

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(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, 2013**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number **001-34221**

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**The Providence Service Corporation**

(Exact name of registrant as specified in its charter)

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**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)

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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 7, 2013, there were outstanding 13,043,265 shares (excluding treasury shares of 949,961) 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)

	<b>March 31,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012</b>
	<u>(Unaudited)</u>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 83,080	\$ 55,863
Accounts receivable, net of allowance of \$3.8 million in 2013 and \$3.7 million in 2012	89,147	98,628
Management fee receivable	3,305	2,662
Other receivables	1,267	1,920
Restricted cash	2,151	1,787
Prepaid expenses and other	14,581	14,807
Deferred tax assets	994	532
Total current assets	<u>194,525</u>	<u>176,199</u>
Property and equipment, net	29,858	30,380
Goodwill	113,866	113,915
Intangible assets, net	47,846	49,651
Restricted cash, less current portion	10,953	10,953
Other assets	10,822	10,639
Total assets	<u>\$ 407,870</u>	<u>\$ 391,737</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Current portion of long-term obligations	\$ 15,000	\$ 14,000
Accounts payable	4,650	4,569
Accrued expenses	44,303	32,976
Accrued transportation costs	59,257	61,316
Deferred revenue	9,377	7,055
Reinsurance liability reserve	9,174	12,713
Total current liabilities	<u>141,761</u>	<u>132,629</u>
Long-term obligations, less current portion	112,250	116,000
Other long-term liabilities	14,974	13,527
Deferred tax liabilities	11,785	10,894
Total liabilities	<u>280,770</u>	<u>273,050</u>
Commitments and contingencies (Note 10)		
<b>Stockholders' equity</b>		
Common stock: Authorized 40,000,000 shares; \$0.001 par value; 13,988,726 and 13,785,947 issued and outstanding (including treasury shares)	14	14
Additional paid-in capital	183,057	180,778
Accumulated deficit	(46,401)	(53,079)
Accumulated other comprehensive loss, net of tax	(1,053)	(893)
Treasury shares, at cost, 949,961 and 928,478 shares	(15,478)	(15,094)
Total Providence stockholders' equity	<u>120,139</u>	<u>111,726</u>
Non-controlling interest	6,961	6,961
Total stockholders' equity	<u>127,100</u>	<u>118,687</u>
Total liabilities and stockholders' equity	<u>\$ 407,870</u>	<u>\$ 391,737</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,	
	2013	2012
<b>Revenues:</b>		
Home and community based services	\$ 76,960	\$ 84,125
Foster care services	8,444	8,355
Management fees	2,950	2,995
Non-emergency transportation services	193,133	164,672
	281,487	260,147
<b>Operating expenses:</b>		
Client service expense	75,517	80,210
Cost of non-emergency transportation services	176,684	156,979
General and administrative expense	12,452	12,739
Depreciation and amortization	3,729	3,626
Total operating expenses	268,382	253,554
Operating income	13,105	6,593
<b>Other (income) expense:</b>		
Interest expense	1,772	1,907
Interest income	(21)	(42)
Income before income taxes	11,354	4,728
Provision for income taxes	4,676	1,686
Net income	\$ 6,678	\$ 3,042
<b>Earnings per common share:</b>		
Basic	\$ 0.51	\$ 0.23
Diluted	\$ 0.49	\$ 0.23
<b>Weighted-average number of common shares outstanding:</b>		
Basic	13,148,717	13,266,908
Diluted	14,507,367	13,404,833

