

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 001-34221

The Providence Service Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

86-0845127
(I.R.S. Employer
Identification No.)

64 East Broadway Blvd.,
Tucson, Arizona
(Address of principal executive offices)

85701
(Zip Code)

(520) 747-6600
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of May 6, 2015, there were outstanding 16,037,711 shares (excluding treasury shares of 1,029,294 of the registrant's Common Stock, \$0.001 par value per share.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

The Providence Service Corporation
Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 170,130	\$ 160,406
Accounts receivable, net of allowance of \$6,449 in 2015 and \$6,034 in 2014	198,644	151,344
Other receivables	6,724	6,866
Prepaid expenses and other	36,323	46,157
Restricted cash	2,633	3,807
Deferred tax assets	5,729	6,066
Total current assets	420,183	374,646
Property and equipment, net	58,689	57,148
Goodwill	353,995	355,641
Intangible assets, net	328,289	340,673
Other assets	22,053	22,373
Restricted cash, less current portion	15,349	14,764
Total assets	<u>\$ 1,198,558</u>	<u>\$ 1,165,245</u>
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term obligations	\$ 27,125	\$ 25,188
Note payable to related party	-	65,500
Accounts payable	34,626	48,061
Accrued expenses	137,682	121,857
Accrued transportation costs	73,322	55,492
Deferred revenue	14,678	12,245
Reinsurance liability reserve	6,880	11,115
Total current liabilities	294,313	339,458
Long-term obligations, less current portion	476,898	484,525
Other long-term liabilities	30,139	26,609
Deferred tax liabilities	91,386	93,239
Total liabilities	892,736	943,831
Commitments and contingencies (Note 11)		
Mezzanine equity		
Convertible preferred stock, net: Authorized 10,000,000 shares; \$0.001 par value; 805,000 and 0 issued and outstanding; 5.5%/8.5% dividend rate	76,894	-
Stockholders' equity		
Common stock: Authorized 40,000,000 shares; \$0.001 par value; 17,060,002 and 16,870,285 issued and outstanding (including treasury shares)	17	17
Additional paid-in capital	268,438	261,155
Accumulated deficit	(7,129)	(13,366)
Accumulated other comprehensive loss, net of tax	(14,051)	(8,756)
Treasury shares, at cost, 1,029,294 and 1,014,108 shares	(18,407)	(17,686)
Total Providence stockholders' equity	228,868	221,364
Non-controlling interest	60	50
Total stockholders' equity	228,928	221,414
Total liabilities and stockholders' equity	<u>\$ 1,198,558</u>	<u>\$ 1,165,245</u>

See accompanying notes to unaudited condensed consolidated financial statements

The Providence Service Corporation
Unaudited Condensed Consolidated Statements of Income
(in thousands, except share and per share data)

	Three months ended	
	March 31,	
	2015	2014
Service revenue	\$ 505,795	\$ 289,403
Operating expenses:		
Service expense	443,868	259,937
General and administrative expense	24,684	13,617
Depreciation and amortization	14,900	3,728
Total operating expenses	483,452	277,282
Operating income	22,343	12,121
Other expenses:		
Interest expense, net	6,007	1,585
Loss on equity investment	2,483	-
Loss on foreign currency translation	319	41
Income before income taxes	13,534	10,495
Provision for income taxes	7,297	4,208
Net income	\$ 6,237	\$ 6,287
Net income available to common stockholders (Note 9)	\$ 5,093	\$ 6,287
Earnings per common share:		
Basic	\$ 0.32	\$ 0.45
Diluted	\$ 0.32	\$ 0.44
Weighted-average number of common shares outstanding:		
Basic	15,976,050	13,801,456
Diluted	16,145,176	15,257,557

See accompanying notes to unaudited condensed consolidated financial statements

The Providence Service Corporation
Unaudited Condensed Consolidated Statements of Comprehensive Income
(in thousands)

	Three months ended	
	March 31,	
	<u>2015</u>	<u>2014</u>
Net income	\$ 6,237	\$ 6,287
Other comprehensive loss:		
Foreign currency translation adjustments, net of tax	(5,295)	(264)
Comprehensive income	<u>\$ 942</u>	<u>\$ 6,023</u>

See accompanying notes to unaudited condensed consolidated financial statements

The Providence Service Corporation
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	Three months ended March 31,	
	2015	2014
Operating activities		
Net income	\$ 6,237	\$ 6,287
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,089	2,103
Amortization	9,811	1,625
Provision for doubtful accounts	599	557
Stock based compensation	2,864	408
Deferred income taxes	(1,512)	(1,333)
Amortization of deferred financing costs	539	214
Excess tax benefit upon exercise of stock options	(1,989)	(323)
Loss on equity investment	2,483	-
Other non-cash charges	319	35
Changes in operating assets and liabilities:		
Accounts receivable	(49,699)	(12,534)
Other receivables	77	984
Restricted cash	(106)	(111)
Prepaid expenses and other	6,364	6,049
Reinsurance liability reserve	(1,121)	(1,950)
Accounts payable and accrued expenses	14,083	8,862
Accrued transportation costs	17,830	(98)
Deferred revenue	2,879	131
Other long-term liabilities	631	(3,060)
Net cash provided by operating activities	15,378	7,846
Investing activities		
Purchase of property and equipment	(6,394)	(2,723)
Acquisitions, net of cash acquired	(1,665)	-
Net increase (decrease) in short-term investments	(5)	(5)
Restricted cash for reinsured claims losses	694	1,525
Net cash used in investing activities	(7,370)	(1,203)
Financing activities		
Proceeds from issuance of preferred stock, net of issuance costs	80,667	-
Preferred stock dividends	(594)	-
Repurchase of common stock, for treasury	(721)	(470)
Proceeds from common stock issued pursuant to stock option exercise	2,199	506
Excess tax benefit upon exercise of stock options	1,989	323
Repayment of long-term debt	(71,312)	-
Payment of contingent consideration	(7,496)	-
Other	13	(2)
Net cash provided by financing activities	4,745	357
Effect of exchange rate changes on cash	(3,029)	(155)
Net change in cash	9,724	6,845
Cash at beginning of period	160,406	98,995
Cash at end of period	<u>\$ 170,130</u>	<u>\$ 105,840</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 4,439</u>	<u>\$ 619</u>
Cash paid for income taxes	<u>\$ 1,713</u>	<u>\$ 2,216</u>

See accompanying notes to unaudited condensed consolidated financial statements

The Providence Service Corporation
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2015

(in thousands, except share and per share data)

1. Basis of Presentation, Description of Business and Recent Accounting Pronouncements

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements (the “consolidated financial statements”) include the accounts of The Providence Service Corporation (“the Company,” “our,” “we” and “us”) and its wholly-owned subsidiaries. Investments in non-consolidated investees over which the Company exercises significant influence but does not control are accounted for under the equity method.

The Company’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. In order to conform to the current year presentation, prior year amounts have been reclassified to show service revenue as one line item, services expense as one line item, and loss on foreign currency translation as a component of other expenses. Additionally, the Company’s legacy workforce development businesses have been reclassified from the Human Services segment to the Workforce Development Services segment.

The Company has made a number of estimates relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2015. Management has evaluated events and transactions that occurred after the balance sheet date and through the date these consolidated financial statements were issued, and considered the effect of such events in the preparation of these consolidated financial statements.

The consolidated balance sheet at December 31, 2014 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. The consolidated financial statements contained herein should be read in conjunction with the audited financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Description of Business

The Company provides and manages health and human services through non-emergency transportation, community and behavioral health, workforce development and health assessment offerings. At March 31, 2015, the Company operated in four segments, Non-Emergency Transportation Services (“NET Services”), Human Services, Workforce Development Services (“WD Services”) and Health Assessment Services (“HA Services”). The NET Services segment manages transportation networks and arranges for client transportation to health care related facilities and services for state or regional Medicaid agencies, managed care organizations (“MCOs”) and commercial insurers. In the Human Services segment, counselors, social workers and behavioral health professionals work with clients, primarily in the client’s home or community, who are eligible for government assistance due to income level, disabilities or court order. The WD Services segment provides outsourced employability and legal offender rehabilitation case management services, primarily to the eligible participants in government sponsored programs. The HA Services segment primarily provides comprehensive health assessments (“CHAs”), for members enrolled in Medicare Advantage (“MA”) health plans, in patient’s homes or nursing facilities.

Recent Accounting Pronouncements

In November 2014, the FASB issued Accounting Standards Update (“ASU”) No 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity* (“ASU 2014-16”). This update requires an entity to determine the nature of the host contract by considering the economic characteristics and risks of the entire hybrid financial instrument issued in the form of a share, including the embedded derivative feature that is being evaluated for separate accounting from the host contract when evaluating whether the host contract is more akin to debt or equity. In evaluating the stated and implied substantive terms and features, the existence or omission of any single term or feature does not necessarily determine the economic characteristics and risks of the host contract. Although an individual term or feature may weigh more heavily in the evaluation on the basis of facts and circumstances, an entity should use judgment based on an evaluation of all the relevant terms and features. ASU 2014-16 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, early adoption is permitted. The Company adopted ASU 2014-16 effective January 1, 2015 and applied the literature to determine the accounting for its convertible preferred stock.

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments is permitted for financial statements that have not been previously issued. The amendments should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. This ASU will impact the Company’s financial statements as the Company has approximately \$4,867 of debt issuance costs at March 31, 2015 that are classified as “Other assets” in the accompanying condensed consolidated balance sheet. The result of the application of this guidance would be to reduce the “Other assets” balance, with a corresponding reduction to “Long-term obligations, less current portion” in the condensed consolidated balance sheet. The Company expects to adopt ASU 2015-03 on January 1, 2016.

