference to Exhibit 3.179 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.217	Articles of Organization of VOCA of Indiana, LLC, incorporated by reference to Exhibit 3.180 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.218	Operating Agreement of VOCA of Indiana, LLC, incorporated by reference to Exhibit 3.181 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.219	Articles of Incorporation of VOCA Residential Services, Inc., incorporated by reference to Exhibit 3.182 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.220	Regulations of VOCA Residential Services, Inc., incorporated by reference to Exhibit 3.183 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.221	Certificate of Incorporation of Youthtrack, Inc., incorporated by reference to Exhibit 3.184 to the Registrant's Form S-4 (Reg. No. 333-131590).
3.222	Bylaws of Youthtrack, Inc., incorporated by reference to Exhibit 3.185 to the Registrant's Form S-4 (Reg. No. 333-131590).
4.1	Indenture by and among Res-Care, Inc., the guarantors named therein and Wells Fargo Bank, National Association, as Trustee dated as of December 22, 2010, incorporated by reference to Exhibit 4.1 to the Registrant's Form S-4 (Reg. No. 333-173527).
4.2	Form of 10.75% Senior Note Due 2019 (included as an exhibit to Exhibit 4.1), incorporated by reference to Exhibit 4.2 to the Registrant's Form S-4 (Reg. No. 333-173527).

Exhibit	Description of Exhibit
10.1	$375,000,000 Credit Agreement dated as of April 5, 2012, among Res-Care, Inc., as Borrower, Onex Rescare Holdings Corp., as Holdings, the Guarantors from time to time party hereto, Bank of America, N.A., as Administrative Agent, L/C Issuer and Swing Line Lender, the other Lenders from to time to time party hereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC and RBC Capital Markets, as Joint Lead Arrangers and Joint Bookrunners, JPMorgan Chase Bank, N.A. and Royal Bank of Canada, as Syndication Agents and RBS Citizens, N.A. and U.S. Bank National Association, as Documentation Agents (incorporated by reference to Exhibit 10 to Form 8-K filed April 6, 2012).
10.2	Onex ResCare Holdings Corp. Stock Option Plan, including forms of Option Agreements., incorporated by reference to Exhibit 10.2 to the Registrant's Form S-4 (Reg. No. 333-173527).
10.3	Employment Agreement between Res-Care, Inc. and Ralph G. Gronefeld, Jr., incorporated by reference to Exhibit 99.1 to Res-Care, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.
10.4	Employment Agreement between Res-Care, Inc. and Patrick G. Kelley, incorporated by reference to Exhibit 10.5 to Res-Care, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.
10.5	Employment Agreement, as amended, between Res-Care, Inc. and Roderick D. Purdy dated as of March 15, 2012 (incorporated by reference to Exhibit 10.2 to Form 10-Q filed August 6, 2012).
10.6	Employment Agreement, as amended, between Res-Care, Inc. and D. Ross Davison dated as of March 31, 2013 (incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 6, 2013).
10.7	Employment Agreement, as amended, between Res-Care, Inc. and Steven S. Reed dated as of May 6, 2013 (incorporated by reference to Exhibit 10.2 to Form 10-Q filed May 6, 2013).
*31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.
*31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.
*32	Certification of Chief Executive Officer and 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 financial statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, and (iv) the Notes to Consolidated Financial Statements.

* filed herewith

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.

RES-CARE, INC

Date: February 18, 2014

By: /s/ Ralph G. Gronefeld, Jr.
Ralph G. Gronefeld, Jr.
President, Chief Executive Officer and Director (Principal Executive Officer)

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 dates indicated.

Signature	Title	Date
/s/ Ralph G. Gronefeld, Jr. Ralph G. Gronefeld, Jr.	President, Chief Executive Officer and Director (Principal Executive Officer)	February 18, 2014
/s/ D. Ross Davison D. Ross Davison	Vice President – Chief Financial Officer (Principal Accounting Officer)	February 18, 2014
/s/ James H. Bloem James H. Bloem	Chairman of the Board	February 18, 2014
/s/ David Braddock David Braddock	Director	February 18, 2014
/s/ Robert E. Hallagan Robert E. Hallagan	Director	February 18, 2014
/s/ Olivia F. Kirtley Olivia F. Kirtley	Director	February 18, 2014
/s/ Robert M. Le Blanc Robert M. Le Blanc	Director	February 18, 2014
/s/ William E. Brock William E. Brock	Director	February 18, 2014
/s/ Steven B. Epstein Steven B. Epstein	Director	February 18, 2014

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

Subsidiary	State of Incorporation
Alternative Youth Services, Inc.	Delaware
Arbor E&T, LLC	Kentucky
Arbor PEO, Inc.	Delaware
Capital TX Investments, Inc.	Delaware
CATX Properties, Inc.	Delaware
CNC/Access, Inc.	Rhode Island
Community Advantage, Inc.	Delaware
Community Alternatives Illinois, Inc.	Delaware
Community Alternatives Indiana, Inc.	Delaware
Community Alternatives Kentucky, Inc.	Delaware
Community Alternatives Missouri, Inc.	Missouri
Community Alternatives Nebraska, Inc.	Delaware
Community Alternatives New Mexico, Inc.	Delaware
Community Alternatives Texas Partner, Inc.	Delaware
Community Alternatives Virginia, Inc.	Delaware
Creative Networks, L.L.C.	Arizona
Normal Life, Inc.	Kentucky
PeopleServe, Inc.	Delaware
Rehab Without Walls (formerly THM Homes, Inc.)	Delaware
Res-Care Alabama, Inc.	Delaware
ResCare Arizona, Inc.	Delaware
Res-Care Arkansas, Inc.	Delaware
Res-Care California, Inc. d/b/a RCCA Services	Delaware
ResCare Connecticut, Inc.	Delaware
ResCare Finance, Inc.	Delaware
Res-Care Idaho, Inc.	Delaware
Res-Care Illinois, Inc.	Delaware
ResCare International, Inc.	Delaware
Res-Care Iowa, Inc.	Delaware
Res-Care Kansas, Inc.	Delaware
ResCare Maine, Inc.	Delaware
ResCare Minnesota, Inc.	Delaware
Res-Care New Jersey, Inc.	Delaware
Res-Care Ohio, Inc.	Delaware
Res-Care Oklahoma, Inc.	Delaware
ResCare Pennsylvania Health Management Services, Inc.	Delaware
ResCare Pennsylvania Home Health Associates, Inc.	Delaware
Res-Care Premier, Inc.	Delaware
Rescare Tennessee, Inc.	Delaware
Res-Care Training Technologies, Inc.	Delaware
Res-Care Washington, Inc.	Delaware
Res-Care Wisconsin, Inc.	Delaware
ResCare Wyomimg, Inc.	Delaware
RSCR California, Inc.	Delaware
RSCR West Virginia, Inc.	Delaware
Southern Home Care Services, Inc.	Georgia
Tangram Rehabilitation Network, Inc.	Texas
Texas Home Management, Inc.	Delaware
The Academy for Individual Excellence, Inc.	Delaware
Youthtrack, Inc.	Delaware

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Ralph G. Gronefeld, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Res-Care, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2014

By: /s/ Ralph G. Gronefeld, Jr.
Ralph G. Gronefeld, Jr.
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, D. Ross Davison, certify that:

1. I have reviewed this annual report on Form 10-K of Res-Care, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2014

By: /s/ D. Ross Davison
D. Ross Davison
Chief Financial Officer

EXHIBIT 32

CERTIFICATION

In connection with the Annual Report of Res-Care, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Chief Executive Officer and Interim Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) The Annual Report on Form 10-K of the Company for the annual period ended December 31, 2013 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 18, 2014

By: /s/ Ralph G. Gronefeld, Jr.
Ralph G. Gronefeld, Jr.
President and Chief Executive Officer

Date: February 18, 2014

By: /s/ D. Ross Davison
D. Ross Davison
Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

All other financial statement schedules have been omitted, as the required information is inapplicable or the information is presented in the financial statements or related notes.

Report of Independent Registered Public Accounting Firm

To Board of Directors and shareholder of Res-Care, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, shareholder's equity and cash flows present fairly in all material respects, the financial position of Res-Care, Inc. and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15 (a)(1), for the years ended December 31, 2013 and December 31, 2012, presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements 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 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Louisville, Kentucky
February 18, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors
Res-Care, Inc.:

We have audited the accompanying consolidated statements of comprehensive income, stockholders' equity and cash flows of Res-Care, Inc. and subsidiaries ("the Company") for the year ended December 31, 2011. In connection with our audit of the consolidated financial statements, we also have audited the financial statement schedule II. The consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule 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 the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of the Company for the year ended December 31, 2011 in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule II, 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.

/s/ KPMG LLP

Louisville, Kentucky
February 16, 2012

RES-CARE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

	Dec-31, 2013	Dec-31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,997	$ 50,134
Accounts receivable, net of allowance for doubtful accounts of $11,900 in 2013 and $11,997 in 2012	241,873	228,377
Deferred income taxes	19,811	17,589
Non-trade receivables	6,852	3,942
Prepaid expenses and other current assets	19,578	18,174
Total current assets	318,111	318,216
Property and equipment, net	101,021	97,030
Goodwill	308,350	288,265
Other intangible assets, net	333,613	321,293
Other assets	25,182	27,154
Total assets	$1,086,277	$1,051,958
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Trade accounts payable	$ 34,089	$ 37,738
Accrued expenses	120,803	114,876
Current portion of long-term debt	14,291	14,695
Current portion of obligations under capital leases	6,516	6,052
Accrued income taxes	—	1,813
Total current liabilities	175,699	175,174
Long-term liabilities	39,143	56,469
Long-term debt	345,506	358,420
Obligations under capital leases	13,724	11,632
Deferred income taxes	116,084	106,253
Total liabilities	690,156	707,948
Commitments and contingencies	—	—
Shareholder's equity:		
Common stock, no par value, authorized 40,000,000 shares, issued and outstanding 21,344,741 in 2013 and 2012	—	—
Additional paid-in capital	247,053	244,345
Retained earnings	149,617	99,734
Accumulated other comprehensive (loss) income	(549)	30
Total shareholder's equity-Res-Care, Inc.	396,121	344,109
Noncontrolling interest	—	(99)
Total shareholder's equity	396,121	344,010
Total liabilities and shareholder's equity	$1,086,277	$1,051,958

See accompanying notes to consolidated financial statements.