See accompanying notes to unaudited condensed consolidated financial statements

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income	\$ 6,678	\$ 3,042
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(160)	279
Comprehensive income	<u>\$ 6,518</u>	<u>\$ 3,321</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Net income	\$ 6,678	\$ 3,042
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,934	1,729
Amortization	1,795	1,897
Amortization of deferred financing costs	264	286
Provision for doubtful accounts	558	(193)
Deferred income taxes	(21)	(441)
Stock based compensation	918	1,067
Excess tax benefit upon exercise of stock options	(158)	(21)
Other	22	(18)
Changes in operating assets and liabilities:		
Accounts receivable	8,905	(8,282)
Management fee receivable	(643)	470
Other receivables	653	(228)
Restricted cash	(410)	(215)
Prepaid expenses and other	(287)	445
Reinsurance liability reserve	(1,948)	(1,811)
Accounts payable and accrued expenses	11,349	592
Accrued transportation costs	(2,059)	6,159
Deferred revenue	2,322	1,230
Other long-term liabilities	(71)	3,446
Net cash provided by operating activities	<u>29,801</u>	<u>9,154</u>
<b>Investing activities</b>		
Purchase of property and equipment, net	(1,438)	(4,168)
Acquisition of businesses, net of cash acquired	0	(190)
Restricted cash for reinsured claims losses	46	1,553
Purchase of short-term investments, net	(8)	(25)
Net cash used in investing activities	<u>(1,400)</u>	<u>(2,830)</u>
<b>Financing activities</b>		
Repurchase of common stock, for treasury	(384)	(118)
Proceeds from common stock issued pursuant to stock option exercise	1,878	80
Excess tax benefit upon exercise of stock options	158	21
Repayment of long-term debt	(2,750)	(2,500)
Capital lease payments	(3)	(14)
Net cash used in financing activities	<u>(1,101)</u>	<u>(2,531)</u>
Effect of exchange rate changes on cash	(83)	78
Net change in cash	27,217	3,871
Cash at beginning of period	55,863	43,184
Cash at end of period	<u>\$ 83,080</u>	<u>\$ 47,055</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	<u>\$ 732</u>	<u>\$ 825</u>
Cash paid for income taxes	<u>\$ 1,770</u>	<u>\$ 2,990</u>

See accompanying notes to unaudited condensed consolidated financial statements

**The Providence Service Corporation**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**March 31, 2013**

**1. Basis of Presentation, Description of Business, Summary of Significant Accounting Policies and Critical Accounting Estimates**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements (the “consolidated financial statements”) include the accounts of The Providence Service Corporation and its wholly-owned subsidiaries, including its foreign wholly-owned subsidiary WCG International Ltd. (“WCG”). Unless the context otherwise requires, references to the “Company”, “our”, “we” and “us” mean The Providence Service Corporation and its wholly-owned subsidiaries.

The Company follows accounting standards set by the Financial Accounting Standards Board (“FASB”). The FASB establishes accounting principles generally accepted in the United States (“GAAP”). Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants, which the Company is required to follow. References to GAAP issued by the FASB in these footnotes are to the FASB *Accounting Standards Codification* (“ASC”), which serves as a single source of authoritative non-SEC accounting and reporting standards to be applied by nongovernmental entities.

The Company’s consolidated financial statements have been prepared in accordance with 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 (consisting of recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2013. 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, 2012 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, 2012.

**Description of Business**

The Company is a government outsourcing privatization company. The Company operates in the following two segments: Social Services and Non-Emergency Transportation Services (“NET Services”). The Social Services segment responds to governmental privatization initiatives in adult and juvenile justice, corrections, social services, welfare systems, education and workforce development by providing home-based and community-based services and foster care services to at-risk families and children. The NET Services segment provides non-emergency transportation management services primarily to Medicaid and Medicare beneficiaries. As of March 31, 2013, the Company operated in 44 states and the District of Columbia, in the United States, and in British Columbia and Alberta, Canada.

**Summary of Significant Accounting Policies and Critical Accounting Estimates**

***Significant Accounting Policies***

The Company has established and followed a number of accounting policies in the preparation of these consolidated financial statements in conformity with GAAP. Significant among these policies are policies related to cash and cash equivalents, restricted cash, deferred financing costs, non-controlling interest and stock-based compensation arrangements. These accounting policies are more fully described in the notes to the Company’s audited financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2012.

### ***Critical Accounting Estimates***

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. The Company based its estimates on historical experience and on various other assumptions the Company believes to be reasonable under the circumstances. However, actual results may differ from these estimates under different assumptions or conditions. Some of the more significant estimates impact revenue recognition, accounts receivable and allowance for doubtful accounts, accounting for business combinations, goodwill and other intangible assets, accrued transportation costs, accounting for management agreement relationships, loss reserves for reinsurance and self-funded insurance programs, stock-based compensation and income taxes. The Company has reviewed its critical accounting estimates with the Company's board of directors, audit committee and disclosure committee.