2. Concentrations

Contracts with domestic governmental agencies and other domestic entities that contract with governmental agencies accounted for approximately 61.2% and 78.5% of the Company’s domestic revenue for the three months ended March 31, 2015 and 2014, respectively. Contracts with foreign governmental agencies and other foreign entities that contract with governmental agencies accounted for approximately 95.5% of the Company’s foreign revenue for the three months ended March 31, 2015. The Company’s international presence was not material for the three months ended March 31, 2014. Additionally, approximately 52.6% of our WD Services revenue for the three months ended March 31, 2015 was generated from one foreign payer.

At March 31, 2015, approximately \$37,811, or 12.4%, of the Company’s net assets were located in countries outside of the US.

3. Equity Investment

The Company entered into a joint venture agreement in November 2014 to form Mission Providence Pty Ltd (“Mission Providence”). Mission Providence will deliver employment services in various regions in Australia. The Company has a 60% ownership in Mission Providence, and has rights to 75% of Mission Providence’s distributions of cash or profit surplus twice per calendar year. The Company provided and will continue to provide capital contributions to Mission Providence in exchange for its equity interests.

The Company determined it has a variable interest in Mission Providence. However, it does not have unilateral power to direct the activities that most significantly impact Mission Providence’s economic performance, which include budget approval, business planning, the appointment of key officers and liquidation and distribution of share capital, and as a result, the Company is not the primary beneficiary of Mission Providence. The Company accounts for this investment under the equity method of accounting and the Company’s share of Mission Providence’s losses are recorded as “Loss on equity investment” in the accompanying condensed consolidated statements of income.

At March 31, 2015, the Company had a negative investment in Mission Providence totaling \$2,092, which is included in “Accrued expenses” in the accompanying condensed consolidated balance sheet. Under the terms of the joint venture agreement, the Company is required to make financial contributions based on the capital needs of Mission Providence. Currently, the Company has committed to contributing \$14,637 in the second quarter of 2015, and may commit to additional investment beyond its current commitment.

4. Fair Value Measurements

The Company determines the fair value of its financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Below are the three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company may be required to pay additional consideration under certain acquisition agreements based on the achievement of certain earnings targets by the acquired businesses. Acquisition-related contingent consideration is initially measured and recorded at fair value as an element of consideration paid in connection with an acquisition with subsequent adjustments recognized in other operating expenses in the condensed consolidated statements of income. The Company determines the fair value of acquisition-related contingent consideration, and any subsequent changes in fair value using a discounted probability-weighted approach. This approach takes into consideration Level 3 unobservable inputs including probability assessments of expected future cash flows over the period in which the obligation is expected to be settled and applies a discount factor that captures the uncertainties associated with the obligation. Changes in these unobservable inputs could significantly impact the fair value of the obligation recorded in the accompanying condensed consolidated balance sheets and operating expenses in the condensed consolidated statements of income. The fair value of the Company's contingent consideration was \$2,623 at March 31, 2015, which is included in "Other long-term liabilities" in the condensed consolidated balance sheets. The fair value of the Company's contingent consideration was \$10,549 at December 31, 2014, of which \$7,767 is included in "Accrued expenses" and \$2,782 is included in "Other long-term liabilities" in the condensed consolidated balance sheets. The decrease in the contingent consideration since December 31, 2014 is attributable to payments totaling \$7,496 made in the first quarter of 2015 and changes in the foreign currency translation rate.

5. Long-Term Obligations and Note Payable to Related Party

The Company's long-term obligations were as follows:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
\$240,000 revolving loan (previously \$165,000; amended May 28, 2014), LIBOR plus 2.25% - 3.25% (effective rate of 3.22% at March 31, 2015) through August 2018 with interest payable at least once every three months	\$ 201,700	\$ 201,700
\$250,000 term loan, LIBOR plus 2.25% - 3.25% (effective rate of 3.26% at March 31, 2015), with principal payable quarterly beginning March 31, 2015 and interest payable at least once every three months through August 2018	245,313	250,000
\$60,000 term loan, LIBOR plus 2.25% - 3.25% (effective rate of 3.26% at March 31, 2015), with principal payable quarterly beginning December 31, 2014 and interest payable at least once every three months, through August 2018	57,750	58,875
14.0% unsecured related party, subordinated bridge note with principal due September 30, 2018 and interest payable quarterly	-	65,500
2.0% unsecured, subordinated note to former stockholder of acquired company, principal and interest due May 2016	600	600
	<u>505,363</u>	<u>576,675</u>
Less unamortized discount on debt	<u>1,340</u>	<u>1,462</u>
	504,023	575,213
Less current portion	<u>27,125</u>	<u>90,688</u>
Total long-term obligations, less current portion	<u>\$ 476,898</u>	<u>\$ 484,525</u>

The carrying amount of the long-term obligations approximated their fair value at March 31, 2015 and December 31, 2014. The fair value of the Company's long-term obligations was estimated based on interest rates for the same or similar debt offered to the Company having same or similar remaining maturities and collateral requirements.

Related party unsecured subordinated bridge note

On October 23, 2014, the Company issued to Coliseum Capital Management, LLC and certain of its affiliates ("Coliseum"), a related party, a 14.0% Unsecured Subordinated Note in aggregate principal amount of \$65,500 (the "Note") due September 30, 2018. The Note was repaid in full on February 11, 2015, with the proceeds from a registered rights offering ("Rights Offering") and a related standby purchase agreement.

6. Stock-Based Compensation Arrangements

The Company issues both option awards and restricted stock to employees and non-employee directors. Option awards and restricted stock vest commensurate with the respective award agreements. The fair value expense of option awards was estimated on the date of grant using the Black-Scholes option pricing formula and amortized over the option's vesting periods, and the fair value of unvested restricted stock grants was determined based on the closing market price of the Company's common stock on the date of grant. The following table summarizes the stock option activity:

	For the three months ended March 31, 2015	
	Number of Shares Under Option	Weighted-average Exercise Price
Balance at beginning of period	813,622	\$ 30.77
Exercised	(135,057)	16.29
Outstanding at March 31, 2015	678,565	\$ 33.66

The following table summarizes the activity of the shares and weighted-average grant date fair value of the Company's unvested restricted common stock:

	For the three months ended March 31, 2015	
	Shares	Weighted-average Grant Date Fair Value
Non-vested balance at beginning of period	688,262	\$ 37.71
Granted	19,598	52.03
Vested	(54,660)	17.47
Forfeited or cancelled	(250)	15.50
Non-vested at March 31, 2015	652,950	\$ 39.84

7. Convertible Preferred Stock, Net

The Company completed a Rights Offering, on February 5, 2015, providing all of the Company's existing common stock holders the non-transferrable right to purchase their pro rata share of \$65,500 of convertible preferred stock at a price equal to \$100 per share. The convertible preferred stock is convertible into shares of Providence's common stock at a conversion price equal to \$39.88 per share, which was the closing price of the Company's common stock on the NASDAQ Global Select Market on October 22, 2014.

Stockholders exercised subscription rights to purchase 130,884 shares of the Company's convertible preferred stock. Pursuant to the terms and conditions of the Standby Purchase Agreement (the "Standby Purchase Agreement") between Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Coliseum Capital Co-Invest, L.P. and Blackwell Partners, LLC (collectively, the "Standby Purchasers") and the Company, the remaining 524,116 shares of the Company's preferred stock were purchased by the Standby Purchasers at the \$100 per share subscription price. The Company received \$65,500 in aggregate gross proceeds from the consummation of the Rights Offering and Standby Purchase Agreement. Additionally, on March 12, 2015, the Standby Purchasers exercised their right to purchase an additional 150,000 shares of the Company's convertible preferred stock at \$105 per share and at the same conversion price as the Rights Offering.

The Company may pay a noncumulative cash dividend on each share of convertible preferred stock, when, as and if declared by its board of directors, at the rate of five and one-half percent (5.5%) per annum on the liquidation preference then in effect. On or before the third business day immediately preceding each fiscal quarter, the Company must determine its intention whether or not to pay a cash dividend with respect to that ensuing quarter and will give notice of our intention to each holder of convertible preferred stock as soon as practicable thereafter.

In the event the Company does not declare and pay a cash dividend, the liquidation preference will be increased to an amount equal to the liquidation preference in effect at the start of the applicable dividend period, plus an amount equal to such then applicable liquidation preference multiplied by eight and one-half percent (8.5%) per annum, computed on the basis of a 365-day year and the actual number of days elapsed from the start of the applicable dividend period to the applicable date of determination.

Cash dividends are payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, commencing on April 1, 2015, and, if declared, will begin to accrue on the first day of the applicable dividend period. Paid in kind ("PIK") dividends, if applicable, will accrue and be cumulative on the same schedule as set forth above for cash dividends and will also be compounded at the applicable annual rate on each applicable subsequent dividend date. PIK dividends are paid upon the occurrence of a liquidation event, conversion or redemption in accordance with the terms of the convertible preferred stock. Cash dividends totaling \$594 were paid to preferred stockholders on April 1, 2015.

The convertible preferred stock is accounted for as mezzanine equity as it could be redeemed upon certain change in control events that are not solely in the control of the Company. Dividends are recorded in stockholders equity and consist of the 5.5%/8.5% dividend. Additionally, mezzanine equity includes a discount on preferred stock related to beneficial conversion features that arose due to the closing price of the Company's common stock being higher than conversion price of the convertible preferred stock on the commitment date. The amortization of this discount is recorded in stockholders' equity.