RES-CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year ended Dec-31, 2013	Year ended Dec-31, 2012	Year ended Dec-31, 2011
Revenues	$ 1,616,633	$ 1,599,109	$ 1,579,335
Cost of services	1,204,568	1,194,494	1,190,410
Gross profit	412,065	404,615	388,925
Operating expenses:			
Operational general and administrative	238,685	233,838	229,254
Corporate general and administrative	69,657	61,618	55,771
Total operating expenses	308,342	295,456	285,025
Operating income	103,723	109,159	103,900
Other expenses:			
Interest expense, net	32,867	35,257	42,059
Loss on extinguishment of debt	—	7,129	—
Total other expenses, net	32,867	42,386	42,059
Income from continuing operations before income taxes	70,856	66,773	61,841
Income tax expense	21,083	25,760	20,005
Income from continuing operations	49,773	41,013	41,836
Income from discontinued operations, net of tax	—	—	11,156
Net income	49,773	41,013	52,992
Net loss-noncontrolling interest	(110)	(110)	(171)
Net income - Res-Care, Inc.	49,883	41,123	53,163
Other comprehensive income:			
Foreign currency translation adjustments	(579)	206	(433)
Comprehensive income attributable to Res-Care, Inc.	$ 49,304	$ 41,329	$ 52,730
Total comprehensive income	$ 49,194	$ 41,219	$ 52,559

See accompanying notes to consolidated financial statements.

RES-CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Noncontrolling Interests	Total
Balance at December 31, 2010	21,345	—	$ 236,726	$ 5,448	$ 257	$ 182	$ 242,613
Net income (loss)	—	—	—	53,163	—	(171)	52,992
Foreign currency translation adjustment arising during period	—	—	—	—	(433)	—	(433)
Share-based compensation	—	—	2,383	—	—	—	2,383
Funds contributed by co-investors	—	—	1,400	—	—	—	1,400
Balance at December 31, 2011	21,345	—	$ 240,509	$ 58,611	$ (176)	$ 11	$ 298,955
Net income (loss)	—	—	—	41,123	—	(110)	41,013
Foreign currency translation adjustment arising during period	—	—	—	—	206	—	206
Share-based compensation	—	—	3,836	—	—	—	3,836
Balance at December 31, 2012	21,345	—	$ 244,345	$ 99,734	$ 30	$ (99)	$ 344,010
Net income (loss)	—	—	—	49,883	—	(110)	49,773
Foreign currency translation adjustment arising during period	—	—	—	—	(579)	—	(579)
Acquisition of remaining noncontrolling interest during period	—	—	(209)	—	—	209	—
Share-based compensation	—	—	2,917	—	—	—	2,917
Balance at December 31, 2013	21,345	—	$ 247,053	$ 149,617	$ (549)	$ —	$ 396,121

See accompanying notes to consolidated financial statements.

RES-CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year ended Dec-31, 2013	Year ended Dec-31, 2012	Year ended Dec-31, 2011
Operating activities:			
Net income	$ 49,773	$ 41,013	$ 52,992
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	34,395	33,371	20,992
Amortization of discount and deferred debt issuance costs	3,481	2,961	2,943
Share-based compensation	2,917	3,836	2,383
Deferred income taxes, net	7,609	4,062	4,450
Provision for losses on accounts receivable	5,005	5,679	5,851
Loss on extinguishment of debt, net of original issue discount paid	—	6,400	—
Write down of assets held for sale	—	—	1,642
Loss on sale of assets	94	238	481
Changes in operating assets and liabilities:			
Accounts receivable	(17,425)	(12,967)	(10,125)
Prepaid expenses and other current assets	(3,990)	3,013	342
Other assets	(2,197)	(3,923)	(3,657)
Accounts payable	(3,925)	(8,369)	(9,711)
Accrued expenses	5,477	(8,368)	(3,846)
Accrued income taxes	(2,066)	12,276	(10,668)
Long-term liabilities and other	(17,846)	1,099	18,543
Cash provided by operating activities	61,302	80,321	72,612
Investing activities:			
Purchases of property and equipment	(20,610)	(15,485)	(13,507)
Acquisitions of businesses, net of cash acquired	(39,318)	(30,690)	(23,106)
Proceeds from sale of assets	535	166	221
Cash used in investing activities	(59,393)	(46,009)	(36,392)
Financing activities:			
Long-term debt repayments	(14,709)	(174,718)	(38,824)
Long-term debt borrowings	—	175,000	—
Payments on obligations under capital leases	(7,206)	(6,034)	(92)
Debt issuance costs	(2)	(4,008)	(561)
Funds contributed by co-investors	—	—	1,400
Cash used in financing activities	(21,917)	(9,760)	(38,077)
Effect of exchange rate changes on cash and cash equivalents	(129)	(69)	(44)
(Decrease) increase in cash and cash equivalents	(20,137)	24,483	(1,901)
Cash and cash equivalents at beginning of period	50,134	25,651	27,552
Cash and cash equivalents at end of period	$ 29,997	50,134	$ 25,651
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest	$ 30,271	$ 32,038	$ 30,737
Income taxes (net of refunds of $0.1 million, $6.3 million and $0.3 million, respectively)	15,776	10,155	5,864
Supplemental schedule of non-cash investing and financing activities:			
Notes issued in connection with acquisitions	1,110	2,374	2,138
Capital lease obligations (see Note 12)	9,763	5,752	—
Settlement of Seller obligations in connection with acquisitions	1,240	—	2,706
Purchases of property and equipment in accounts payable	276	—	—

See accompanying notes to consolidated financial statements.

RES-CARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

1. Summary of Significant Accounting Policies

Basis of Presentation and Description of Business

The consolidated financial statements include the accounts of Res-Care, Inc. and its subsidiaries. All references in these financial statements to “ResCare”, “Company”, “our company”, “we”, “us”, or “our” mean Res-Care, Inc. and, unless the context otherwise requires, its consolidated subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

We receive revenues primarily from the delivery of residential, therapeutic, job training and educational support services to various populations with special needs. We also receive revenues from providing closed-door pharmacy services to individuals with intellectual and developmental disabilities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires us to make estimates and assumptions that affect the reported amounts and related disclosures of commitments and contingencies. We rely on historical experience and on various other assumptions that we believe to be reasonable under the circumstances to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Reclassification

During 2011, we ceased providing international services within the Workforce Services operating segment. In accordance with Accounting Standards Codification (“ASC”) 205-20, *Discontinued Operations*, the closure and sale of the international operations have been accounted for as discontinued operations. Accordingly, the results of our international Workforce Services operations, loss on sale of the business and all exit costs have been classified as discontinued operations, net of taxes, for all periods presented, in the accompanying consolidated statements of comprehensive income (loss). Additional information regarding discontinued operations can be found in Note 3.

Certain immaterial reclassifications between segments have been made to prior year amounts to conform to 2013 presentation.

Segments

Effective January 1, 2013, we began managing and operating our Pharmacy Services as a new reporting segment. The pharmacy operations were previously included with our Residential Services segment. As a result of this change, the results of our Residential Services segment have been retrospectively recast for all periods presented. In addition, effective July 1, 2013, we made certain changes within our business lines to meet our future growth objectives. Some of the components and structure within certain reportable segments changed and our Youth Services segment’s name changed to Education and Training Services. The majority of our Residential Youth reporting unit moved from the Education and Training Services segment to the Residential Services segment. We also moved a small operation from our ResCare HomeCare segment to our Education and Training Services segment. Therefore, as of July 1, 2013, our reportable segments are: (i) Residential Services, (ii) ResCare HomeCare, (iii) Education and Training Services, (iv) Workforce Services and (v) Pharmacy Services.

Residential Services primarily includes services for individuals with intellectual, cognitive or other developmental disabilities in our community home settings. ResCare HomeCare primarily includes periodic in-home care services to the elderly, as well as persons with disabilities. Education and Training Services consists of our Job Corps centers, alternative education programs, charter schools, training for professionals working with children, training for potential foster and adoptive parents and other individual and family counseling and instruction. Workforce Services is comprised of our domestic job training and placement programs that assist welfare recipients and disadvantaged job seekers in finding employment and improving their career prospects. Pharmacy Services is a limited, closed-door pharmacy business focused on serving individuals with intellectual and developmental disabilities. We believe the changes in our segments will allow us to serve our customers more efficiently and allow future growth and long-term sustainability. We have presented prior periods to reflect the change in our segments. Further information regarding our segments is included in Note 9.

Revenue Recognition

Overview: We recognize revenues as they are realizable and earned in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* ("SAB 104"). SAB 104 requires that revenue can only be recognized when persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable and collectibility is reasonably assured.

Residential Services: Revenues are derived primarily from state Medicaid programs and from management contracts with private operators, generally not-for-profit providers, who contract with state government agencies and are also reimbursed under the Medicaid programs. Revenues from the state Medicaid programs are recorded at rates established at or before the time services are rendered. Revenue is recognized in the period services are rendered.

ResCare HomeCare: Revenues are derived from State Medicaid programs, other government agencies, commercial insurance companies, long-term care insurance policies, as well as private pay customers. Revenues are recorded at rates established at or before the time services are rendered. Revenue is recognized in the period services are rendered.

Education and Training Services: Revenues include amounts reimbursable under cost reimbursement contracts with the Department of Labor ("DOL") for operating Job Corps centers for education and training programs. The contracts provide reimbursement for direct facility and program costs related to operations, allowable indirect costs for general and administrative costs, plus a predetermined management fee, normally a combination of fixed and performance-based. Final determination of amounts due under the contracts is subject to audit and review by the applicable government agencies. Additional revenues are reimbursed from various state government agencies including Medicaid programs as we operate school and other training related programs in multiple states. Revenue is recognized in the period associated costs are incurred and services are rendered.