### **New and Pending Accounting Pronouncements**

#### ***New Accounting Pronouncements***

In February 2013, the FASB issued ASU 2013-02-*Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 is intended to improve the reporting of reclassifications out of accumulated other comprehensive income. Accordingly, an entity is required to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this ASU supersede the presentation requirements for reclassifications out of accumulated other comprehensive income in ASU 2013-05 and ASU 2013-12. ASU 2013-02 is effective for reporting periods beginning after December 15, 2012. The Company adopted ASU 2013-02 effective January 1, 2013. The adoption of 2013-02 has not had an effect on the consolidated financial statements.

#### ***Pending Accounting Pronouncements***

The Company is evaluating other accounting standards and exposure drafts, such as exposure drafts related to revenue recognition, leases and fair value measurements, that have been issued or proposed by the FASB or other standards setting bodies that do not require adoption until a future date to determine whether adoption will have a material impact on the Company's consolidated financial statements.

### **2. Concentration of Credit Risk**

Contracts with governmental agencies and other entities that contract with governmental agencies accounted for approximately 81% and 80% of the Company's revenue for the three months ended March 31, 2013 and 2012, respectively. The contracts are subject to possible statutory and regulatory changes, rate adjustments, administrative rulings, rate freezes and funding reductions. Reductions in amounts paid under these contracts for the Company's services or changes in methods or regulations governing payments for the Company's services could materially adversely affect its revenue and profitability.

For the three months ended March 31, 2013 and 2012, the Company conducted a portion of its operations in Canada through WCG. The amount of the Company's net assets located in Canada at March 31, 2013 and December 31, 2012 and the amount of the Company's consolidated revenue generated from its Canadian operations for the three months ended March 31, 2013 and 2012 were as follows (in thousands):

	<b>March 31, 2013</b>	<b>Percent of Total Net Assets</b>	<b>December 31, 2012</b>	<b>Percent of Total Net Assets</b>
Net assets located in Canada	\$ 8,408	6.6%	\$ 8,471	7.1%
<b>Three months ended March 31,</b>				
	<b>2013</b>	<b>Percent of Revenue</b>	<b>2012</b>	<b>Percent of Revenue</b>
Revenue from Canadian operations	\$ 2,814	1.0%	\$ 5,457	2.1%

The Company is subject to the risks inherent in conducting business across national boundaries, any one of which could adversely impact its business. In addition to currency fluctuations, these risks include, among other things: (i) economic downturns; (ii) changes in or interpretations of local law, governmental policy or regulation; (iii) restrictions on the transfer of funds into or out of the country; (iv) varying tax systems; (v) delays from doing business with governmental agencies; (vi) nationalization of foreign assets; and (vii) government protectionism. One or more of the foregoing factors could impair the Company's current or future Canadian operations and, as a result, harm its overall business.

### 3. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Accrued compensation	\$ 21,590	\$ 18,438
Other	22,713	14,538
	<u>\$ 44,303</u>	<u>\$ 32,976</u>

### 4. Long-Term Obligations

The Company's long-term obligations consisted of the following (in thousands):

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
6.5% convertible senior subordinated notes, interest payable semi-annually beginning May 2008 with principal due May 2014 (the "Notes")	\$ 47,500	\$ 47,500
\$40,000 revolving loan, LIBOR plus 3.00% (effective rate of 3.2% at March 31, 2013) through March 2016	-	-
\$100,000 term loan, LIBOR plus 3.00% with principal and interest payable at least once every three months through March 2016	79,750	82,500
	<u>127,250</u>	<u>130,000</u>
Less current portion	15,000	14,000
	<u>\$ 112,250</u>	<u>\$ 116,000</u>

The carrying amount of the long-term obligations approximated its fair value at March 31, 2013 and December 31, 2012. 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.

The terms of the Notes, revolving loan and term loan are more fully described in the notes to the Company's audited financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2012.

## **5. Business Segments**

The Company operates in two reportable segments as distinct divisions and differentiates the segments based on the nature of the services they offer and the criteria in ASC Topic 280, "*Segment Reporting*". The following describes each of the Company's segments and its corporate services area.