Convertible preferred stock, net at March 31, 2015 consisted of the following:

Original issue price of convertible preferred stock	\$	81,250
Less: Issuance costs		(3,531)
Less: Discount on beneficial conversion feature		(825)
Total convertible preferred stock, net	\$	<u>76,894</u>

8. Stockholders' Equity

The following table reflects changes in common stock, additional paid-in capital, accumulated deficit, accumulated other comprehensive loss and treasury stock for the three months ended March 31, 2015:

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	
	Shares	Amount				Shares	Amount
Balance at December 31, 2014	16,870,285	\$ 17	\$ 261,155	\$ (13,366)	\$ (8,756)	1,014,108	\$ (17,686)
Stock-based compensation	-	-	2,864	-	-	-	-
Exercise of employee stock options, including net tax windfall of \$1,989	135,057	-	4,188	-	-	-	-
Restricted stock issued	54,660	-	-	-	-	15,186	(721)
Foreign currency translation adjustments	-	-	-	-	(5,295)	-	-
Beneficial conversion feature related to preferred stock	-	-	1,071	-	-	-	-
Convertible preferred stock dividends	-	-	(594)	-	-	-	-
Amortization of convertible preferred stock discount	-	-	(246)	-	-	-	-
Net income	-	-	-	6,237	-	-	-
Balance at March 31, 2015	<u>17,060,002</u>	<u>\$ 17</u>	<u>\$ 268,438</u>	<u>\$ (7,129)</u>	<u>\$ (14,051)</u>	<u>1,029,294</u>	<u>\$ (18,407)</u>

9. Earnings Per Share

The following table details the computation of basic and diluted earnings per share:

	Three months ended	
	March 31,	
	2015	2014
Numerator:		
Net income	\$ 6,237	\$ 6,287
Less dividends on convertible preferred stock	(594)	-
Less amortization of convertible preferred stock discount	(246)	-
Less income allocated to participating securities	(304)	-
Net income available to common stockholders, basic	5,093	6,287
Effect of interest related to the Senior Notes	-	499
Net income available to common stockholders, diluted	\$ 5,093	\$ 6,786
Denominator:		
Denominator for basic earnings per share -- weighted-average shares	15,976,050	13,801,456
Effect of dilutive securities:		
Common stock options and restricted stock awards	169,126	299,784
Performance-based restricted stock units	-	17,172
Senior Notes	-	1,139,145
Denominator for diluted earnings per share -- adjusted weighted-average shares assumed conversion	16,145,176	15,257,557
Basic earnings per share	\$ 0.32	\$ 0.45
Diluted earnings per share	\$ 0.32	\$ 0.44

For the three months ended March 31, 2015 and 2014, employee stock options to purchase 300,000 and 198,261 shares of common stock, respectively, were not included in the computation of diluted earnings per share as the exercise price of these options was greater than the average fair value of the common stock for the period and, therefore, the effect of these options would have been antidilutive. For the three months ended March 31, 2015, 381,000 shares of convertible preferred stock were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

10. Income Taxes

The Company's effective tax rate from continuing operations for the three months ended March 31, 2015 and 2014 was 53.9% and 40.1%, respectively. For both periods, the Company's effective tax rate was higher than the United States federal statutory rate of 35.0%, due primarily to state income taxes as well as non-deductible expenses. Non-deductible expenses for the three months ended March 31, 2015 included the loss on equity investment.

11. Commitments and Contingencies

The Company is involved in various claims and legal actions arising in the ordinary course of business, many of which are covered in whole or in part by insurance. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

The Company has two deferred compensation plans for management and highly compensated employees. These deferred compensation plans are unfunded; therefore, benefits are paid from the general assets of the Company. The total of participant deferrals, which is reflected in "Other long-term liabilities" in the accompanying condensed consolidated balance sheets, was approximately \$1,337 and \$1,432 at March 31, 2015 and December 31, 2014, respectively.

12. Transactions with Related Parties

On October 23, 2014, the Company issued to Coliseum, a related party, a 14.0% Unsecured Subordinated Note in aggregate principal amount of \$65,500. Interest from the issuance date to, but excluding, the 120th day after the issuance date, was paid in cash in the amount of \$3,015 on the issuance of the Note. Coliseum held approximately 15% of our outstanding common stock as of October 23, 2014 and is the Company's largest shareholder. Additionally, Christopher Shackelton, who serves as the Company's Chairman of the board of directors, is also a Managing Partner at Coliseum Capital Management, LLC.

The Note was repaid in full on February 11, 2015, with the proceeds from a registered Rights Offering and related standby purchase commitment described above, which allowed all of the Company's existing common stock holders the non-transferrable right to purchase their pro rata share of \$65,500 of convertible preferred stock at a price of \$100 per share, as further described above.

In connection with the anticipated Rights Offering, on October 23, 2014, the Company entered the Standby Purchase Agreement with the Standby Purchasers, pursuant to which the Standby Purchasers agreed to purchase, substantially simultaneously with the completion of the Rights Offering, in the aggregate, all of the available preferred stock not otherwise sold in the Rights Offering following the exercise of the subscription privileges of holders of the Company's common stock. As consideration for entering into the Standby Purchase Agreement, on October 23, 2014, the Company paid the Standby Purchasers a fee of \$2,947, which is included in "Convertible Preferred Stock, Net" in the condensed consolidated balance sheet at March 31, 2015. In addition the Standby Purchasers had the additional right, exercisable within 30 days following the completion of the Rights Offering, to purchase additional preferred stock valued at \$15,000 at a price per share equal to 105% of the Subscription Price, which was exercised on March 12, 2015.

13. Acquisitions

On October 23, 2014, the Company acquired all of the outstanding equity of CCHN Group Holdings, Inc. ("Matrix"), the parent company of Community Care Health Network, Inc. (dba Matrix Medical Network), pursuant to an Agreement and Plan of Merger, dated as of September 17, 2014. There have been no changes to the estimated purchase price or estimated fair values of assets acquired and liabilities assumed since December 31, 2014. The fair value estimates as of December 31, 2014 represent the preliminary fair value estimates as the valuation of intangible assets has not been finalized.

Pro forma information

The amounts of Ingeus Limited and its wholly-owned subsidiaries (“Ingeus”), which the Company acquired on May 30, 2014, and Matrix revenue and net income included in the Company’s condensed consolidated statements of income for the three months ended March 31, 2015, and the pro forma revenue and net income of the combined entity had the acquisition dates been January 1, 2014, are:

	Three months ended March 31,	
	2015	2014
<i>Ingeus results included in the Company's condensed consolidated statements of income:</i>		
Revenue	\$ 100,954	\$ -
Net loss	\$ (3,746)	\$ -
<i>Matrix results included in the Company's condensed consolidated statements of income:</i>		
Revenue	\$ 57,432	\$ -
Net income	\$ 3,846	\$ -
<i>Consolidated Pro forma:</i>		
Revenue	\$ 505,795	\$ 429,368
Net income	\$ 6,237	\$ 17,453
Diluted earnings per share	\$ 0.32	\$ 1.07

The pro forma information above for the three months ended March 31, 2014 includes the elimination of acquisition related costs, adjustments for compensation and stock-based compensation expense related to employment agreements effective upon consummation of the acquisitions, additional interest expense on the debt issued to finance the acquisitions, amortization and depreciation expense based on the estimated fair value and useful lives of intangible assets and property and equipment and related tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been affected on January 1, 2014.

14. Business Segments

The Company’s operations are organized and reviewed by management along its service lines. The Company operates in four segments, Human Services, NET Services, WD Services and HA Services. Human Services includes government sponsored home and community based counseling, foster care and not-for-profit management services. NET Services includes managing the delivery of non-emergency transportation services. WD Services includes workforce development, case management and outsourced employability programs. HA Services provides CHAs for MA health plans in enrolled members’ homes or nursing facilities.

Historically, the Company reported its segment activities under a full absorption method, where all corporate direct and indirect costs were allocated to the reporting segments. The Company began analyzing the results of the segments exclusive of the allocation of indirect corporate costs on January 1, 2015. Corporate costs that represent a direct expense of a segment continue to be allocated to the respective segment. The segment results for the quarter ended March 31, 2014 have been restated to reflect management’s current internal method of segment reporting. The Corporate and Other column includes certain general and administrative costs that are not directly attributable to a specific segment, such as executive, accounting, technology, legal and other costs, as well as consolidation and elimination amounts and the activities of the Company’s wholly-owned captive insurance subsidiary. Additionally, beginning January 1, 2015, oversight of the Company’s legacy workforce development businesses (those that existed prior to the acquisition of Ingeus) was transferred to the management of the WD Services segment. The financial results of these legacy workforce development businesses have been reclassified from the Human Services segment to the WD Services segment in the table below.

The following table sets forth certain financial information attributable to the Company's business segments for the three months ended March 31, 2015 and 2014.