Workforce Services: Revenues are derived primarily through contracts with local and state governments funded by federal agencies. Revenue is generated from contracts which contain various pricing arrangements, including: (1) cost reimbursable, (2) performance-based, (3) hybrid, and (4) fixed price.

With cost reimbursable contracts, revenue is recognized for the direct costs associated with functions that are specific to the contract, plus an indirect cost percentage that is applied to the direct costs, plus a profit. Revenue is recognized in the period the associated costs are incurred and services are rendered.

Under a performance-based contract, revenue is generally recognized as earned based upon the attainment of a unit performance measure times the fixed unit price for that specific performance measure. Typically, there are many different performance measures that are stipulated in the contract that must be tracked to support the billing and revenue recognition. Revenues may be recognized prior to achieving a benchmark as long as reliable measurements of progress-to-date activity can be obtained, indicating that it is probable that the benchmark will be achieved. This requires judgment in determining what is considered to be a reliable measurement.

Revenues for hybrid contracts are recognized based on the specific contract language. The most common type of hybrid contract is "cost-plus," which provide for the reimbursement of direct and indirect costs with profit tied to meeting certain performance measures. Revenues for cost-plus contracts are generally recognized in the period the associated costs are incurred with an estimate made for the performance-based portion, as long as reliable measurements of progress-to-date activity can be obtained, indicating that it is probable that the benchmark will be achieved. This requires judgment in determining what is considered to be a reliable measurement.

Revenues for fixed price contracts are generally recognized in the period services are rendered. Some fixed priced contracts may contain performance-based measures that may increase or decrease our revenue. Those adjustments are made to revenue when the performance indicators have been achieved or an estimate can be made as long as reliable measurements of progress to date activity can be obtained, indicating that it is probable that the benchmarks will be achieved. This requires judgment in determining what is considered a reliable measurement.

Pharmacy Services: Revenues are derived primarily from the Federal Medicare Part D plan, State Medicaid programs and other third-party payors. Revenue is reported at the amount ultimately expected to be received from these payors, which is net of the contractual allowance. The contractual allowance is the difference between the covered charges and the benefit plan amount. Revenue is recognized in the period pharmaceutical medications are shipped or at the time consultant pharmacist services are rendered.

Laws and regulations governing the government programs and contracts are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. For each operating segment, expenses are subject to examination by agencies administering the contracts and services. We believe that adequate provisions have been made for potential adjustments arising from such examinations.

We are substantially dependent on revenues received under contracts with federal, state and local government agencies. Operating funding sources for 2013 were approximately 68% through Medicaid reimbursement, 7% from the DOL and 25% from other payors. For 2012 and 2011, the funding sources were approximately 66%, 8% and 26%, respectively. There was no single customer whose revenue was 10% or more of our consolidated revenue for any reporting period presented. Generally, these contracts are subject to termination at the election of governmental agencies and in certain other circumstances such as failure to comply with applicable regulations or quality of service issues.

Cost of Services

We classify expenses directly related to providing services, along with depreciation and amortization attributable to our operating segments, as cost of services. Direct costs and expenses principally include salaries and benefits for direct care professionals, contracted labor costs, insurance costs, transportation costs for clients requiring services, certain client expenses such as food, supplies and medicine, residential occupancy expenses, which primarily comprise rent and utilities, and other miscellaneous direct service-related expenses.

Cash Equivalents

We consider all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents and are treated as such for reporting cash flows. Cash equivalents are stated at cost, which approximates market value.

Valuation of Accounts Receivable

Accounts receivable consist primarily of amounts due from Medicaid programs, other government agencies and commercial insurance companies. An estimated allowance for doubtful accounts receivable is recorded to the extent it is probable that a portion or all of a particular account will not be collected. In evaluating the collectibility of accounts receivable, we consider a number of factors, including historical loss rates, age of the accounts, changes in collection patterns, the status of ongoing disputes with third-party payors, general economic conditions and the status of state budgets. Complex rules and regulations regarding billing and timely filing requirements in various states are also a factor in our assessment of the collectibility of accounts receivable. Actual collections of accounts receivable in subsequent periods may require changes in the estimated allowance for doubtful accounts. Changes in these estimates are charged or credited to the results of operations in the period of the change of estimate.

Valuation of Long-Lived Assets

We regularly review the carrying value of long-lived assets with respect to any events or circumstances that indicate a possible inability to recover their carrying amount. Indicators of impairment include, but are not limited to, loss of contracts, significant census declines, reductions in reimbursement levels, significant litigation and impact of economic conditions on service demands and levels. Our evaluation is based on undiscounted cash flows, profitability and projections that incorporate current and projected operating results, as well as significant events or changes in the reimbursement or regulatory environment. If circumstances suggest the recorded amounts cannot be recovered, the carrying values of such assets are reduced to fair value.

Goodwill and Other Indefinite-lived Intangible Assets

Goodwill is calculated as the excess of the cost of purchased businesses over the fair value of their underlying net assets. Goodwill was recorded for the Onex transaction (see Note 2) to reflect the amount of purchase price in excess of the fair value of the Company's net assets. Other indefinite-lived intangible assets include licenses that are essential for ResCare to operate its businesses in various states and other jurisdictions. Goodwill and other indefinite-lived intangible assets are not amortized. We test goodwill and other indefinite-lived intangible assets for impairment annually, unless changes in circumstances indicate impairment may have occurred sooner. We test goodwill on a reporting unit basis, in which a reporting unit is generally defined as the operating segment, but can be a component of an operating segment. The goodwill impairment test is a two-part test. Step One of the impairment test compares the fair values of each of our reporting units to their carrying value. If the fair value is less than the carrying value for any of our reporting units, Step Two must be completed. Step Two of the impairment test compares the implied fair value of each of our reporting unit's goodwill with the carrying amount of the respective reporting unit's goodwill. If the carrying amount of a reporting unit's goodwill is greater than the implied fair value of the reporting unit's goodwill, an impairment loss must be recognized for the excess. Fair values for goodwill are typically determined using an income approach (using discounted cash flow analysis method) or a market approach (using the guideline company method or the guideline transactions method), or it can be based on a weighted average of both methods. Due to limited comparability to our reporting units of the comparable guideline companies and limited financial information available surrounding the transactions for companies sold, we solely utilized the discounted cash flow analysis to establish fair values in our 2013 and 2012 annual impairment test. Fair values for indefinite-lived intangible assets are measured using the cost approach.

Intangible Assets – Defined Lives

Our intangible assets consist primarily of trade names, customer contracts and relationships and non-competition agreements, which are amortized over two to twenty years, based on their estimated useful lives.

Debt Issuance Costs

Debt issuance costs are capitalized and amortized as interest expense over the terms of the related debt using an effective interest method.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred assets if it is more likely than not that some portion or all of the net deferred tax assets will not be realized.

The Company recognizes tax benefits that are considered more-likely-than-not. Recognized income tax positions are measured at the largest amount that is more likely than not of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Our policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as corporate general and administrative expense.

Legal Contingencies

We are a party to numerous claims and lawsuits with respect to various matters. We provide for costs related to contingencies when a loss is probable and the amount is reasonably determinable. We confer with outside counsel in estimating our potential liability for certain legal contingencies. While we believe our provision for legal contingencies is adequate, the outcome of legal proceedings is difficult to predict and we may settle legal claims or be subject to judgments for amounts that exceed our estimates.

Insurance Losses

We self-insure a substantial portion of our general and professional liability, automobile, workers' compensation and health benefit risks. Provisions for losses for workers' compensation risks and health benefits are based upon actuarially-determined estimates and include an amount determined from reported claims and an amount based on past experiences for losses incurred but not reported. Estimates of workers' compensation claims reserves have been discounted using a discount rate of 3% at December 31, 2013 and 2012. Provisions for general and professional and automobile liabilities are recorded on a claims made basis, which includes estimates of fully developed losses for both reported and unreported claims. Accruals for general and professional and automobile liabilities are based on analyses performed internally by management. The liabilities are evaluated quarterly and any adjustments are reflected in earnings in the period identified. We have excess automobile, general and professional liability and automobile insurance coverages. These liabilities are necessarily based on estimates and, while we believe that the provision for loss is adequate, the ultimate liability may be more or less than the amounts recorded.

Operating Leases

We lease certain operating facilities, office space and equipment under operating leases. Our operating lease terms generally range from one to fifteen years with renewal options. Facility lease agreements may include rent holidays and rent escalation clauses. We recognize rent holiday periods and scheduled rent increases on a straight-line basis over the lease term beginning with the date we take possession of the leased space.

Property and Equipment

Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the assets. Estimated useful lives for buildings are 20 years. Assets under capital lease and leasehold improvements are amortized over the term of the respective lease or the useful life of the asset, if shorter, which varies from one to fifteen years. The useful lives of furniture and equipment vary from three to seven years. Depreciation expense includes amortization of assets under capital lease.

We act as custodian of assets where we have contracts to operate facilities or programs owned or leased by the DOL, various states and private providers. These assets are not recorded in our property and equipment.

Foreign Currency Translation

Our Canadian subsidiary designates its local currency as its functional currency. Operating results are translated into U.S. dollars using monthly average exchange rates, while balance sheet accounts are translated using year-end exchange rates. The resulting translation adjustments are included as a component of our accumulated other comprehensive income (loss) in shareholder's equity.

Share-based Compensation

The Company accounts for share-based compensation based on the provisions of ASC 718, *Stock Compensation*, ("ASC 718"). Our share-based compensation plans and share-based payments are described more fully in Note 11, Share-based Compensation.

Financial Instruments

We used various methods and assumptions in estimating the fair value disclosures for significant financial instruments. Fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amount because of the short maturity of those investments. The fair value of long-term debt is determined using market quotes and calculations based on current market rates available to us (Level 2).

Impact of Recently Issued Accounting Pronouncements

We do not believe there are any new accounting pronouncements that have been issued that have a material impact on our financial position, results of operations or cash flows.