*Social Services.* Social Services includes government sponsored social services consisting of home and community based, foster care and not-for-profit management services. These services are purchased primarily by state, county and city levels of government, and are delivered under block purchase, cost based and fee-for-service arrangements. The Company also contracts with not-for-profit organizations to provide management services for a fee.

*NET Services.* NET Services is comprised primarily of managing the delivery of non-emergency transportation services to Medicaid and Medicare beneficiaries. The entities that pay for non-emergency medical transportation services are primarily state Medicaid programs, health maintenance organizations and commercial insurers. Most of the Company's non-emergency transportation services are delivered under capitated contracts where the Company assumes the responsibility of meeting the transportation needs of a specific geographic population.

*Corporate.* Corporate includes corporate accounting and finance, information technology, external audit, tax compliance, business development, cost reporting compliance, internal audit, employee training, legal and various other overhead costs, all of which are directly allocated to the segments.

The basis of segmentation and measurement of segment profit or loss has not changed from that disclosed in the Company's audited financial statements and notes included in its Annual Report on Form 10-K for the year ended December 31, 2012.

The following table sets forth certain financial information (in thousands) attributable to the Company's business segments for the three months ended March 31, 2013 and 2012. In addition, none of the segments have significant non-cash items in operating income other than asset impairment charges and depreciation and amortization.

	For the three months ended March 31,	
	2013	2012
<b>Revenues:</b>		
Social Services	\$ 88,354	\$ 95,475
NET Services	193,133	164,672
<b>Consolidated</b>	<b>\$ 281,487</b>	<b>\$ 260,147</b>
<b>Operating income:</b>		
Social Services	\$ 1,818	\$ 3,306
NET Services	11,287	3,287
<b>Consolidated (a)</b>	<b>\$ 13,105</b>	<b>\$ 6,593</b>

(a) Corporate costs have been allocated to the Social Services and NET Services operating segments.

## 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 generally vest in three equal installments on the first, second and third anniversaries of the date of grant. The fair value of option awards was estimated on the date of grant using the Black-Scholes-Merton option-pricing formula and amortized over the option's vesting periods, and the fair value of non-vested 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, 2013	
	Number of Shares Under Option	Weighted- average Exercise Price
Balance at beginning of period	1,724,421	\$ 19.48
Exercised	(131,221)	14.32
Forfeited or expired	(215,327)	23.65
Outstanding at March 31, 2013	1,377,873	\$ 19.33

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

	For the three months ended March 31, 2013	
	Shares	Weighted- average Grant Date Fair Value
Non-vested balance at beginning of period	225,744	\$ 15.25
Granted	29,319	18.77
Vested	(71,558)	15.20
Forfeited or cancelled	(750)	15.50
Non-vested at March 31, 2013	182,755	\$ 15.83

## 7. Stockholders' Equity

The following table reflects changes in common stock, additional paid-in capital, treasury stock and accumulated other comprehensive loss for the three months ended March 31, 2013 (in thousands except share data):

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Loss
	Shares	Amount		Shares	Amount	
Balance at December 31, 2012	13,785,947	\$ 14	\$ 180,778	928,478	\$ (15,094)	\$ (893)
Stock-based compensation	0	0	918	0	0	0
Exercise of employee stock options, including net tax shortfall of \$517	131,221	0	1,361	0	0	0
Restricted stock issued	71,558	0	0	21,483	(384)	0
Foreign currency translation adjustments	0	0	0	0	0	(160)
Balance at March 31, 2013	<u>13,988,726</u>	<u>\$ 14</u>	<u>\$ 183,057</u>	<u>949,961</u>	<u>\$ (15,478)</u>	<u>\$ (1,053)</u>

## 8. Earnings Per Share

The following table details the computation of basic and diluted earnings per share (in thousands except share and per share data):

	Three months ended March 31,	
	2013	2012
Numerator:		
Net income, basic	\$ 6,678	\$ 3,042
Effect of interest related to the Notes	499	0
Net income available to common stockholders, diluted	<u>\$ 7,177</u>	<u>\$ 3,042</u>
Denominator:		
Denominator for basic earnings per share -- weighted-average shares	13,148,717	13,266,908
Effect of dilutive securities:		
Common stock options and restricted stock awards	219,505	137,925
Notes	<u>1,139,145</u>	<u>0</u>
Denominator for diluted earnings per share -- adjusted weighted-average shares assumed conversion	<u>14,507,367</u>	<u>13,404,833</u>
Basic earnings per share	<u>\$ 0.51</u>	<u>\$ 0.23</u>
Diluted earnings per share	<u>\$ 0.49</u>	<u>\$ 0.23</u>