Three Months Ended March 31, 2015						
	NET Services	Human Services	WD Services	HA Services	Corporate and Other	Total
Revenues	\$ 254,760	\$ 86,187	\$ 107,618	\$ 57,432	\$ (202)	\$ 505,795
Service expense	229,247	77,540	94,244	43,213	(376)	443,868
General and administrative expense	2,497	4,980	7,225	523	9,459	24,684
Depreciation and amortization	2,277	1,847	3,316	7,182	278	14,900
Operating income (loss)	<u>\$ 20,739</u>	<u>\$ 1,820</u>	<u>\$ 2,833</u>	<u>\$ 6,514</u>	<u>\$ (9,563)</u>	<u>\$ 22,343</u>
Total assets	<u>\$ 272,952</u>	<u>\$ 113,838</u>	<u>\$ 249,580</u>	<u>\$ 505,649</u>	<u>\$ 56,539</u>	<u>\$ 1,198,558</u>

Three Months Ended March 31, 2014						
	NET Services	Human Services	WD Services	HA Services	Corporate and Other	Total
Revenues	\$ 198,077	\$ 84,102	\$ 7,448	\$ -	\$ (224)	\$ 289,403
Service expense	175,230	78,907	6,419	-	(619)	259,937
General and administrative expense	1,950	4,936	504	-	6,227	13,617
Depreciation and amortization	1,761	1,579	131	-	257	3,728
Operating income (loss)	<u>\$ 19,136</u>	<u>\$ (1,320)</u>	<u>\$ 394</u>	<u>\$ -</u>	<u>\$ (6,089)</u>	<u>\$ 12,121</u>
Total assets	<u>\$ 249,472</u>	<u>\$ 103,729</u>	<u>\$ 17,974</u>	<u>\$ -</u>	<u>\$ 63,547</u>	<u>\$ 434,722</u>

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes for the three months ended March 31, 2015 and 2014, as well as our consolidated financial statements and accompanying notes and management’s discussion and analysis of financial condition and results of operations included in our Form 10-K for the year ended December 31, 2014. For purposes of “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” references to Q1 2015 and Q1 2014 mean the three months ended March 31, 2015 and the three months ended March 31, 2014, respectively.

Overview of our business

We arrange for and manage non-emergency transportation (“NET”) services and provide behavioral health and other human services, workforce development (“WD”) services and health assessment (“HA”) services. In response to the large and growing population of eligible beneficiaries of government sponsored services, increasing pressure on governments to control costs and increasing acceptance of privatized human services and managed care solutions, we have grown both organically and through strategic acquisitions, including the acquisitions of Ingeus Limited and its wholly-owned subsidiaries (“Ingeus”) and CCHN Group Holdings, Inc. and its wholly-owned subsidiaries (“Matrix”) during the second and fourth quarters, respectively, of 2014.

Critical accounting estimates and policies

As of March 31, 2015, there has been no change in our accounting policies or the underlying assumptions or methodologies used to fairly present our financial position, results of operations and cash flows for the periods covered by this report. For further discussion of our critical accounting policies see management’s discussion and analysis of financial condition and results of operations contained in our Form 10-K for the year ended December 31, 2014.

Results of operations

Segment reporting. Our operations are organized and reviewed by management along our service lines. We operate in four segments, Human Services, NET Services, WD Services and HA Services. Human Services includes government sponsored home and community based counseling, foster care and not-for-profit management services. NET Services includes managing the delivery of non-emergency transportation services. WD Services includes workforce development, case management and outsourced employability programs. HA Services provides comprehensive health assessments (“CHAs”) for Medicare Advantage (“MA”) health plans in enrolled members’ homes or nursing facilities.

Historically, we reported our segment activities under a full absorption method, where all corporate direct and indirect costs were allocated to the reporting segments. We began analyzing the results of the segments exclusive of the allocation of indirect corporate costs on January 1, 2015. Corporate costs that represent a direct expense of a segment continue to be allocated to the respective segment. The segment results for the first quarter of 2014 have been restated to reflect management’s current internal method of segment reporting. The Corporate and Other information includes certain general and administrative costs that are not directly attributable to a specific segment, such as executive, accounting, technology, legal and other costs, as well as consolidation and elimination amounts and the activities of our wholly-owned captive insurance subsidiary. Additionally, beginning January 1, 2015, oversight of our legacy workforce development businesses (those that existed prior to the acquisition of Ingeus) was transferred to the management of the WD Services segment. The financial results of these legacy workforce development businesses have been reclassified from the Human Services segment to the WD Services segment in the table below.

Consolidated Results. The following table sets forth results of operations and the percentage of consolidated total revenues represented by items in our unaudited condensed consolidated statements of income for the periods presented (in thousands):

	Three months ended			
	March 31,			
	2015		2014	
	\$	%	\$	%
Service revenue	505,795	100.0	289,403	100.0
Operating expenses:				
Service expense	443,868	87.8	259,937	89.8
General and administrative expense	24,684	4.9	13,617	4.7
Depreciation and amortization	14,900	2.9	3,728	1.3
Total operating expenses	483,452	95.6	277,282	95.8
Operating income	22,343	4.4	12,121	4.2
Non-operating expense:				
Interest expense, net	6,007	1.2	1,585	0.6
Loss on equity investment	2,483	0.5	-	-
Loss on foreign currency translation	319	0.1	41	-
Income before income taxes	13,534	2.6	10,495	3.6
Provision for income taxes	7,297	1.4	4,208	1.4
Net income	6,237	1.2	6,287	2.2

Service revenue. Consolidated service revenue for Q1 2015 increased \$216.4 million, or 74.8%, compared to Q1 2014. Revenue for Q1 2015 included revenue from Ingeus totaling \$101.0 million and revenue from Matrix totaling \$57.4 million. The acquisitions of Ingeus and Matrix occurred in May 2014 and October 2014, respectively. Additionally, the NET Services and Human Services segments experienced increases in revenue as further discussed below.

Total operating expenses. Consolidated operating expenses for Q1 2015 increased \$206.2 million, or 74.4%, compared to Q1 2014. Operating expenses for Q1 2015 included expenses from Ingeus totaling \$98.3 million and expenses for Matrix totaling \$50.9 million. Additionally, NET purchased service expenses increased \$42.7 million in Q1 2015 as compared to Q1 2014 as further discussed below.

Operating income. Consolidated operating income increased by approximately \$10.2 million from Q1 2014 to Q1 2015. The increase was primarily attributable to Matrix's operating income of approximately \$6.5 million, and Ingeus's operating income of approximately \$2.6 million in Q1 2015. Increased profitability of our NET Services and Human Services segments, as further discussed below, also positively impacted consolidated operating income.

Interest expense, net. Our current and long-term debt obligations have increased from approximately \$123.5 million at March 31, 2014 to \$504.0 million at March 31, 2015. The increase in our interest expense for Q1 2015 as compared to Q1 2014 primarily resulted from the increase in outstanding debt incurred primarily to fund our acquisitions of Ingeus and Matrix.

Loss on equity investments. The loss on equity investments relates primarily to our investment in Mission Providence, a joint venture in Australia. Mission Providence has incurred start-up and administrative costs to date, and expects to begin delivering services in the second quarter of 2015.

Loss on foreign currency translation. Loss on foreign currency of approximately \$0.3 million and \$0.1 million for Q1 2015 and Q1 2014, respectively, was primarily due to translation adjustments on intercompany transactions with our foreign subsidiaries.

Provision for income taxes. Our effective tax rate for Q1 2015 and Q1 2014 was 53.9% and 40.1%, respectively. Our effective tax rate was higher than the United States federal statutory rate of 35.0% for Q1 2015 and Q1 2014 due primarily to state taxes as well as various non-deductible expenses. Q1 2015 non-deductible expenses included the loss on equity investment relating to the Mission Providence joint venture in Australia, which had a significant impact on the effective tax rate.

Segment Results. The following analysis includes discussion on each of our segments. Certain corporate costs have been allocated to the operating segments below which represent costs that directly relate to a specific segment. All other corporate costs, eliminations and the results of our wholly-owned captive insurance subsidiary are included below in “Corporate and Other”.

NET Services

NET Services segment financial results were as follows (in thousands):

	Three Months Ended March 31,			
	2015		2014	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue	\$ 254,760	100.0%	\$ 198,077	100.0%
Service expense	229,247	90.0%	175,230	88.5%
General and administrative expense	2,497	1.0%	1,950	1.0%
Depreciation and amortization	2,277	0.9%	1,761	0.9%
Operating income	\$ 20,739	8.1%	\$ 19,136	9.7%

Service revenue. Our NET Services segment revenues increased by \$56.7 million during Q1 2015, a 28.6% increase compared to Q1 2014. The increase was primarily related to new contracts in Rhode Island, Maine and Texas and increased membership in certain states. The increase in revenue was partially offset by the elimination of our contracts in Mississippi and Connecticut.

Service expense. Service expense for our NET Services segment included the following for Q1 2015 and Q1 2014 (in thousands):

	Three Months Ended March 31,			
	2015		2014	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Payroll and related costs	\$ 33,713	13.2%	\$ 24,624	12.4%
Purchased services	186,650	73.3%	143,945	72.7%
Other operating expenses	8,554	3.4%	6,448	3.3%
Stock-based compensation	330	0.1%	213	0.1%
Total service expense	\$ 229,247	90.0%	\$ 175,230	88.5%

The increase in service expense is primarily attributable to the increase in purchased transportation services. The increase in purchased services as a percentage of revenue is primarily a result of an increase in utilization, partially attributable to less severe winter weather in Q1 2015 versus Q1 2014. Additionally, utilization has been affected by increased use by the Patient Protection and Affordable Care Act population as they become more familiar with the availability of NET services.

General and administrative expense. Our NET Services segment’s general and administrative expenses included approximately \$2.5 million and \$2.0 million for Q1 2015 and Q1 2014, respectively, of facility costs, which have increased due to the overall growth of our operations, including the opening of a new call center in Arizona in December 2014.

Depreciation and amortization expense. Our NET Services segment’s depreciation and amortization expenses increased by approximately \$0.5 million, yet remained constant at approximately 0.9% of revenue.