2. Onex Transaction

On November 16, 2010, an affiliate of Onex Partners III LP ("Purchaser") purchased 21,044,765 shares of ResCare common stock in a tender offer. Upon the completion of the tender offer, affiliates of Onex Corporation (the "Onex Investors") beneficially owned 87.4% of the issued and outstanding shares of ResCare's common stock on an as-converted basis. On December 22, 2010, upon completion of a share exchange and other reorganization transactions, ResCare became a wholly owned subsidiary of Onex Rescare Holdings Corp., which in turn, is owned by the Onex Investors, certain co-investors and members of our management team. The total purchase price was $452.4 million based on 34.1 million outstanding ResCare shares (fully converted) at $13.25 per share. The purchase price allocation was finalized in 2011.

3. Discontinued Operations

In 2011, we disclosed that we had incurred costs associated with the closure of our international operations in Germany and the Netherlands. On July 1, 2011, we sold our operation in the United Kingdom for one euro. We recorded a charge of $2.2 million in the second quarter of 2011 to adjust assets and liabilities to their net realizable value for this operation. Gross assets were $4.3 million and gross liabilities were $2.1 million prior to the charge taken.

In accordance with ASC 205-20, the closure and sale of these international operations have been accounted for as discontinued operations. Accordingly, the results of the international operations of our Workforce Services reportable segment for all periods reported, loss on sale and exit costs have been classified as discontinued operations, net of income taxes, in the accompanying consolidated statements of operations.

In connection with the closures of the Netherlands and Germany operations, we recorded charges of $1.5 million in the fourth quarter of 2010 and $1.4 million in the first quarter of 2011. These charges included exit costs for severance and lease obligations, as well as charges for vendor and customer claims. These costs were paid during 2011.

There were no additional charges during 2013 and 2012 related to the closure and sale activities noted above. Liabilities for vendor and customer claims associated with the Netherlands and Germany closures were $0.6 million and $0.7 million as of December 31, 2013 and December 31, 2012, respectively.

Summarized financial information for the discontinued operations is set forth below:

	2011
Revenues	$ 4,465
Cost of services	5,688
Gross loss	(1,223)
Operational general and administrative expense	5,010
Goodwill impairment charge	—
Other expense	2,198
Interest expense, net	173
Loss from discontinued operations, before income taxes	(8,604)
Income tax benefit [(1)]	19,760
Income from discontinued operations, net of tax	$ 11,156

(1) The twelve months ended December 31, 2011 include U.S. tax benefits of $19.8 million attributed to the discontinued international operations. During the third quarter, a U.S. tax election was made which changed the tax status and triggered the recognition of tax basis associated with international operations. The 2011 tax benefit related to this election is $18.3 million.

4. Acquisitions

2013

We completed 11 acquisitions within our Residential Services and ResCare HomeCare segments during 2013. Aggregate consideration for these acquisitions was approximately $41.7 million, including $1.1 million of notes issued and $1.2 million related to the net settlement of seller obligations. The operating results of the acquisitions are included in the consolidated financial statements from the dates of acquisition. Proforma results and other disclosure have not been included as the acquisitions are considered immaterial, individually and in the aggregate.

The aggregate purchase price for these acquisitions was allocated as follows:

Accounts receivable	$ 1,076
Property and equipment	1,068
Other intangible assets	19,563
Goodwill	20,077
Prepaid expenses and other current assets	324
Liabilities	(440)
Aggregate purchase price	$ 41,668

The other intangible assets consist primarily of customer relationships, trade names and covenants not to compete, which will all be amortized over two to twenty years. We expect all of the $20.1 million of goodwill will be deductible for tax purposes.

2012

We completed ten acquisitions within our Residential Services and ResCare HomeCare segments during 2012. Aggregate consideration for these acquisitions was approximately $33.1 million, including $2.4 million of notes issued. The operating results of the acquisitions are included in the consolidated financial statements from the dates of acquisition. Proforma results and other disclosure have not been included as the acquisitions are considered immaterial, individually and in the aggregate.

The aggregate purchase price for these acquisitions was allocated as follows:

Property and equipment	$ 415
Other intangible assets	13,065
Goodwill	19,389
Prepaid expenses and other current assets	200
Liabilities	(5)
Aggregate purchase price	$ 33,064

The other intangible assets consist primarily of customer relationships, trade names and covenants not to compete, which will all be amortized over two to twenty years. We expect all of the $19.4 million of goodwill will be deductible for tax purposes.

5. Goodwill and Intangible Assets

Goodwill is tested for impairment on an annual basis and between annual tests if indicators of potential impairment exist. The date of our annual impairment test is October 1. A change in our reportable segments, more fully described herein in Note 1, resulted in a change in the composition of our reporting units, which is the unit of accounting for goodwill. Accordingly, we reallocated goodwill between our reporting units using the relative fair value approach. A summary of changes to goodwill is as follows:

	Residential Services	ResCare HomeCare	Education and Training Services	Workforce Services	Pharmacy Services	Total
Balance at December 31, 2011	$ 152,459	$ 63,171	$ 15,311	$ 32,720	$ 4,036	$ 267,697
Goodwill added through acquisition	15,936	3,163	—	—	290	19,389
Other	1,179	—	—	—		1,179
Balance at December 31, 2012	169,574	66,334	15,311	32,720	4,326	288,265
Goodwill added through acquisition	12,864	7,213	—	—	—	20,077
Other	8	—	—	—	—	8
Balance at December 31, 2013	$ 182,446	$ 73,547	$ 15,311	$ 32,720	4,326	$ 308,350

For our October 1, 2013 annual impairment test, all reporting units passed Step One. The ResCare HomeCare reporting unit passed Step One with a fair value that exceeded its carrying value by a 7 percent margin. Inability to meet projected results utilized in the annual impairment test could lead to a potential impairment in the future.

Intangible assets are as follows:

	December 31, 2013		December 31, 2012		
	Gross	Accumulated Amortization	Gross	Accumulated Amortization	Life (Years)
Licenses	$ 226,955	$ —	$ 226,706	$ —	Indefinite
Trade names	63,933	10,272	63,060	6,824	5-20
Customer relationships	57,296	7,993	40,479	4,855	15-20
Covenants not to compete	5,747	2,420	4,069	1,831	2-5
Other intangible assets	751	384	748	259	5-20
	$ 354,682	$ 21,069	$ 335,062	$ 13,769	

Amortization expense on the intangible assets for the years ended December 31, 2013, December 31, 2012 and December 31, 2011 was approximately $7.3 million, $6.7 million and $6.2 million, respectively.

Estimated amortization expense for the next five years is as follows:

Year Ending December 31:

2014	$ 8,989
2015	8,633
2016	8,175
2017	7,566
2018	6,933

6. Debt

Long-term debt and obligations under capital leases consist of the following:

	December 31, 2013	December 31, 2012
10.75% senior notes due 2019	$ 200,000	$ 200,000
Senior secured Term Loan A due 2017	157,513	170,625
Senior secured Revolving Facility	—	—
Obligations under capital leases	20,240	17,683
Notes payable and other	2,284	2,491
	380,037	390,799
Less current portion	20,807	20,747
	$ 359,230	$ 370,052

On December 22, 2010, we issued $200 million of 10.75% senior notes due January 15, 2019 in a private placement to qualified institutional buyers under the Securities Act of 1933. The 10.75% senior notes, which had an issue price of 100% of the principal amount, are unsecured obligations ranking equal to existing and future debt and are subordinate to existing and future secured debt. The 10.75% senior notes are jointly, severally, fully and unconditionally guaranteed by our domestic subsidiaries.

On April 5, 2012, we entered into a new senior secured credit facility (the "Credit Agreement") in an aggregate principal amount of $375 million, which replaced our 2010 senior secured revolving credit facility and the senior secured term loan (the "Term Loan B"). The Credit Agreement consists of a term loan (the "Term Loan A") in an aggregate principal amount of $175 million and a revolving credit facility (the "Revolving Facility") in an aggregate principal amount of $200 million. The Term Loan A and the Revolving Facility each mature on April 5, 2017. The Term Loan A will amortize in an aggregate annual amount equal to a percentage of the original principal amount of the Term Loan A as follows: (i) 5% during each of the first two years after funding, (ii) 10% during the third year after funding and (iii) 15% during each of the final two years of the term. The balance of the Term Loan A is payable at maturity. Pricing for the Term Loan A will be variable, at the London Interbank Offer Rate (LIBOR) plus a spread, which is currently 275 basis points. LIBOR is defined as having no minimum rate. The spread varies between 225 and 300 basis points depending on our total leverage ratio. The proceeds of the Term Loan A were used to repay the Company's prior Term Loan B and pay certain related fees and expenses. The proceeds of the Revolving Facility may be used for working capital and for other general corporate purposes permitted under the Credit Agreement, including certain acquisitions and investments. The Credit Agreement also provides that, upon satisfaction of certain conditions, the Company may increase the aggregate principal amount of loans outstanding thereunder by up to $175 million, subject to receipt of additional lending commitments for such loans. The loans and other obligations under the Credit Agreement are (i) guaranteed by Onex Rescare Holdings Corp. ("Holdings") and substantially all of its subsidiaries (subject to certain exceptions and limitations) and (ii) secured by substantially all of the assets of the Company, Holdings and substantially all of its subsidiaries (subject to certain exceptions and limitations). The Credit Agreement contains various financial covenants relating to capital expenditures and rentals, and requires us to maintain specific ratios with respect to interest coverage and leverage. The agreement continues to provide for the exclusion of charges incurred with the resolution of certain legal proceedings provided in Note 15 to Notes to the Condensed Consolidated Financial Statements, as well as any non-cash impairment charges, in the calculation of certain financial covenants.

We recorded a loss on extinguishment of debt of $7.1 million in the three months ended June 30, 2012 associated with termination of the 2010 senior secured revolving credit facility and the Term Loan B prepayment. Loss on extinguishment of debt consists principally of write-offs of unamortized deferred debt issuance costs and original issue discount.

Our obligations under capital leases are $20.2 million and $17.7 million as of December 31, 2013 and December 31, 2012, respectively, due primarily to vehicle capital leases as disclosed further in Note 12. The current portion of these lease obligations was $6.5 million and $6.0 million as of December 31, 2013 and December 31, 2012, respectively.