The effect of issuing 1,139,145 shares of common stock on an assumed conversion basis related to the Notes was included in the computation of diluted earnings per share for the three months ended March 31, 2013 as they have a dilutive effect. The effect of issuing 1,198,932 shares of common stock on an assumed conversion basis related to the Notes was not included in the computation of diluted earnings per share for the three months ended March 31, 2012 as it would have been antidilutive. For the three months ended March 31, 2013 and 2012, employee stock options to purchase 880,010 and 1,390,185 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.

## 9. Income Taxes

The Company's effective tax rate from continuing operations for the three months ended March 31, 2013 and 2012 was 41.2% and 35.7%, respectively. For the three months ended March 31, 2013 and 2012, 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 stock option expense. Additionally, the Company's effective tax rate for the three months ended March 31, 2012 was favorably impacted by the final determination of the tax benefits related to certain liabilities assumed as a result of a 2011 acquisition.

## 10. 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 \$1.3 million and \$1.2 million at March 31, 2013 and December 31, 2012, respectively.

## 11. Transactions with Related Parties

Upon the Company's acquisition of Maple Services, LLC in August 2005, the Company's former Chief Executive Officer, former Chief Financial Officer, and Chief Executive Officer of Social Services, became members of the board of directors of the non-profit organization (Maple Star Colorado, Inc.) formerly managed by Maple Services, LLC. In November 2012, the Company's Interim Chief Executive Officer and new Chief Financial Officer became members of Maple Star Colorado, Inc.'s board of directors. Maple Star Colorado, Inc. is a non-profit member organization governed by its board of directors and the state laws of Colorado in which it is incorporated. Maple Star Colorado, Inc. is not a federally tax exempt organization and neither the Internal Revenue Service rules governing IRC Section 501(c)(3) exempt organizations, nor any other IRC sections applicable to tax exempt organizations, apply to this organization. The Company provided management services to Maple Star Colorado, Inc. under a management agreement for consideration in the amount of approximately \$75,000 and \$65,000 for the three months ended March 31, 2013 and 2012, respectively. Amounts due to the Company from Maple Star Colorado, Inc. for management services provided to it by the Company at March 31, 2013 and December 31, 2012 were approximately \$220,000 and \$231,000, respectively.

The Company operates a call center in Phoenix, Arizona. The building in which the call center is located is currently leased by the Company from VWP McDowell, LLC ("McDowell") under a five year lease that expires in 2014. The Company may terminate the lease with a six-month prior written notice. Certain immediate family members of Herman M. Schwarz (the chief executive officer of the Company's non-emergency transportation services and an executive officer of the Company) have partial ownership interest in McDowell. In the aggregate these family members own approximately 13% interest in McDowell directly and indirectly through a trust. For the three months ended March 31, 2013 and 2012, the Company expensed approximately \$102,000 and \$104,000, respectively, in lease payments to McDowell. Future minimum lease payments due under the amended lease totaled approximately \$741,000 at March 31, 2013.

## **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, 2013 and 2012 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, 2012. For purposes of “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, references to Q1 2013 and Q1 2012 mean the three months ended March 31, 2013 and the three months ended March 31, 2012, respectively.

### **Overview of our business**

We are a direct provider of government sponsored social services and a manager of not-for-profit organizations under contract that delivers government sponsored social services. In addition, we broker and manage Medicaid funded non-emergency transportation services. As a result of and 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 social services and managed care solutions, we have grown both organically and by making strategic acquisitions.

We are focused on driving organic and acquisitive growth, improving operating efficiencies, and developing performance management systems that will enhance and leverage our people and processes. Our core competencies include:

- Enduring relationships with payers clients and referral sources;
- Geographic reach, breadth of services and experience;
- Management of the transportation and human service needs of defined populations;
- Management of provider networks, contract bidding infrastructure;
- Managed care contracting experience, and;
- Technology platform development.