Human Services

Human Services segment financial results were as follows (in thousands):

	Three Months Ended March 31,			
	2015		2014	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue	\$ 86,187	100.0%	\$ 84,102	100.0%
Service expense	77,540	90.0%	78,907	93.8%
General and administrative expense	4,980	5.8%	4,936	5.9%
Depreciation and amortization	1,847	2.1%	1,579	1.9%
Operating income (loss)	<u>\$ 1,820</u>	2.1%	<u>\$ (1,320)</u>	-1.6%

Service revenue. Our Human Services segment revenues increased by \$2.1 million during Q1 2015, a 2.5% increase compared to Q1 2014. The increase was primarily attributable to \$5.5 million of revenue derived from two human services entities that were acquired in 2014, as well as revenue growth of approximately \$2.2 million related to expansion in Maine, new sites opened in Pennsylvania and the growth of foster care services in Tennessee. These increases were offset by a decrease of approximately \$5.9 million related to the termination of the Texas foster care contract in 2014.

Service expense. Service expense for our Human Services segment included the following for Q1 2015 and Q1 2014 (in thousands):

	Three Months Ended March 31,			
	2015		2014	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Payroll and related costs	\$ 61,807	71.7%	\$ 57,372	68.2%
Purchased services	5,009	5.8%	11,504	13.7%
Other operating expenses	10,691	12.4%	10,071	12.0%
Stock-based compensation	33	0.0%	(40)	0.0%
Total service expense	<u>\$ 77,540</u>	90.0%	<u>\$ 78,907</u>	93.8%

Our Human Services segment service expense decreased by \$1.4 million during Q1 2015, a 1.7% decrease compared to Q1 2014. The decrease was primarily attributable to a decrease of \$6.7 million in service expense related to the termination of the Texas foster care contract in 2014, as well as cost savings attributable to the continued consolidation of certain regional back offices and the rationalization of certain administrative functions. This decrease was partially offset by the additional service expense of approximately \$4.8 million related to the two human services entities that were acquired in 2014.

General and administrative expense. Our Human Services segment's general and administrative expenses are primarily comprised of facilities costs. General and administrative costs were generally flat in Q1 2015 compared to Q1 2014.

Depreciation and amortization expense. Our Human Services segment's depreciation and amortization expenses for Q1 2015 increased approximately \$0.3 million compared to Q1 2014 which is primarily attributable to the depreciation and amortization expense related to the two human services entities that were acquired in 2014.

WD Services

WD Services segment information for Q1 2014 has been recast to include our legacy workforce development businesses (those that existed prior to the acquisition of Ingeus and were previously included in the Human Services segment) as part of the WD Services segment. WD Services segment financial results were as follows (in thousands):

	Three Months Ended March 31,			
	2015		2014	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue	\$ 107,618	100.0%	\$ 7,448	100.0%
Service expense	94,244	87.6%	6,419	86.2%
General and administrative expense	7,225	6.7%	504	6.8%
Depreciation and amortization	3,316	3.1%	131	1.8%
Operating income	\$ 2,833	2.6%	\$ 394	5.3%

Service revenue. Our WD Services segment revenues increased by \$100.2 million from Q1 2014 to Q1 2015. The increase was attributable to the acquisition of Ingeus on May 30, 2014, which contributed \$101.0 million of revenue for Q1 2015.

Service expense. Service expense for our WD Services segment included the following for Q1 2015 and Q1 2014 (in thousands):

	Three Months Ended March 31,			
	2015		2014	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Payroll and related costs	\$ 66,562	61.9%	\$ 4,111	55.2%
Purchased services	16,194	15.0%	307	4.1%
Other operating expenses	9,916	9.2%	2,001	26.9%
Stock-based compensation	1,572	1.5%	-	0.0%
Total service expense	\$ 94,244	87.6%	\$ 6,419	86.2%

The increase in service expense in Q1 2015 compared to Q1 2014 was primarily related to the acquisition of Ingeus in May 2014. Service expense for Ingeus totaled approximately \$86.3 million in Q1 2015, and includes approximately \$1.5 million in stock-based compensation related to the amortization of the fair value of restricted stock awards issued in connection with the acquisition.

General and administrative expense. Our WD Services segment's general and administrative expenses included approximately \$7.2 million and \$0.5 million for Q1 2015 and Q1 2014, respectively, of facility costs. The increase is due primarily to the acquisition of Ingeus.

Depreciation and amortization expense. Our WD Services segment's depreciation and amortization expenses for Q1 2015 increased by approximately \$3.2 million compared to Q1 2014. This increase was primarily attributable to the depreciation and amortization expenses related to Ingeus.

HA Services

HA Services segment financial results were as follows (in thousands):

	Three Months Ended March 31,			
	2015		2014	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue	\$ 57,432	100.0%	\$ -	0.0%
Service expense	43,213	75.2%	-	0.0%
General and administrative expense	523	0.9%	-	0.0%
Depreciation and amortization	7,182	12.5%	-	0.0%
Operating income	<u>\$ 6,514</u>	11.3%	<u>\$ -</u>	0.0%

Service revenue. Our HA Services segment revenues in Q1 2015 were comprised of revenues from Matrix, which we acquired in October 2014.

Service expense. Service expense for our HA Services segment included the following for Q1 2015 and Q1 2014 (in thousands):

	Three Months Ended March 31,			
	2015		2014	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Payroll and related costs	\$ 35,112	61.1%	\$ -	0.0%
Purchased services	227	0.4%	-	0.0%
Other operating expenses	7,864	13.7%	-	0.0%
Stock-based compensation	10	0.0%	-	0.0%
Total service expense	<u>\$ 43,213</u>	75.2%	<u>\$ -</u>	0.0%

General and administrative expense. Our HA Services segment's general and administrative expenses included approximately \$0.5 million of facility costs in Q1 2015.

Depreciation and amortization expense. Our HA Services segment's depreciation and amortization expenses include approximately \$6.5 million of amortization of intangible assets acquired in the Matrix acquisition.

Corporate and Other

Our Corporate and Other financial results were as follows (in thousands):

	Three Months Ended March 31,			
	2015		2014	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue	\$ (202)	100.0%	\$ (224)	100.0%
Service expense	(376)	186.1%	(619)	276.3%
General and administrative expense	9,459	-4682.7%	6,227	-2779.9%
Depreciation and amortization	278	-137.6%	257	-114.7%
Operating loss	<u>\$ (9,563)</u>	4734.2%	<u>\$ (6,089)</u>	2718.3%

Operating loss. Corporate and Other operating loss increased by approximately \$3.5 million in Q1 2015 as compared to Q1 2014. This increase was primarily attributable to the increase in general and administrative expenses of approximately \$3.2 million in Q1 2015 as compared to Q1 2014. The increase in expense from Q1 2014 to Q1 2015 was primarily attributable to increased stock compensation expense for cash settled awards of approximately \$2.0 million, increased stock compensation for share settled awards of approximately \$0.7 million, increased accounting and auditing fees of approximately \$1.0 million and increased payroll and related costs of approximately \$0.5 million. These increases were partially offset by a decrease in acquisition costs of approximately \$1.8 million. No other line items had a significant impact on the operating loss.

Seasonality

Our quarterly operating results and operating cash flows normally fluctuate as a result of seasonal variations in our business. Our NET Services operating segment experiences fluctuations in demand for its non-emergency transportation services during the summer, winter and holiday seasons. Due to higher demand in the summer months and lower demand in the winter and holiday seasons, coupled with a primarily fixed revenue stream based on a per member, per month payment structure, our NET Services operating segment normally experiences lower operating margins in the summer season and higher operating margins in the winter and holiday seasons.

In our Human Services operating segment, lower client demand for its home and community based services during the holiday and summer seasons generally results in lower revenue during those periods. Our operating expenses related to the Human Services operating segment do not vary significantly with these changes in revenue. As a result, our Human Services operating segment typically experiences lower operating margins during the holiday and summer seasons.

In our HA and WD Services operating segments, our revenues typically do not experience a consistent seasonal pattern.

Liquidity and capital resources

Short-term capital requirements consist primarily of recurring operating expenses, new contract start-up costs, commitments to fund investments and debt service requirements. We expect to meet these requirements through available cash on hand, the generation of cash from our operating segments and availability under our revolving credit facility.

Cash flow from operating activities was our primary source of cash in Q1 2015. Our balance of cash and cash equivalents was approximately \$170.1 million and \$160.4 million at March 31, 2015 and December 31, 2014, respectively. Approximately \$75.9 million of cash was held in foreign countries at March 31, 2015, and is not available to fund domestic operations unless the funds are repatriated. The repatriation of funds would be subject to certain taxes and fees that are prohibitive, and as such, we do not currently intend to repatriate funds held internationally. We had restricted cash of approximately \$18.0 million and \$18.6 million at March 31, 2015 and December 31, 2014, respectively, related to contractual obligations and activities of our captive insurance subsidiaries and other subsidiaries. At March 31, 2015 and December 31, 2014, our total debt was approximately \$504.0 million and \$575.2 million, respectively.

We may access capital markets to raise equity or debt financing for various business reasons, including required debt payments and acquisitions. The timing, term, size, and pricing of any such financing will depend on investor interest and market conditions, and there can be no assurance that we will be able to obtain any such financing.

Cash flows

Operating activities. We generated net cash flows from operating activities of approximately \$15.4 million for Q1 2015. These cash flows included net income of approximately \$6.2 million plus net non-cash depreciation, amortization, amortization of deferred financing costs, provision for doubtful accounts, stock-based compensation, deferred income taxes and other items of approximately \$18.2 million. The balance of the cash provided by operating activities is primarily due to the net effect of changes in other working capital items, including the following significant items:

- approximately \$49.7 million related to the increase in accounts receivable attributable to new contracts related to our WD Services segment and increased accounts receivable for two customers in our NET Services segment,
- approximately \$14.1 million related to the increase in accounts payable and accrued expense primarily due to increased accrued liabilities in our WD Services segment which were offset by decreases in our NET Services and HA Services segments, and
- approximately \$17.8 million due to the increase in accrued purchased transportation related to new contracts, as well as higher utilization in existing contracts, in our NET Services segment.