As of December 31, 2013, we had irrevocable standby letters of credit in the principal amount of $43.3 million issued primarily in connection with our insurance programs. As of December 31, 2013, we had $156.7 million available under the amended and restated revolving facility, with no outstanding balance. Outstanding balances bear interest at 2.75% over the LIBOR at our option. As of December 31, 2013, the weighted average interest rate was not applicable as there were no outstanding borrowings. Letters of credit had a borrowing rate of 2.88% as of December 31, 2013. The commitment fee on the unused balance was 0.50%. The margin over LIBOR and the commitment fee is determined quarterly based on our leverage ratio, as defined by the Revolving Facility. We are in compliance with our debt covenants at December 31, 2013.

Maturities of long-term debt and obligations under capital leases are as follows:

Year Ending December 31	
2014	$ 20,807
2015	27,942
2016	30,772
2017	99,161
2018	1,285
Thereafter	200,070
	$ 380,037

7. Income Taxes

Income tax expense attributable to income from continuing operations is summarized as follows:

	2013	2012	2011
Current:			
Federal	$ 11,041	$ 18,097	$ 9,868
State	2,104	3,267	2,370
Foreign	328	334	393
Total current	13,473	21,698	12,631
Deferred:			
Federal	6,451	2,399	6,250
State	1,159	1,658	1,160
Foreign	—	5	(36)
Total deferred	7,610	4,062	7,374
Total income tax expense	$ 21,083	$ 25,760	$ 20,005

A reconciliation of the U.S. Federal income tax rate of 35% to income tax expense (benefit) expressed as a percent of pretax income from continuing operations follows:

	2013	2012	2011
Current:			
Federal income tax at the statutory rate	35.0%	35.0%	35.0%
Increase in income tax expense (benefit)			
State and foreign income taxes, net of federal benefits	3.5	4.3	4.4
Jobs tax credits, net	(9.7)	(2.3)	(5.9)
Nondeductible expenses	0.7	0.4	(1.1)
Reserve for uncertain tax positions	(0.1)	1.3	—
Other	0.3	(0.1)	—
	29.7%	38.6%	32.4%

On January 2, 2013, legislation was enacted that reinstated the jobs credit provisions retroactive to January 1, 2012. Under ASC 740, changes to tax laws are not recognized until the enactment date. Accordingly, the net impact of the reinstatement of the jobs credit provisions relative to credits generated during 2012 ($2.9 million), as well as jobs credits generated during 2013 ($3.4 million), were recognized in 2013.

As of December 31, 2013, we have state net operating loss carryforwards of approximately $77 million, which are available to offset future taxable income, if any, of certain entities in certain states. These carryforwards will expire between 2014 and 2033. Application of some of these carryforwards is limited under the change of ownership provisions. These carryforwards have been partially or fully offset by valuation allowances, as our ability to apply these carryforwards may be limited.

As of December 31, 2013, we have federal foreign tax credit carryforwards of approximately $0.9 million. If not used, these carryforwards will expire between 2016 and 2019. These credit carryovers have been fully offset by a valuation allowance as our ability to apply these carryovers is subject to limitation.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	2013	2012
Deferred tax assets:		
Accounts receivable	$ 4,278	$ 9,191
Property and equipment	849	922
Workers' compensation costs	12,035	12,043
Compensated absences	5,665	5,081
Share-based compensation	3,367	2,425
Other insurance reserves	5,577	11,835
Unfavorable lease adjustments	506	857
Other liabilities and reserves	3,975	2,174
Deferred state income tax net operating loss carryforwards	3,611	3,233
Deferred tax credits, foreign tax credit carryforwards and other	1,689	2,123
Total gross deferred tax assets	41,552	49,884
Less valuation allowance	4,478	3,659
Net deferred tax assets	37,074	46,225
Deferred tax liabilities:		
Revenue adjustments	—	5,651
Property and equipment	2,799	5,971
Goodwill and other intangible assets	129,828	122,031
Other	720	1,236
Total deferred tax liabilities	133,347	134,889
Net deferred tax liability	$ (96,273)	$ (88,664)
Classified as follows:		
Current deferred income tax assets	$ 19,811	$ 17,589
Noncurrent deferred income tax liability	(116,084)	(106,253)
Net deferred tax liability	$ (96,273)	$ (88,664)

A valuation allowance for deferred tax assets was provided as of December 31, 2013 related to state income tax net operating loss carryforwards and federal foreign tax credit carryovers. The realization of deferred tax assets is dependent upon generating future taxable income when temporary differences become deductible. Based upon the historical and projected levels of taxable income, we believe it is more likely than not that we will realize the benefits of the deductible differences after consideration of the valuation allowance.

A reconciliation of the beginning and ending amount of total unrecognized tax benefits is as follows:

	Dec-31, 2013	Dec-31, 2012	Dec-31, 2011
Balance at beginning of year	$ 2,169	$ 804	$ 438
Increase related to prior year tax positions	60	1,478	—
Decrease related to prior year tax positions	(21)	(9)	(37)
Increase related to current year tax positions	—	—	536
Settlements	—	—	(22)
Lapse of statute of limitations	(77)	(104)	(111)
Balance at end of year	$ 2,131	$ 2,169	$ 804

Included in the balance of total unrecognized tax benefits at December 31, 2013 are potential benefits of $0.5 million, which if recognized, would affect the effective tax rate on income from continuing operations for the year ended December 31, 2014.

We file numerous consolidated and separate income tax returns in the U.S. federal and various state and foreign jurisdictions. With few exceptions, we are no longer subject to income tax examinations by the taxing authorities for years prior to 2009. We believe that we have appropriate support for the income tax positions taken and to be taken on our income tax returns and that our accruals for income tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of the tax laws as applied to the facts of each matter. We expect that the amounts of unrecognized tax benefits will be reduced by $0.5 million within the next twelve months.

Total accrued interest and penalties as of December 31, 2013 are approximately $0.4 million and are included in accrued expenses.

8. Detail of Certain Balance Sheet Accounts

Property and equipment is summarized as follows:

	2013	2012
Land and land improvements	$ 6,846	$ 6,879
Furniture and equipment	50,744	51,359
Buildings	26,972	26,298
Leasehold improvements	18,192	15,285
Vehicles under capital lease (Note 12)	30,967	23,017
Buildings under capital lease	1,252	1,252
Equipment under capital lease	278	472
Software under capital lease	269	269
Construction in progress	4,846	2,290
	140,366	127,121
Less accumulated depreciation and amortization	39,345	30,091
Net property and equipment	$ 101,021	$ 97,030

Other assets are as follows:

	2013	2012
Long-term receivables and advances to managed facilities	$ 3,280	$ 2,621
Deposits	3,981	3,904
Deferred debt issuance costs	9,085	11,498
Insurance recoveries	7,352	7,193
Other assets	1,484	1,938
	$ 25,182	$ 27,154

Accrued expenses are as follows:

	2013	2012
Wages and payroll taxes	$ 46,878	$ 43,824
Compensated absences	19,709	18,025
Health insurance	6,415	7,199
Workers' compensation insurance	14,740	14,154
Automobile insurance	1,960	1,869
Professional services	6,397	2,312
General and professional liability insurance	2,841	1,679
Taxes other than income taxes	6,125	9,696
Interest	10,852	10,962
Deferred revenue	956	1,045
Other	3,930	4,111
	$ 120,803	$ 114,876

Long-term liabilities are as follows:

	2013	2012
Workers' compensation insurance	$ 26,945	$ 26,090
Automobile insurance	3,680	3,638
General and professional liability insurance	5,635	24,054
Unfavorable leases	679	1,317
Other	2,204	1,370
	$ 39,143	$ 56,469

9. Segment Information

The following table sets forth information about reportable segment operating results and assets:

	Residential Services	ResCare HomeCare	Educational & Training Services	Workforce Services	Pharmacy Services	Corporate	Consolidated Totals
January 1, 2013-December 31, 2013:							
Revenues	$ 886,262	$ 365,919	$ 133,283	$ 161,904	$ 69,265	$ —	$1,616,633
Operating income (loss)	111,069	28,433	10,763	17,377	6,379	(70,298)	103,723
Total assets	625,680	205,027	51,252	86,840	18,870	98,608	1,086,277
Capital expenditures	8,802	747	102	542	349	10,068	20,610
Depreciation and amortization	21,326	2,816	534	1,170	150	8,399	34,395
January 1, 2012-December 31, 2012:							
Revenues	$ 851,279	$ 336,975	$ 150,647	$ 195,956	$ 64,252	$ —	$1,599,109
Operating income (loss)	117,510	23,852	11,915	12,117	5,280	(61,515)	109,159
Total assets	596,183	183,615	56,723	84,881	12,929	117,627	1,051,958
Capital expenditures	5,843	623	104	486	134	8,295	15,485
Depreciation and amortization	20,413	2,599	604	1,254	153	8,348	33,371
January 1, 2011-December 31, 2011:							
Revenues	$ 822,705	$ 320,477	$ 154,347	$ 218,886	$ 62,920	$ —	$1,579,335
Operating income (loss)	101,694	23,649	13,075	18,352	3,145	(56,015)	103,900
Total assets	544,589	178,474	69,387	93,064	12,042	94,702	992,258
Capital expenditures	6,078	552	72	873	210	5,722	13,507
Depreciation and amortization	11,459	2,063	508	1,325	167	5,407	20,929

10. Benefit Plans

We sponsor retirement savings plans which were established to assist eligible employees in providing for their future retirement needs. We did not contribute to the Plans during 2013, 2012 and 2011.

11. Share-Based Compensation

During the second quarter of 2011, certain employees and non-employee directors executed stock option agreements for options to purchase shares of the Class A common stock of Onex Rescare Holdings Corp., the entity that holds all of the outstanding shares of ResCare. These options were awarded pursuant to the Onex Rescare Holdings Corp. Stock Option Plan (the Plan), which has a total of 3,810 shares to which options may be granted.

Under the Plan, initial stock option grants of 3,556 shares were awarded on April 1, 2011, at a $5,000 exercise price. These options have a ten year life. From the initial grant of 3,556 options, 2,935 have a service period of five years and 621 have no service period. Each option incorporated both market conditions to vesting and performance conditions to exercisability and is forfeited upon termination of employment if the relevant conditions have not been met.