By enhancing and leveraging these core competencies, we believe we can benefit from emerging trends in healthcare such as healthcare reform, coordinated and integrated healthcare and continued outsourcing of transportation management by states.

While we believe we are well positioned to benefit from healthcare reform legislation and to offer our services to a growing population of individuals eligible to receive our services, there can be no assurances that programs under which we provide our services will receive continued or increased funding.

While we believe we are positioned to potentially benefit from trends that favor our in-home provision of social services, budgetary pressures still exist that could reduce funding for the services we provide. Medicaid budgets are fluid and dramatic changes in the financing or structure of Medicaid could have a negative impact on our business.

As of March 31, 2013, we were providing social services directly to approximately 54,500 unique clients, and had approximately 16.8 million individuals eligible to receive services under our non-emergency transportation services contracts. We provided services to these clients from approximately 370 locations in 44 states and the District of Columbia in the United States, and British Columbia and Alberta, Canada.

## **Critical accounting estimates and policies**

In preparing our financial statements in accordance with accounting principles generally accepted in the United States, or GAAP, we are required to make estimates and judgments that affect the amounts reflected in our financial statements. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. However, actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are those policies most important to the portrayal of our financial condition and results of operations. These policies require our most difficult, subjective or complex judgments, often employing the use of estimates about the effect of matters inherently uncertain. Our most critical accounting policies pertain to revenue recognition, accounts receivable and allowance for doubtful accounts, accounting for business combinations, goodwill and other intangible assets, accrued transportation costs, accounting for management agreement relationships, loss reserves for certain reinsurance and self-funded insurance programs, stock-based compensation and income taxes.

As of March 31, 2013, there has been no change in our accounting policies or the underlying assumptions or methodology used to fairly present our financial position, results of operations and cash flows for the periods covered by this report. In addition, no triggering events have come to our attention pursuant to our review of goodwill and long-lived assets that would indicate impairment of these assets as of March 31, 2013.

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, 2012.

## **Results of operations**

*Segment reporting.* Our financial operating results are organized and reviewed by our chief operating decision maker as two reportable segments—Social Services and NET Services. We operate these reportable segments as separate divisions and differentiate the segments based on the nature of the services they offer as more fully described in our Form 10-K for the year ended December 31, 2012.

*Consolidated Results.* The following table sets forth the percentage of consolidated total revenues represented by items in our unaudited condensed consolidated statements of income for the periods presented:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>		
Home and community based services	27.3%	32.3%
Foster care services	3.0	3.2
Management fees	1.1	1.2
Non-emergency transportation services	68.6	63.3
Total revenues	100.0	100.0
<b>Operating expenses:</b>		
Client service expense	26.8	30.8
Cost of non-emergency transportation services	62.8	60.4
General and administrative expense	4.4	4.9
Depreciation and amortization	1.3	1.4
Total operating expenses	95.3	97.5
Operating income	4.7	2.5
<b>Non-operating expense:</b>		
Interest expense (income), net	0.6	0.7
Income before income taxes	4.1	1.8
Provision for income taxes	1.7	0.6
Net income	2.4%	1.2%

#### *Overview of trends of our results of operations for Q1 2013*

Our Social Services revenues for Q1 2013 as compared to Q1 2012 were unfavorably impacted by contract terminations, waivers granted under the No Child Left Behind Act, or NCLB, and inclement weather that resulted in a reduction of our billable hours in certain markets. In addition, revenue from our Canadian operations declined for Q1 2013 as compared to Q1 2012 due to the impact of a reorganization of the service delivery system in British Columbia and increased competition in this market, which began in early 2012. Partially offsetting decreases in these revenues for Q1 2013 as compared to Q1 2012 was the implementation of new programs in certain of our markets.

We believe the industry trend away from the more expensive out of home service providers in favor of home and community based delivery systems like ours will continue. In addition, we believe that our effective low cost home and community based service delivery system is becoming more attractive to certain payers that have historically only contracted with not-for-profit social services organizations. Further, we believe we are well positioned to benefit from emerging trends in healthcare, particularly the development of integrated models of healthcare delivery and financing and increased outsourcing of transportation management.