Investing activities. Net cash used in investing activities totaled approximately \$7.4 million for Q1 2015. Approximately \$6.4 million was used to purchase property and equipment to support the growth of our operations and approximately \$1.7 million was used for the final settlement of purchase price adjustments related to the Ingeus acquisition. The \$1.7 million of purchase price adjustments were reflected in the consolidated balance sheets as of December 31, 2014.

Financing activities. Net cash provided by financing activities totaled approximately \$4.7 million for Q1 2015. Cash provided by financing activities included approximately \$80.7 million of net proceeds from the issuance of preferred stock and \$2.2 million of cash received from employee stock option exercises. Cash used in financing activities included the repayment of our note payable to a related party totaling \$65.5 million, scheduled debt payments under our credit facility of approximately \$5.8 million and the payment of contingent consideration related to the Ingeus acquisition of approximately \$7.5 million.

Obligations and commitments

Credit facility. On August 2, 2013, we entered into an Amended and Restated Credit Agreement with Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, SunTrust Bank, as syndication agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated and SunTrust Robinson Humphrey, Inc., as joint lead arrangers and joint book managers and other lenders party thereto. The Amended and Restated Credit Agreement provided us with a senior secured credit facility, or the Credit Facility, in aggregate principal amount of \$225.0 million, comprised of a \$60.0 million term loan facility and a \$165.0 million revolving credit facility. The Credit Facility includes sublimits for swingline loans and letters of credit in amounts of up to \$10.0 million and \$25.0 million, respectively. On August 2, 2013, we borrowed the entire amount available under the term loan facility and \$16.0 million under our revolving credit facility and used the proceeds thereof to refinance certain of our existing indebtedness.

Under the Credit Facility we have an option to request an increase in the amount of the revolving credit facility and/or the term loan facility from time to time (on substantially the same terms as apply to the existing facilities) in an aggregate amount of up to \$75.0 million with either additional commitments from lenders under the Amended and Restated Credit Agreement at such time or new commitments from financial institutions acceptable to the administrative agent in its reasonable discretion, so long as no default or event of default exists at the time of any such increase. We may not be able to access additional funds under this increase option as no lender is obligated to participate in any such increase under the Credit Facility.

The Credit Facility matures on August 2, 2018. We may prepay the Credit Facility in whole or in part, at any time without premium or penalty, subject to reimbursement of the lenders' breakage and redeployment costs in connection with prepayments of London Interbank Offering Rate, or LIBOR, loans. The unutilized portion of the commitments under the Credit Facility may be irrevocably reduced or terminated by us at any time without penalty.

Our obligations under the Credit Facility are guaranteed by all of our present and future domestic subsidiaries, excluding certain domestic subsidiaries, which include our insurance captives and not-for-profit subsidiaries. Our obligations under, and each guarantor's obligations under its guaranty of, the Credit Facility are secured by a first priority lien on substantially all of our respective assets, including a pledge of 100% of the issued and outstanding stock of our domestic subsidiaries and 65% of the issued and outstanding stock of our first tier foreign subsidiaries.

On May 28, 2014 we entered into the first amendment (the "First Amendment") to our Credit Facility. The First Amendment provided for, among other things, an increase in the aggregate amount of the revolving credit facility from \$165.0 million to \$240.0 million and other modifications in connection with the consummation of the acquisition of Ingeus.

On October 23, 2014, we entered into the Second Amendment to the Amended and Restated Credit and Guaranty Agreement and Consent (the "Second Amendment") to amend the Credit Facility to (i) add a new term loan tranche in aggregate principal amount of up to \$250.0 million to partly finance the acquisition of Matrix, (ii) provide the consent of the required lenders to consummate the acquisition of Matrix, (iii) permit incurrence of additional debt (including the Note, described below) to fund the acquisition of Matrix, (iv) add an excess cash flow mandatory prepayment provision and (v) such other amendments which are beneficial to us and provide greater flexibility for our future operations.

Interest on the outstanding principal amount of the loans accrues, at our election, at a per annum rate equal to LIBOR, plus an applicable margin or the base rate plus an applicable margin. The applicable margin ranges from 2.25% to 3.25% in the case of LIBOR loans and 1.25% to 2.25% in the case of the base rate loans, in each case, based on our consolidated leverage ratio as defined in the Amended and Restated Credit Agreement. Interest on the loans is payable quarterly in arrears. The interest rate applied to our term loan at March 31, 2015 was 3.26%. In addition, we are obligated to pay a quarterly commitment fee based on a percentage of the unused portion of each lender's commitment under the revolving credit facility and quarterly letter of credit fees based on a percentage of the maximum amount available to be drawn under each outstanding letter of credit. The commitment fee and letter of credit fee ranges from 0.25% to 0.50% and 2.25% to 3.25%, respectively, in each case, based on our consolidated leverage ratio.

The \$60.0 million term loan is subject to quarterly amortization payments, commencing on December 31, 2014, so that the following percentages of the term loan outstanding on the closing date plus the principal amount of any term loans funded pursuant to the increase option are repaid as follows: 7.5% between December 31, 2014 and September 30, 2015, 10.0% between December 31, 2015 and September 30, 2016, 12.5% between December 31, 2016 and September 30, 2017, 11.25% between December 31, 2017 and June 30, 2018 and the remaining balance at maturity.

The \$250.0 million term loan is subject to quarterly amortization payments, commencing on March 31, 2015, so that the following percentages of the term loan outstanding on the closing date plus the principal amount of any term loans funded pursuant to the increase option are repaid as follows: 5.625% between March 31, 2015 and September 30, 2015, 10.0% between December 31, 2015 and September 30, 2016, 12.5% between December 31, 2016 and September 30, 2017, 11.25% between December 31, 2017 and June 30, 2018 and the remaining balance at maturity.

The Credit Facility also requires us (subject to certain exceptions as set forth in the Amended and Restated Credit Agreement) to prepay the outstanding loans in an aggregate amount equal to 100% of the net cash proceeds received from certain asset dispositions, debt issuances, insurance and casualty awards and other extraordinary receipts.

The Amended and Restated Credit Agreement contains customary affirmative and negative covenants and events of default. The negative covenants include restrictions on our ability to, among other things, incur additional indebtedness, create liens, make investments, give guarantees, pay dividends, sell assets and merge and consolidate. We are subject to financial covenants, including consolidated net leverage and consolidated fixed charge covenants. We were in compliance with all covenants as of March 31, 2015.

We had \$201.7 million of borrowings outstanding under the revolving credit facility as of March 31, 2015. \$25.0 million of the revolving credit facility is available to collateralize certain letters of credit. As of March 31, 2015, there were nine letters of credit in the amount of approximately \$10.4 million collateralized under the revolving credit facility. At March 31, 2015, our available credit under the revolving credit facility was \$27.9 million.

Contingent obligations. Under The Providence Service Corporation Deferred Compensation Plan, as amended, or Deferred Compensation Plan, eligible employees and independent contractors of a participating employer (as defined in the Deferred Compensation Plan) may defer all or a portion of their base salary, service bonus, performance-based compensation earned in a period of 12 months or more, commissions and, in the case of independent contractors, compensation reportable on Form 1099. The Deferred Compensation Plan is unfunded and benefits are paid from our general assets. We also maintain a 409(A) Deferred Compensation Rabbi Trust Plan for highly compensated employees of our NET Services segment. Benefits are paid from our general assets under this plan.

Reinsurance and Self-Funded Insurance Programs

Reinsurance

We reinsure a substantial portion of our automobile, general and professional liability and workers' compensation costs under reinsurance programs through our wholly-owned captive insurance subsidiary, Social Services Providers Captive Insurance Company, or SPCIC. At March 31, 2015, the cumulative reserve for expected losses since inception of these automobile, general and professional liability and workers' compensation costs reinsurance programs was approximately \$1.0 million, \$3.2 million and \$9.8 million, respectively. In addition, based on an independent actuarial report, our expected losses related to workers' compensation and general and professional liability in excess of our liability under our associated reinsurance programs at March 31, 2015 was approximately \$5.9 million. Further, SPCIC had restricted cash of approximately \$16.9 million and \$17.5 million at March 31, 2015 and December 31, 2014, respectively, which was restricted to secure the reinsured claims losses of SPCIC under the automobile, general and professional liability and workers' compensation reinsurance programs.

Historically, we also provided reinsurance for policies written by a third party insurer for general liability, automobile liability, and automobile physical damage coverage to certain members of the network of subcontracted transportation providers and independent third parties under our NET Services segment through Provado Insurance Services, Inc. ("Provado"). While Provado did not renew its insurance agreement in February 2011 and no longer assumes liabilities for new policies, it will continue to administer existing policies for the foreseeable future and resolve remaining and future claims related to those policies. The cumulative reserve for expected losses of this reinsurance program at March 31, 2015 was approximately \$0.6 million.

Health Insurance

We offer our NET Services segment and Human Service segment employees an option to participate in a self-funded health insurance program. The liability for the self-funded health plan of approximately \$2.0 million as of March 31, 2015 and December 31, 2014, was recorded in "Reinsurance liability reserve" in our condensed consolidated balance sheets.

Forward-Looking Statements

Certain statements contained in this quarterly report on Form 10-Q, such as any statements about our confidence or strategies or our expectations about revenues, liabilities, results of operations, cash flows, ability to fund operations, profitability, ability to meet financial covenants, contracts or market opportunities, constitute forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). These forward-looking statements are based on our current expectations, assumptions, estimates and projections about our business and our industry. You can identify forward-looking statements by the use of words such as "may," "should," "will," "could," "estimates," "predicts," "potential," "continue," "anticipates," "believes," "plans," "expects," "future," and "intends" and similar expressions which are intended to identify forward-looking statements.