We engaged a valuation company to assist in the determination of the fair value for each option. The fair value of each stock option was estimated as of the date of grant using Monte Carlo simulation in a numerical option valuation model taking into account the market condition to vesting. The expected volatility of our stock price was based on historical volatility of a group of our peers over the expected term, adjusted for our leverage. We assumed no dividends based on the Company's prior history. The expected term of the option was based on expected exercise behavior, the vesting conditions of the respective award and the contractual term. Our stock price volatility and the expected option lives were based on management's best estimates at the time of grant, both of which impact the fair value of the option calculated under the option valuation methodology. Ultimately, the expense that will be recognized will be based on the fair value of the options in conjunction with the achievement of the performance conditions for exercisability.

Based on the performance/vesting conditions that required a liquidity event as a condition for exercising the options, no share-based compensation expense was recorded in the nine months ended September 30, 2011 for the 3,556 options granted on April 1, 2011.

On November 1, 2011, the board of directors passed a resolution amending the option agreements, whereby a liquidity event would not be required as a condition for exercising/vesting the options. We updated the fair value calculation using a modified grant date of November 1, 2011. As a result, share-based compensation expense of $2.4 million was recorded in the fourth quarter of 2011.

Total share-based compensation expense for the periods presented was as follows:

	Dec-31, 2013	Dec-31, 2012	Dec-31, 2011
Stock options	$ 2,917	$ 3,836	$ 2,383
Tax effect	1,135	1,492	927
Share-based compensation expense, net of tax	$ 1,782	$ 2,344	$ 1,456

A summary of our stock option activity and related information under the Onex Rescare Holdings Corp. Plan is as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2011	3,556	$ 5,000.00	
Granted	501	5,693.41	
Forfeited/canceled	(715)	5,000.00	
Outstanding at December 31, 2012	3,342	5,103.95	
Granted	357	6,630.67	
Forfeited/canceled	(239)	5,000.00	
Outstanding at December 31, 2013	3,460	$ 5,268.66	7.51 years
Exercisable at December 31, 2013	2,030	$ 5,143.20	7.18 years

We estimated the fair value of each option share granted on the date of grant using a Monte Carlo simulation that uses expected volatility and risk-free interest rate assumptions. Expected volatilities were based on average volatilities of similar public companies, which ranged from 53.0% to 103.8%. The risk-free interest rate was based on the U.S. Treasury securities commensurate with the terms of each traunch of the option grant and ranged from 0.11% to 2.65%. Unrecognized share-based compensation related to stock options under the new Onex Rescare Holdings Corp. Plan as of December 31, 2013 was $3.0 million, which will be recognized over a four-year period.

12. Lease Arrangements

We lease certain residential and operating facilities, office space and equipment under operating leases which expire at various dates. Rent expense for the periods ended December 31, 2013, December 31, 2012 and December 31, 2011, was approximately $71.2 million, $68.6 million and $74.2 million, respectively. Facility rent, defined as land and building lease expense less amortization of any deferred gain on applicable lease transactions for the periods ended December 31, 2013, December 31, 2012 and December 31, 2011 was approximately $68.4 million, $65.9 million and $64.8 million, respectively. We also lease certain land and buildings and vehicles used in operations under capital leases. These leases expire at various dates through 2022 (including renewal options) and generally require us to pay property taxes, insurance and maintenance costs.

The Company (lessee) has leased its vehicles through a master lease agreement with PHH Vehicle Management Services Corporation (PHH) since 1993. The lease term per vehicle is a minimum of 12 months and thereafter the minimum term may be continued at the lessee's election for successive monthly renewal periods until the vehicle is returned to PHH. This master lease was initially accounted for as an operating lease. Our lease term per vehicle has gradually increased over the years to a current term of at least 60 months. A review of this activity was performed during 2012, at which time we determined that we had been incorrectly classifying these leases as operating leases and that capital lease treatment was appropriate due to the increase in the lease term per vehicle. During 2012, we recorded an out-of-period adjustment relating to capital lease accounting which decreased pre-tax income by approximately $0.7 million ($0.4 million after tax) and increased net property and equipment and capital lease obligations by $16.5 million and $17.3 million, respectively, to correct the accounting treatment for our leased vehicles. The impact to the cash flow statement was an increase to cash flows from operations and a decrease to financing activities of $5.9 million due to increased depreciation and payments on capital lease obligations. We evaluated the total out-of-period adjustment in relation to the 2012 periods, as well as the prior periods being presented and concluded that the adjustment was not material to any prior consolidated quarterly and annual financial statement periods.

Future minimum lease payments under capital leases, together with the minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2013, are as follows:

Year Ending December 31:	Capital Leases	Operating Leases
2014	$ 7,664	$ 66,445
2015	6,066	53,934
2016	4,696	36,717
2017	3,026	24,296
2018	1,329	15,060
Thereafter	71	12,840
Total minimum lease payments	22,852	$ 209,292
Less amounts representing interest	2,612	
Present value of minimum lease payments	20,240	
Less current maturities	6,516	
Total long-term obligations under capital leases	$ 13,724	

Assets capitalized under capital leases as reflected in the accompanying consolidated balance sheets were $31.0 million of vehicles, $1.2 million of buildings, $0.3 million of equipment and $0.3 million of software as of December 31, 2013. Assets capitalized under capital leases as reflected in the accompanying consolidated balance sheets were $23.0 million of vehicles, $1.2 million of buildings, $0.5 million of equipment and $0.3 million of software as of December 31, 2012. The accumulated depreciation related to assets under capital leases was $13.0 million and $7.6 million as of December 31, 2013 and 2012, respectively.

13. Fair Value

The three levels of hierarchy are:

(a) Level 1 Quoted prices in active markets for identified assets or liabilities.

(b) Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.

(c) Level 3 Unobservable inputs used in valuations in which there is little market activity for the asset or liability at the measurement date.

Fair value measurements of assets or liabilities are assigned a level within the fair value hierarchy based on the lowest level of any input that is significant to the fair value measurement in its entirety. We primarily utilize the income approach to measure fair value for our goodwill, long-lived assets and other intangible assets. The income approach uses valuation techniques to convert future amounts to a single present amount.

14. Financial Instruments

At December 31, 2013 and 2012, the fair values of cash and cash equivalents, accounts receivable and accounts payable approximated carrying value because of the short-term nature of these instruments. The fair value of our other financial instruments subject to fair value disclosures are as follows:

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
10.75% senior notes	$ 200,000	$ 223,500	$ 200,000	$ 221,000
Senior secured Term Loan A	157,513	157,513	170,625	170,625
Senior secured Revolving Facility	—	—	—	—
Notes payable and other	2,284	2,200	2,491	2,410

We estimate the fair value of the debt instruments using market quotes and calculations based on current market rates available to us (Level 2).

15. Commitments and Contingencies

Litigation

ResCare, or its affiliates, are parties to various legal and/or administrative proceedings arising out of the operation of our programs and arising in the ordinary course of business. We record accruals for such contingencies to the extent that we conclude it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. No estimates of the possible losses or ranges of losses in excess of amounts accrued, if any, can be made at this time because the inherently unpredictable nature of legal proceedings may be exacerbated by various factors, including: (i) the damages sought in the proceedings are unsubstantiated or indeterminate; (ii) discovery is not complete; (iii) the proceeding is in its early stages; (iv) the matters present legal uncertainties; (v) there are significant facts in dispute; (vi) there are a large number of parties (including where it is uncertain how liability, if any, will be shared among multiple defendants); or (vii) there is a wide range of potential outcomes. While we do not believe the ultimate liability, if any, for these proceedings or claims, individually or in the aggregate, in excess of amounts already provided, will have a material adverse effect on our financial condition, results of operations or cash flows or may affect our reputation, it is reasonably possible they could.

In March 2007, a lawsuit was filed in Bernalillo County, New Mexico State Court styled *Larry Selk, by and through his legal guardian, Rani Rubio v. Res-Care New Mexico, Inc., Res-Care, Inc., et al*. The lawsuit sought compensatory and punitive damages for claims of negligence, negligence per se, violations of the Unfair Practices Act and violations of the Resident Abuse and Neglect Act. On February 19, 2010, ruling on post-trial motions, the New Mexico trial court judge approved a final award of $15.5 million, plus statutory interest, in favor of plaintiffs. We, as well as the plaintiffs, appealed. A settlement was reached among all parties in the third quarter of 2013 and was approved by the court in

November. The settlement was paid in November. The pretax charges recorded in connection with various legal matters, including settlement of the *Selk* matter, increased by $8.3 million in 2013 over 2012.

16. Related Party Transactions

In connection with the Onex transaction (Note 2), we pay Onex Corporation an annual advisory fee of $0.7 million for its services under an agreement that was effective December 22, 2010 for an initial term of ten years.

U.S. Bank National Association, a subsidiary of U.S. Bancorp, is a member of our lender group and holds approximately 9.3% of outstanding indebtedness under our senior secured credit facility, which was amended on April 5, 2012 and will expire on April 5, 2017. Mrs. Olivia Kirtley, a member of our board of directors, is also a member of U.S. Bancorp's board of directors. The credit facility with our lending group was negotiated on an arms length basis with no involvement from Mrs. Kirtley.

17. Quarterly Data (unaudited)

2013 (1) (2)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 389,454	$ 396,233	$ 409,934	$ 421,012
Gross profit	95,078	101,065	104,511	111,411
Net income:				
Net income-including noncontrolling interest	$ 11,296	$ 10,239	$ 11,334	$ 16,904
Net loss-noncontrolling interest	(36)	(40)	(34)	—
Net income - Res-Care, Inc.	$ 11,332	$ 10,279	$ 11,368	$ 16,904

2012 (1) (3)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 397,342	$ 399,902	$ 396,838	$ 405,027
Gross profit	98,062	98,759	100,841	106,953
Net income:				
Net income-including noncontrolling interest	$ 5,735	$ 4,799	$ 12,244	$ 18,235
Net loss-noncontrolling interest	(30)	(31)	(24)	(25)
Net income - Res-Care, Inc.	$ 5,765	$ 4,830	$ 12,268	$ 18,260

(1) The first and third quarters of 2013 include a $3.3 million and $0.1 million, respectively, reduction to income tax expense related to the reinstatement of the jobs credit provisions retroactive to January 1, 2012. No jobs credit was included in the 2012 quarters.