Our NET Services revenue for Q1 2013 as compared to Q1 2012 was favorably impacted by the expansion of business in our Georgia, New York and South Carolina markets, an additional contract in Wisconsin, which commenced on September 1, 2012, and continued expansion of our California ambulance commercial and managed care lines of business. The additional revenue from new business was partially offset by the transition of the Connecticut contract from a full risk to an administrative services only contract effective February 1, 2013. The results of operations for Q1 2013 as compared to Q1 2012 produced an increase in revenue of 17% due to new businesses implemented. The cost of transportation increased only by 10% from Q1 2012. Part of this improvement was due to the implementation of and transition to administrative service only contracts in both Connecticut and New York. While we believe that utilization will continue to be a factor which could impact the results of our operations for the remainder of 2013, we expect continued positive revenue impact from new contracts implemented in 2012 and from negotiated rate adjustments in select programs.

## Q1 2013 compared to Q1 2012

### Revenues

	(in thousands)		Percent change
	Three Months Ended		
	March 31,		
	2013	2012	
Home and community based services	\$ 76,960	\$ 84,125	-8.5%
Foster care services	8,444	8,355	1.1%
Management fees	2,950	2,995	-1.5%
Non-emergency transportation services	193,133	164,672	17.3%
Total revenues	<u>\$ 281,487</u>	<u>\$ 260,147</u>	8.2%

*Home and community based services.* Contract terminations in Florida and Canada, the impact of waivers granted under the NCLB and inclement weather led to a decrease in home and community based services revenue for Q1 2013 as compared to Q1 2012. The decrease in revenue was partially offset by the impact of new programs being implemented in various markets.

*Foster care services.* Our foster care services revenue increased from Q1 2012 to Q1 2013 primarily as a result of expanding services into rural areas in Tennessee. This increase, however, was partially offset by a decrease in foster care services provided in Arizona, Oregon and Nevada due to reduced payer authorizations for these services.

*Management fees.* Fees for management services provided to certain not-for-profit organizations under management services agreements remained relatively constant for Q1 2013 as compared to Q1 2012.

*Non-emergency transportation services.* NET Services revenue was favorably impacted by the following:

- the award of two additional regions in South Carolina in February 2012;
- the award of two additional regions in Georgia in April and July 2012;
- multiple phases of a state administered New York City contract which began in May 2012;
- implementation of a Wisconsin contract effective September 1, 2012; and
- continued expansion of our California ambulance commercial and managed care lines of business.

A significant portion of this revenue was generated under capitated contracts where we assumed the responsibility of meeting the transportation needs of beneficiaries residing in a specific geographic region for fixed payment amounts per beneficiary. Due to the fixed revenue stream and variable expense structure of our NET Services segment, expenses related to this segment vary with seasonal fluctuations. We expect our operating results will continuously fluctuate on a quarterly basis.

## Operating expenses

### Social Services

*Client service expense.* Client service expense included the following for Q1 2013 and Q1 2012:

	(in thousands)		Percent change
	Three months ended		
	March 31,		
	2013	2012	
Payroll and related costs	\$ 58,592	\$ 61,255	-4.3%
Purchased services	5,824	7,735	-24.7%
Other operating expenses	10,895	10,963	-0.6%
Stock compensation	206	257	-19.8%
Total client service expense	\$ 75,517	\$ 80,210	-5.9%

*Payroll and related costs.* Our payroll and related costs decreased from Q1 2012 to Q1 2013 due to a net decrease in payroll in Virginia and Canada, as well as in our tutoring business, in the amount of approximately \$2.6 million. This decrease was primarily the result of contract terminations in Canada and the impact of waivers granted under the NCLB. These trends caused revenue from our Canadian operations and tutoring business to decline at a higher rate relative to the impact on payroll and related costs, which resulted in an increase in the ratio of payroll and related costs as a percentage of revenue of our Social Services segment from 64.2% for Q1 2012 to 66.3% for Q1 2013.