The forward-looking statements contained herein are not guarantees of our future performance and are subject to a number of known and unknown risks, uncertainties and other factors disclosed in our annual report on Form 10-K for the year ended December 31, 2014. Some of these risks, uncertainties and other factors are beyond our control and difficult to predict and could cause our actual results or achievements to differ materially from those expressed, implied or forecasted in the forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained above and throughout this report. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We do not intend to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign currency risk

As of March 31, 2015, we conducted business in eleven countries outside the US. As such, our cash flows and earnings are subject to fluctuations from changes in foreign currency exchange rates. We do not currently hedge against the possible impact of currency fluctuations. For Q1 2015, we used 11 functional currencies and generated approximately \$103.6 million of our net operating revenues from operations outside the US. As we expand further into international markets, we expect the risk from foreign currency exchange rates to increase.

A 10% adverse change in the foreign currency exchange rate from the Great British Pound to the US Dollar would have a \$9.0 million impact on revenue, but would not significantly impact net income. A 10% adverse change in other foreign currency exchange rates would not have a significant impact on the revenue or operating results of the Company.

Interest rate and market risk

As of March 31, 2015, we had borrowings under our term loans of \$275.9 million and borrowings under our revolving line of credit of \$201.7 million. Borrowings under the Credit Agreement accrued interest at LIBOR plus 3.00% per annum as of March 31, 2015. An increase of 1% in the LIBOR rate would cause an increase in interest expense of up to \$14.5 million over the remaining term of the Amended and Restated Credit Agreement, which expires in 2018.

We assess the significance of interest rate market risk on a periodic basis and may implement strategies to manage such risk as we deem appropriate.

Item 4. Controls and Procedures.*(a) Evaluation of disclosure controls and procedures*

The Company, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act as of the end of the period covered by this report (March 31, 2015) (“Disclosure Controls”). Based upon the Disclosure Controls evaluation, the principal executive officer and principal financial officer have concluded that the Disclosure Controls were effective in reaching a reasonable level of assurance that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls

The principal executive officer and principal financial officer also conducted an evaluation of the Company’s internal control over financial reporting (“Internal Control”) to determine whether any changes in Internal Control occurred during the quarter ended March 31, 2015 that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter ended March 31, 2015.

(c) Limitations on the Effectiveness of Controls

Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are 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, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

PART II—OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

The following table provides information with respect to common stock repurchased by us during the three months ended March 31, 2015:

Period	Total Number of Shares of Common Stock Purchased	Average Price Paid per Share	Total Number of Shares of Common Stock Purchased as Part of Publicly Announced Plans or Program	Maximum Number of Shares of Common Stock that May Yet Be Purchased Under the Plans or Program (2)
<u>Month 1:</u>				
January 1, 2015				
to				
January 31, 2015	1,572	\$ 36.62	-	243,900
<u>Month 2:</u>				
February 1, 2015				
to				
February 28, 2015	1,180	\$ 40.22	-	243,900
<u>Month 3:</u>				
March 1, 2015				
to				
March 31, 2015	12,434	\$ 49.63	-	243,900
Total	15,186	\$ 47.55	-	243,900

- (1) The shares repurchased were acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from vesting of restricted stock grants.
- (2) Our board of directors approved a stock repurchase program in February 2007 for up to one million shares of our common stock. As of March 31, 2015, we spent a cumulative amount of approximately \$14.4 million to purchase 756,100 shares of our common stock on the open market under this program.

Dividends

Our existing debt agreement restricts the payment of dividends by the Company on its common stock.

Item 6. Exhibits.

Exhibit Number	Description
10.1(1)	Employment Agreement, dated January 14, 2015, by and between The Providence Service Corporation and James Lindstrom.
10.2(2)	Employment and Separation Agreement, dated February 2, 2015, by and between The Providence Service Corporation and Robert E. Wilson.
**10.3	Form of 2015 Performance Restricted Stock Unit Agreements
31.1	Certification pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 of the Chief Executive Officer.
31.2	Certification pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 of the Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
**	Filed herewith.
(1)	Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the Securities and Exchange Commission on January 21, 2015.
(2)	Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the Securities and Exchange Commission on February 6, 2015.

EXHIBIT INDEX

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PERFORMANCE RESTRICTED STOCK UNIT AGREEMENT

PARTICIPANT:

GRANT DATE:

THRESHOLD NUMBER OF PERFORMANCE RESTRICTED
STOCK UNITS:MAXIMUM NUMBER OF PERFORMANCE RESTRICTED
STOCK UNITS GRANTED:

AWARD AND VESTING CRITERIA:

The actual number of Performance Restricted Stock Units to be awarded to Participant and that may vest will be determined in accordance with conditions specified below.

PERFORMANCE PERIOD:

January 1, 2015 to December 31, 2017

THIS AGREEMENT, effective as of the Grant Date set forth above, is between The Providence Service Corporation, a Delaware corporation (the "Company", "we", "our" or "us"), and the Participant named above ("you" or "yours"), pursuant to the provisions of the Company's 2006 Long Term Incentive Plan, as amended (the "Plan") with respect to the grant of the maximum number of performance restricted stock units ("PRSUs") specified above. Capitalized terms used and not defined in this Performance Restricted Stock Unit Award Agreement (this "Agreement") shall have the meanings given to them in the Plan. References to the Company also include its subsidiaries.

By accepting this Agreement, you irrevocably agree, on your own behalf and on behalf of your heirs and any other person claiming rights under this Agreement, to all of the terms and conditions of the PRSUs as set forth in or pursuant to this Agreement and the Plan (as such may be amended from time to time). You and the Company agree as follows:

**1. Application of Plan;
Administration**

This Agreement and your rights under this Agreement are subject to all the terms and conditions of the Plan, as it may be amended from time to time, as well as to such rules and regulations as the Administrator may adopt. It is expressly understood that the Administrator that administers the Plan is authorized to administer, construe and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon you to the extent permitted by the Plan.

2. Performance Goal

- (a) The number of PRSUs to be awarded to you under this Agreement shall depend upon the extent to which the Performance Metric equals, exceeds or falls short of the Performance Targets for the Performance Period referenced above (the "Performance Period"). If the actual Performance Metric does not equal or exceed the minimum Performance Target for the Performance Period, the right to receive an award of any PRSUs pursuant to this Agreement for the Performance Period shall expire without consideration.
- (b) The Performance Metric for the Performance Period is a return on equity (the quotient resulting from dividing the aggregate audited consolidated net income by the average stockholders' equity for the Performance Period) ("ROE") as established by the Administrator for the Performance Period.
- (c) Subject to the foregoing, and provided that you have remained in Employment with the Company from the Grant Date set forth above until the end of the Performance Period, the number of PRSUs to be awarded to you following completion of the Performance Period (such PRSUs, the "Awarded PRSUs") shall be determined in accordance with the following Performance Targets:
 - 33% of the maximum number of PRSUs (i.e., the Threshold number set forth above) if the Company achieves an ROE equal to or greater than 12%; or
 - 100% of the maximum number of PRSUs if the Company achieves an ROE equal to or greater than 15%.

With respect to the Performance Period, on March 1, 2018, or as soon as practicable thereafter as the Administrator is provided with and reviews the Company's audited financial statements, but in no event later than March 15, 2018, the Administrator will: (a) determine in its sole discretion (i) the Performance Metric achieved by the Company for the Performance Period, (ii) the number of PRSUs to be awarded as Awarded PRSUs and (iii) the resulting number of shares of Stock to be issued in settlement of the Awarded PRSUs, and (b) evidence such determinations by a written certification in accordance with Section 162(m) of the Code. The date that the Administrator completes the actions described in this subparagraph will be referred to herein as the "Settlement Date".

3. Vesting

The Awarded PRSUs will vest on December 31, 2017 (the "Vesting Date"), provided that you remain in Employment with the Company from the Grant Date set forth above until the Vesting Date (the vested Awarded PRSUs are referred to herein as "Vested Awarded PRSUs").