(2) Second quarter of 2013 includes an overstatement of gross profit of $1 million ($0.6 million, net of tax) related to an erroneous physical inventory adjustment in our Pharmacy operation. This error was corrected in the third quarter of 2013 by decreasing gross profit by $1 million ($0.6 million, net of tax). The third quarter of 2013 also included an adjustment which decreased revenues by $1.3 million, of which $0.5 million related to 2012, $0.4 million related to the first quarter of 2013 and $0.4 million related to the second quarter of 2013. The net impact of these combined items decreased net income for the third quarter of 2013 by approximately $2.3 million before tax ($1.4 million after tax).

(3) Second quarter of 2012 includes a $7.1 million ($4.4 million, net of tax) charge related to a loss on extinguishment of debt from our refinancing.

18. Noncontrolling Interest

Effective October 1, 2013, ResCare acquired the remaining 33.3% interest in Rest Assured LLC, for no cash compensation. Prior to this transaction, ResCare held a 66.7% interest in Rest Assured LLC, a limited liability company comprised of public and private organizations providing remote monitoring services for persons with disabilities and the elderly. ASC 810, *Noncontrolling Interests in Consolidated Financial Statements,* (ASC 810) clarifies that noncontrolling interest be reported as a component separate from the parent's equity and that changes in the parent's ownership interest in a subsidiary be recorded as equity transactions if the parent retains its controlling interest in the subsidiary. The statement also requires consolidated net income to include amounts attributable to both the parent and the noncontrolling interest on the face of the income statement. In addition, ASC 810 requires a parent to recognize a gain or loss in net income on the date the parent deconsolidates a subsidiary, or ceases to have a controlling financial interest in a subsidiary. Balances are as follows:

Noncontrolling interest as of December 31, 2011	$ 11
Net loss-noncontrolling interest	(110)
Noncontrolling interest as of December 31, 2012	(99)
Net loss-noncontrolling interest	(110)
Acquisition of remaining noncontrolling interest	209
Noncontrolling interest as of December 31, 2013	$ —

19. Onex Rescare Holdings Corp

Onex Rescare Holdings Corp ("ResCare Holdings") was formed as part of Onex's acquisition of Res-Care, Inc. (as described in Note 2) to ultimately own the common shares of Res-Care, Inc. ResCare Holdings is a holding company and currently conducts no ongoing operations. ResCare Holdings maintains an investment in Res-Care, Inc. and has no other assets or liabilities. ResCare Holdings had no income statement activity for the 2013, 2012 and 2011 periods and the consolidated statement of comprehensive income for ResCare Holdings for the 2013, 2012 and 2011 periods is the same as the Res-Care, Inc. statements of comprehensive income. ResCare Holdings' consolidated balance sheet, including Res-Care, Inc., is the same as Res-Care, Inc. as of December 31, 2013 and 2012.

20. Subsidiary Guarantors

The Senior Notes are jointly, severally, fully and unconditionally guaranteed, subject to certain automatic customary release provisions, by our 100% owned U.S. subsidiaries. There are no restrictions on our ability to obtain funds from our U.S. subsidiaries by dividends or other means. The following are condensed consolidating financial statements of our company, including the guarantors. This information is provided pursuant to Rule 3 – 10 of Regulation S-X in lieu of separate financial statements of each subsidiary guaranteeing the Senior Notes. The following condensed consolidating financial statements present the balance sheet, statement of comprehensive income and cash flows of (i) Res-Care, Inc. (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the guarantor subsidiaries, (iii) the non-guarantor subsidiaries, and (iv) the eliminations necessary to arrive at the information for our company on a consolidated basis. The condensed consolidating financial statements should be read in conjunction with the accompanying condensed consolidated financial statements.

In connection with the preparation of our condensed consolidated financial statements for the fourth quarter of 2013, we made certain immaterial adjustments to our condensed consolidating statement of cash flows for the twelve month period ended December 31, 2012, to reflect the proper classification of cash flows related to intercompany transactions in which the parent company made direct payments and collected direct receipts on behalf of certain guarantor and non-guarantor subsidiaries. We will also make similar adjustments to our condensed consolidating statements of cash flows for comparative periods presented in future filings. This condensed consolidating financial information is provided in connection with outstanding senior notes that are fully and unconditionally guaranteed by a group of our subsidiaries. These adjustments did not affect the assets available to the group of subsidiaries guaranteeing our senior notes; did not change the net increase or decrease in cash and cash equivalents for the parent company, the issuer, the guarantor subsidiaries or the non-guarantor subsidiaries; and had no impact on consolidated amounts. The substantial majority of these adjustments for the twelve months ended December 31, 2012 had the effect of a) decreasing the parent company's net cash inflows from operating activities and increasing the parent company's net cash inflows from financing activities by $156.0 million, b) increasing the guarantors' net cash inflows from operating activities and increasing the guarantors' net cash outflows from financing activities by $73.9 million and c) decreasing the non-guarantors' net cash outflows from operating activities and decreasing the non-guarantors' net cash inflows from financing activities by $82.1 million. The condensed consolidating statement of cash flows for the twelve month period ended December 31, 2011 did not require adjustment.

RES-CARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
(In thousands)

	December 31, 2013				
	ResCare, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 26,335	$ 2,860	$ 802	$ —	$ 29,997
Accounts receivable, net	25,953	215,864	56	—	241,873
Deferred income taxes	19,811	—	—	—	19,811
Non-trade receivables	4,592	2,237	23	—	6,852
Prepaid expenses and other current assets	10,793	8,765	20	—	19,578
Total current assets	87,484	229,726	901	—	318,111
Property and equipment, net	50,854	50,160	7	—	101,021
Goodwill	303,270	27	5,053	—	308,350
Other intangible assets, net	297,535	36,078	—	—	333,613
Intercompany	—	695,097	68,427	(763,524)	—
Investment in subsidiaries	990,793	37,913	—	(1,028,706)	—
Other assets	18,746	6,436	—	—	25,182
	$ 1,748,682	$ 1,055,437	$ 74,388	$ (1,792,230)	$ 1,086,277
LIABILITIES AND SHAREHOLDER'S EQUITY					
Current liabilities:					
Trade accounts payable	$ 17,851	$ 16,210	$ 28	$ —	$ 34,089
Accrued expenses	61,175	58,950	678	—	120,803
Current portion of long-term debt	13,125	1,166	—	—	14,291
Current portion of obligations under capital leases	—	6,516	—	—	6,516
Accrued income taxes	—	—	—	—	—
Total current liabilities	92,151	82,842	706	—	175,699
Intercompany	761,430	—	—	(761,430)	—
Long-term liabilities	38,508	635	—	—	39,143
Long-term debt	344,388	1,118	—	—	345,506
Obligations under capital leases	—	13,724	—	—	13,724
Deferred income taxes	116,084	—	—	—	116,084
Total liabilities	1,352,561	98,319	706	(761,430)	690,156
Common stock	—	—	—	—	—
Additional paid-in capital	247,053	478,422	121,814	(600,236)	247,053
Retained earnings	149,617	478,714	(47,178)	(431,536)	149,617
Accumulated other comprehensive (loss) income	(549)	(18)	(954)	972	(549)
Total shareholder's equity-Res-Care, Inc.	396,121	957,118	73,682	(1,030,800)	396,121
Noncontrolling interest	—	—	—	—	—
Total shareholder's equity	396,121	957,118	73,682	(1,030,800)	396,121
	$ 1,748,682	$ 1,055,437	$ 74,388	$ (1,792,230)	$ 1,086,277

RES-CARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
(In thousands)

	December 31, 2012				
	ResCare, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 42,633	$ 4,795	$ 2,706	$ —	$ 50,134
Accounts receivable, net	21,515	206,491	371	—	228,377
Deferred income taxes	17,589	—	—	—	17,589
Non-trade receivables	1,506	2,251	185	—	3,942
Prepaid expenses and other current assets	10,114	7,730	330	—	18,174
Total current assets	93,357	221,267	3,592	—	318,216
Property and equipment, net	43,320	53,282	428	—	97,030
Goodwill	282,832	—	5,433	—	288,265
Other intangible assets, net	302,293	19,000	—	—	321,293
Intercompany	—	629,357	70,725	(700,082)	—
Investment in subsidiaries	906,981	42,014	—	(948,995)	—
Other assets	24,073	3,064	17	—	27,154
	$ 1,652,856	$ 967,984	$ 80,195	$ (1,649,077)	$ 1,051,958
LIABILITIES AND SHAREHOLDER'S EQUITY					
Current liabilities:					
Trade accounts payable	$ 20,499	$ 17,181	$ 58	$ —	$ 37,738
Accrued expenses	55,299	58,729	848	—	114,876
Current portion of long-term debt	13,098	1,573	1,746	(1,722)	14,695
Current portion of obligations under capital leases	—	6,052	—	—	6,052
Accrued income taxes	1,843	—	(30)	—	1,813
Total current liabilities	90,739	83,535	2,622	(1,722)	175,174
Intercompany	697,988	—	—	(697,988)	—
Long-term liabilities	56,240	229	—	—	56,469
Long-term debt	357,527	893	—	—	358,420
Obligations under capital leases	—	11,632	—	—	11,632
Deferred income taxes	106,253	—	—	—	106,253
Total liabilities	1,308,747	96,289	2,622	(699,710)	707,948
Common stock	—	—	—	—	—
Additional paid-in capital	244,345	476,811	125,104	(601,915)	244,345
Retained earnings	99,734	394,902	(47,055)	(347,847)	99,734
Accumulated other comprehensive income (loss)	30	(18)	(377)	395	30
Total shareholder's equity-Res-Care, Inc.	344,109	871,695	77,672	(949,367)	344,109
Noncontrolling interest	—	—	(99)	—	(99)
Total shareholder's equity	344,109	871,695	77,573	(949,367)	344,010
	$ 1,652,856	$ 967,984	$ 80,195	$ (1,649,077)	$ 1,051,958