- 4. Termination of Employment** Your right to any award of PRSUs that have not become Vested Awarded PRSUs will be forfeited without consideration as of the date of termination of your Employment with the Company for any reason, including death.
- 5. Settlement of Awarded PRSUs/Awarded Cash Payment** (a) Vested Awarded PRSUs will be settled in shares of Stock at a ratio of one share of Stock for each Vested Awarded PRSU.
- (b) The issuance of shares with respect to a Vesting Date relating to Vested Awarded PRSUs shall be made on the Settlement Date, and in no event, shall payment be made later than March 15, 2018.
- (c) Notwithstanding any provision contained herein, in the event of the occurrence of a Change in Control (“Triggering Event”) at any time prior to or on December 31, 2017, then the vesting will be accelerated with respect to the maximum number of PRSUs set forth herein as of the date of the Triggering Event. Upon such vesting, Participant shall be entitled to receive fully vested shares of Stock of the Company equal to the maximum number of PRSUs. The resulting shares shall be issued to the Participant within ten (10) days of such Triggering Event, provided that (1) the Participant has no right to designate the taxable year of payment; and (2) if the issuance of the shares, either alone or together with other payments or benefits, either cash or non-cash, that the Participant has the right to receive from the Company, including, but not limited to, accelerated vesting or payment of any deferred compensation, options, stock appreciation rights or any benefits payable to Participant under any plan for the benefit of employees, which would constitute an “excess parachute payment” (as defined in Section 280G of the Code), then the number of shares of Stock issuable shall be reduced to the largest amount that will not result in receipt by Participant of a parachute payment to the extent that other reductions are insufficient or other reductions are not made as determined by the Administrator.
- 6. Rights as Stockholder** Except as otherwise provided in this Agreement, you will not be entitled to any privileges of ownership of the shares of Stock underlying your PRSUs, including voting, receipt of dividends or any other rights as a stockholder of the Company unless and until any shares of Stock are issued to you for Vested Awarded PRSUs.
- 7. Transferability** Except as provided in Section 9(k) hereof, your right to receive PRSUs under this Agreement, your Awarded PRSUs, any Vested Awarded PRSUs and the right to receive Stock upon settlement of such Vested Awarded PRSUs that you hold pursuant to this Agreement are not transferable, whether voluntarily or involuntarily, by operation of law or otherwise, other than by will or the laws of descent and distribution with respect to the unsettled Vested Awarded PRSUs. Any voluntary or involuntary assignment, pledge, transfer, or other disposition of, or any attachment, execution, garnishment, or lien issued against or placed upon your right to receive PRSUs under this Agreement, your Awarded PRSUs, and any Vested Awarded PRSUs and the right to receive Stock upon settlement of Vested Awarded PRSUs that you hold pursuant to this Agreement in violation of the terms of this Agreement shall be void. Notwithstanding the foregoing, by delivering written notice to the Company, in a form satisfactory to the Company, you may designate a third party who, in the event of your death, will thereafter be entitled to receive any shares of Stock you may be entitled to pursuant to this Agreement.

8. Taxes

- (a) *General.* You are ultimately liable and responsible for all taxes owed by you in connection with your PRSUs, Awarded PRSUs, Vested Awarded PRSUs and shares of Stock issued in settlement of Vested Awarded PRSUs regardless of any action the Company takes with respect to any tax obligations that arise in connection with the PRSUs, Awarded PRSUs, Vested Awarded PRSUs and shares of Stock. The Company makes no representation or undertaking regarding the tax treatment applicable to the grant, award, vesting or settlement of the PRSUs, the Awarded PRSUs, the Vested Awarded PRSUs or shares of Stock issued upon settlement of Vested Awarded PRSUs.
- (b) *Withholding.* On or before the Vesting Date, the date your Vested Awarded PRSUs are settled and shares are issued to you pursuant to the terms of Section 5, and any other date upon which tax withholding obligations of the Company may arise, or at any time thereafter as requested by the Company, you hereby authorize withholding from, at the Company's election, payroll and any other amounts payable to you and you otherwise agree to make adequate provision for, as determined by the Company, any sums required to satisfy the Federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with any of the above events or otherwise. Unless the tax withholding obligations of the Company or any Affiliate are satisfied, the Company will have no obligation to issue shares of Stock upon settlement of Vested Awarded PRSUs to you.

9. Miscellaneous

- (a) YOU ACKNOWLEDGE AND AGREE THAT THE VESTING OF ANY AWARDED PRSUS PURSUANT TO SECTION 3 HEREOF IS EARNED ONLY BY YOUR CONTINUED EMPLOYMENT WITH THE COMPANY OR ANY OF ITS SUBSIDIARIES (AND NOT THROUGH THE ACT OF BEING HIRED OR ACQUIRING GRANTED PRSUS HEREUNDER). YOU FURTHER ACKNOWLEDGE AND AGREE THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS AN EMPLOYEE OF THE COMPANY OR ANY OF ITS SUBSIDIARIES FOR THE VESTING PERIOD, FOR THE PERFORMANCE PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH YOUR RIGHT OR THE COMPANY'S OR ANY OF ITS SUBSIDIARY'S RIGHT TO TERMINATE YOUR RELATIONSHIP AS AN EMPLOYEE.

- (b) Your PRSUs and any Awarded PRSUs or Vested Awarded PRSUs are unfunded and as a holder of Vested Awarded PRSUs you will be considered an unsecured creditor of the Company with respect to the Company's obligation, if any, to issue cash pursuant to this Agreement. Nothing contained in this Agreement, and no action taken pursuant to its provisions, will create or be construed to create a trust of any kind or a fiduciary relationship between you and the Company or any other person.
- (c) This Agreement will be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or stock exchanges as may be required.
- (d) Section 409A means Section 409A of the Code, Treasury Regulations and other guidance promulgated thereunder, as each may be amended from time to time. The benefits provided under this Agreement are intended to be subject to a "substantial risk of forfeiture" under Section 409A, and to qualify for the "short term deferral exemption" from application of Section 409A as payable only within the permitted period following lapse of the applicable forfeiture conditions, and any ambiguities contained herein shall be interpreted in a manner so as to comply with the requirements of such exemption. Notwithstanding anything in the Plan or this Agreement to the contrary, the Administrator may, without your consent, amend this Agreement to comply with all of the requirements of Section 409A and any corresponding guidance and regulations issued under Section 409A to the extent it is determined, in the sole discretion of the Administrator, that such amendment is necessary to comply with the requirements of Section 409A.

- (e) The interpretation, performance and enforcement of this Agreement will be governed by the law of the state of Delaware without regard to such state's conflicts of laws rules.
- (f) Any question concerning the interpretation of this Agreement or the Plan, any adjustments required to be made under the Plan and any controversy that may arise under the Plan or this Agreement shall be determined by the Administrator (including any person(s) to whom the Administrator has delegated its authority) in its sole discretion. Such decision by the Administrator shall be final and binding.
- (g) This Agreement and the Plan represent the entire agreement between the parties with respect to the PRSUs. In the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan shall prevail.
- (h) If all or any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity will not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement (or part of such a Section) so declared to be unlawful or invalid will, if possible, be construed in a manner which will give effect to the terms of such Section or part of such Section to the fullest extent possible while remaining lawful and valid.
- (i) Either party's failure to enforce any provision of this Agreement shall not in any way be construed as a waiver of any such provision, nor prevent that party from thereafter enforcing any other provision of this Agreement. The rights granted both parties hereunder are cumulative and shall not constitute a waiver of either party's right to assert any other legal remedy available to it.
- (j) This Agreement may be amended only by a writing executed by you and the Company which specifically states that it is amending this Agreement. Notwithstanding the foregoing and subject to Section 7 of the Plan, this Agreement may be amended solely by the Administrator by a writing which specifically states that it is amending this Agreement, so long as a copy of such amendment is delivered to you. Without limiting the foregoing, the Administrator reserves the right to change, by written notice to you, the provisions of this Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling or judicial decision, provided that any such change will be applicable only to rights relating to that portion of the granted PRSUs, the Awarded PRSUs, the Vested Awarded PRSUs which are then subject to restrictions as provided herein.

- (k) The rights and obligations of the Company under this Agreement will be transferable by the Company to any one or more persons or entities, and all covenants and agreements hereunder will inure to the benefit of, and be enforceable by the Company's successors and assigns. You may not assign, transfer or pledge the granted PRSUs, the Awarded PRSUs, the Vested Awarded PRSUs or any right or interest therein or thereunder to anyone other than by will or the laws of descent and distribution except with the prior written consent of the Company. The Company may cancel your rights hereunder if you attempt to assign or transfer them in a manner inconsistent with this Agreement.
- (l) All notices with respect to this Agreement shall be in writing and shall be hand delivered or sent by first class mail or reputable overnight delivery service, expenses prepaid. Notice may also be given by electronic mail or facsimile and shall be effective on the date transmitted if confirmed within 24 hours thereafter by a signed original sent in a manner provided in the preceding sentence. Notices to the Company or the Administrator shall be delivered or sent, if by mail to the Company's headquarters, 64 East Broadway Blvd., Tucson, Arizona 85701, Attn: Warren Rustand, CEO, or if by email: Wrustand@provcorp.com. Notices to the Participant shall be sufficient if delivered or sent to such person's address as it appears in the regular records of the Company or such person's email account with the Company.
- (m) The headings of the Sections in this Agreement are inserted for convenience only and will not be deemed to constitute a part of this Agreement or to affect the meaning of this Agreement.
- (n) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of this Agreement.

By the signatures below, you and the authorized representative of the Company acknowledge your agreement to this Performance Restricted Stock Unit Award Agreement as of the Grant Date specified above.

Name:

Date: _____

Accepted by:

THE PROVIDENCE SERVICE CORPORATION

By: _____
Name:
Title:

CERTIFICATIONS

I, Warren S. Rustand, certify that:

1. I have reviewed this Form 10-Q of The Providence Service Corporation;
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(s) 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(s) 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 (or persons performing the equivalent functions):
 - 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: May 11, 2015

/s/ Warren S. Rustand
Warren S. Rustand
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, James Lindstrom, certify that:

1. I have reviewed this Form 10-Q of The Providence Service Corporation;
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(s) 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(s) 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 (or persons performing the equivalent functions):
 - 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: May 11, 2015

/s/ James Lindstrom
James Lindstrom
Chief Financial Officer
(Principal Financial and Accounting Officer)

THE PROVIDENCE SERVICE CORPORATION
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of The Providence Service Corporation (the "Company") does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended March 31, 2015 (the "Report") that, to the best of such officer's knowledge:

- (1) 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: May 11, 2015

/s/ Warren S. Rustand
Warren S. Rustand
Chief Executive Officer
(Principal Executive Officer)

THE PROVIDENCE SERVICE CORPORATION
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of The Providence Service Corporation (the "Company") does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended March 31, 2015 (the "Report") that, to the best of such officer's knowledge:

- (1) 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: May 11, 2015

/s/ James Lindstrom
James Lindstrom
Chief Financial Officer
Principal Financial and Accounting Officer