RES-CARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended December 31, 2013				
	ResCare, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenues	$ 241,840	$ 1,372,058	$ 2,735	$ —	$ 1,616,633
Operating expenses	257,901	1,251,934	3,075	—	1,512,910
Operating (loss) income	(16,061)	120,124	(340)	—	103,723
Other (income) expenses:					
Interest, net	31,686	1,190	(9)	—	32,867
Loss on extinguishment of debt	—	—	—	—	—
Equity in earnings of subsidiaries	(83,428)	(261)		83,689	—
Total other (income) expenses	(51,742)	929	(9)	83,689	32,867
Income (loss) from continuing operations before income taxes	35,681	119,195	(331)	(83,689)	70,856
Income tax (benefit) expense	(14,202)	35,383	(98)	—	21,083
Net income (loss)	49,883	83,812	(233)	(83,689)	49,773
Net loss-noncontrolling interest	—	—	(110)	—	(110)
Net income (loss)-Res-Care, Inc.	$ 49,883	$ 83,812	$ (123)	$ (83,689)	$ 49,883
Other comprehensive income (loss):					
Foreign currency translation adjustments	(579)	—	(579)	579	(579)
Comprehensive income (loss) attributable to Res-Care, Inc.	$ 49,304	$ 83,812	$ (702)	$ (83,110)	$ 49,304
Total comprehensive income (loss)	$ 49,304	$ 83,812	$ (812)	$ (83,110)	$ 49,194

RES-CARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31, 2012				
	ResCare, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenues	$ 252,422	$ 1,343,482	$ 3,205	$ —	$ 1,599,109
Operating expenses	274,339	1,212,102	3,509	—	1,489,950
Operating (loss) income	(21,917)	131,380	(304)	—	109,159
Other (income) expenses:					
Interest, net	34,329	939	(11)	—	35,257
Loss on extinguishment of debt	7,129	—	—	—	7,129
Equity in earnings of subsidiaries	(79,689)	(232)		79,921	—
Total other (income) expenses	(38,231)	707	(11)	79,921	42,386
Income (loss) from continuing operations before income taxes	16,314	130,673	(293)	(79,921)	66,773
Income tax (benefit) expense	(24,809)	50,683	(114)	—	25,760
Net income (loss)	41,123	79,990	(179)	(79,921)	41,013
Net loss-noncontrolling interest	—	—	(110)	—	(110)
Net income (loss)-Res-Care, Inc.	$ 41,123	$ 79,990	$ (69)	$ (79,921)	$ 41,123
Other comprehensive income:					
Foreign currency translation adjustments	206	—	206	(206)	206
Comprehensive income (loss) attributable to Res-Care, Inc.	$ 41,329	$ 79,990	$ 137	$ (80,127)	$ 41,329
Total comprehensive income	$ 41,329	$ 79,990	$ 27	$ (80,127)	$ 41,219

RES-CARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31, 2011				
	ResCare, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Revenues	$ 257,792	$ 1,319,735	$ 1,808	$ —	$ 1,579,335
Operating expenses	275,681	1,197,406	2,348	—	1,475,435
Operating (loss) income	(17,889)	122,329	(540)	—	103,900
Other expenses (income):					
Interest, net	42,124	(55)	(10)	—	42,059
Equity in earnings of subsidiaries	(74,002)	—	—	74,002	—
Total other (income) expenses	(31,878)	(55)	(10)	74,002	42,059
Income (loss) from continuing operations before income taxes	13,989	122,384	(530)	(74,002)	61,841
Income tax (benefit) expense	(19,414)	39,590	(171)	—	20,005
Income (loss) from continuing operations	33,403	82,794	(359)	(74,002)	41,836
Loss (income) from discontinued operations, net of tax	19,760	—	(8,604)	—	11,156
Net income (loss)-including noncontrolling interest	53,163	82,794	(8,963)	(74,002)	52,992
Net loss-noncontrolling interest	—	—	(171)	—	(171)
Net income (loss)-Res-Care, Inc.	$ 53,163	$ 82,794	$ (8,792)	$ (74,002)	$ 53,163
Other comprehensive income (loss):					
Foreign currency translation adjustments	(433)	—	(433)	433	(433)
Comprehensive income (loss) attributable to Res-Care, Inc.	$ 52,730	$ 82,794	$ (9,225)	$ (73,569)	$ 52,730
Total comprehensive income (loss)	$ 52,730	$ 82,794	$ (9,396)	$ (73,569)	$ 52,559

RES-CARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2013				
	ResCare, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Operating activities:					
Net income (loss)	$ 49,883	$ 83,812	$ (233)	$ (83,689)	$ 49,773
Adjustments to reconcile net income, including noncontrolling interest, to cash provided by operating activities	(105,637)	36,695	(3,218)	83,689	11,529
Cash (used in) provided by operating activities	(55,754)	120,507	(3,451)	—	61,302
Investing activities:					
Purchases of property and equipment	(11,422)	(9,145)	(43)	—	(20,610)
Acquisitions of businesses, net of cash acquired	—	(39,318)	—	—	(39,318)
Proceeds from sale of assets	—	535	—	—	535
Cash used in investing activities	(11,422)	(47,928)	(43)	—	(59,393)
Financing activities:					
Long-term repayments	(12,562)	(1,568)	(579)	—	(14,709)
Payments on obligations under capital leases, net	—	(7,206)	—	—	(7,206)
Debt issuance costs	(2)	—	—	—	(2)
Net activity relating to intercompany financing	63,442	(65,740)	2,298	—	—
Cash provided by (used in) financing activities	50,878	(74,514)	1,719	—	(21,917)
Effect of exchange rate changes on cash and cash equivalents	—	—	(129)	—	(129)
Decrease in cash and cash equivalents	(16,298)	(1,935)	(1,904)	—	(20,137)
Cash and cash equivalents at beginning of period	42,633	4,795	2,706	—	50,134
Cash and cash equivalents at end of period	$ 26,335	$ 2,860	$ 802	$ —	$ 29,997

RES-CARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2012				
	ResCare, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Operating activities:					
Net income (loss)	$ 41,123	$ 79,990	$ (179)	$ (79,921)	$ 41,013
Adjustments to reconcile net income, including noncontrolling interest, to cash provided by operating activities	(95,532)	54,832	87	79,921	39,308
Cash (used in) provided by operating activities	(54,409)	134,822	(92)	—	80,321
Investing activities:					
Purchases of property and equipment	(9,979)	(5,337)	(169)	—	(15,485)
Acquisitions of businesses, net of cash acquired	—	(30,690)	—	—	(30,690)
Proceeds from sale of assets	—	166	—	—	166
Cash used in investing activities	(9,979)	(35,861)	(169)	—	(46,009)
Financing activities:					
Long-term repayments	(171,828)	(2,493)	(397)	—	(174,718)
Long-term debt borrowings	175,000	—	—	—	175,000
Payments on obligations under capital leases, net	—	(6,034)	—	—	(6,034)
Debt issuance costs	(4,008)	—	—	—	(4,008)
Net activity relating to intercompany financing	91,124	(92,117)	993	—	—
Cash provided by (used in) financing activities	90,288	(100,644)	596	—	(9,760)
Effect of exchange rate changes on cash and cash equivalents	—	(69)	—	—	(69)
Increase (decrease) in cash and cash equivalents	25,900	(1,752)	335	—	24,483
Cash and cash equivalents at beginning of period	16,733	6,547	2,371	—	25,651
Cash and cash equivalents at end of period	$ 42,633	$ 4,795	$ 2,706	$ —	$ 50,134

RES-CARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In thousands)

	Year Ended December 31, 2011				
	ResCare, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Operating activities:					
Net income (loss)	$ 53,163	$ 82,794	$ (8,963)	$ (74,002)	$ 52,992
Adjustments to reconcile net income, including noncontrolling interest, to cash provided by operating activities	(196,342)	130,768	11,192	74,002	19,620
Cash (used in) provided by operating activities	(143,179)	213,562	2,229	—	72,612
Investing activities:					
Purchases of property and equipment	(21,566)	7,826	233	—	(13,507)
Acquisitions of businesses, net of cash acquired	—	(23,106)	—	—	(23,106)
Proceeds from sale of assets	—	221	—	—	221
Cash (used in) provided by investing activities	(21,566)	(15,059)	233	—	(36,392)
Financing activities:					
Long-term debt repayments	(37,134)	2,142	(3,832)	—	(38,824)
Payments on obligations under capital leases, net	—	(92)	—	—	(92)
Debt issuance costs	(561)	—	—	—	(561)
Funds contributed by co-investors	1,400	—	—	—	1,400
Net activity relating to intercompany financing	206,689	(203,768)	(2,921)	—	—
Cash provided by (used in) financing activities	170,394	(201,718)	(6,753)	—	(38,077)
Effect of exchange rate changes on cash and cash equivalents	—	(63)	19	—	(44)
Increase (decrease) in cash and cash equivalents	5,649	(3,278)	(4,272)	—	(1,901)
Cash and cash equivalents at beginning of period	11,084	9,825	6,643	—	27,552
Cash and cash equivalents at end of period	$ 16,733	$ 6,547	$ 2,371	$ —	$ 25,651

ResCare, Inc.
Schedule II – Valuation and Qualifying Accounts
(In thousands)

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions		Balance at End of Period
			Write-offs	Reclassifications	
Allowance for doubtful accounts receivable:					
Year ended December 31, 2013	$ 11,997	$ 5,005	$ (5,102)	$ —	$ 11,900
Year ended December 31, 2012	6,413	5,679	(95)	—	11,997
Year ended December 31, 2011	844	5,851	(282)	—	6,413
Allowance for deferred tax assets:					
Year ended December 31, 2013	$ 3,659	$ 899	$ (80)	$ —	$ 4,478
Year ended December 31, 2012	5,323	193	(463)	(1,394)	3,659
Year ended December 31, 2011	7,861	478	(91)	(2,925)	5,323

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