*Purchased services.* We subcontract with a network of providers for a portion of the workforce development services we provide throughout British Columbia. In addition, we incur a variety of other support service expenses in the normal course of business including foster parent payments, pharmacy payments and out-of-home placements. In Q1 2013 we experienced decreased costs resulting from contract terminations in Canada of approximately \$1.4 million, decreased cost of other support services of approximately \$258,000 and decreased foster parent payments of approximately \$274,000, as compared to Q1 2012. Purchased services, as a percentage of our Social Services segment revenue decreased from 8.1% for Q1 2012 to 6.6% for Q1 2013 due to the impact of decreased workforce development costs in Canada relative to the level of revenue from this market.

*Other operating expenses.* Other operating expenses, as a percentage of revenue of our Social Services segment, increased from 11.5% for Q1 2012 to 12.3% for Q1 2013 primarily due to other operating expenses not being significantly impacted by the decrease in revenue.

*Stock-based compensation.* Stock-based compensation expense was primarily comprised of approximately \$198,000 and \$196,000 for Q1 2013 and Q1 2012, respectively, which represents the amortization of the fair value of stock options and restricted stock awarded to key employees since January 1, 2009 under our 2006 Long-Term Incentive Plan, or 2006 Plan. In addition, stock-based compensation expense included costs related to performance restricted stock units granted to an executive officer.

### NET Services

*Cost of non-emergency transportation services.* Cost of non-emergency transportation services expense included the following for Q1 2013 and Q1 2012:

	(in thousands)		Percent Change
	Three months ended March 31,		
	2013	2012	
Payroll and related costs	\$ 22,896	\$ 18,016	27.1%
Purchased services	146,870	133,472	10.0%
Other operating expenses	6,585	5,122	28.6%
Stock compensation	333	369	-9.8%
Total cost of non-emergency transportation services	\$ 176,684	\$ 156,979	12.6%

Payroll and related costs. The increase in payroll and related costs of our NET Services segment for Q1 2013 as compared to Q1 2012 was due to additional staff hired for new contracts and contract expansions in Georgia, South Carolina and New York, along with additional staffing needed for expansion of the California ambulance commercial and managed care lines of business. Payroll and related costs, as a percentage of NET Services revenue, increased from 10.9% for Q1 2012 to 11.9% for Q1 2013 as we have added additional call center staff to ensure our compliance with the more demanding service authorization process and intake response time requirements of some of our new contracts, as well as transitioning two contracts from full risk contracts to administrative services only contracts, which result in higher payroll and related costs as a percentage of their revenue.

Purchased services. We subcontract with third party transportation providers to provide non-emergency transportation services to our clients. Since Q1 2012, we have expanded our current business in Georgia, Connecticut, South Carolina, California and New York. These additions resulted in an increase in purchased transportation costs for Q1 2013 as compared to Q1 2012. As a percentage of NET Services revenue, purchased services decreased from approximately 81.1% for Q1 2012 to 76.0% for Q1 2013. This decrease was partly due to the transition to and implementation of two administrative services only contracts whereby we are only responsible for the authorization process, not the payment to transportation providers.

Other operating expenses. Other operating expenses increased for Q1 2013 as compared to Q1 2012 due primarily to increased telecommunication expenses to support new contracts and expanded markets. Other operating expenses as a percentage of NET Services revenue increased from 3.1% for Q1 2012 to 3.4% for Q1 2013 as a result of new business.

Stock-based compensation. Stock-based compensation expense was primarily comprised of approximately \$326,000 and \$317,000 for Q1 2013 and Q1 2012, respectively, which represents the amortization of the fair value of stock options and restricted stock awarded to employees of our NET Services segment since January 1, 2009 under our 2006 Plan. In addition, stock-based compensation expense included costs related to performance restricted stock units granted to an executive officer.

*General and administrative expense.*

(in thousands)		Three months ended		Percent change
March 31,				
2013	2012			
\$	12,452	\$	12,739	-2.3%

General and administrative expense, as a percentage of revenue, decreased from 4.9% for Q1 2012 to 4.4% for Q1 2013 primarily due to general and administrative expenses remaining relatively constant while total revenue increased by approximately 8.2%.

*Depreciation and amortization.*

(in thousands)		Three months ended		Percent change
March 31,				
2013	2012			
\$	3,729	\$	3,626	2.8%

As a percentage of revenues, depreciation and amortization was approximately 1.3% and 1.4% for Q1 2013 and Q1 2012, respectively.

### ***Non-operating (income) expense***

*Interest expense.* Our current and long-term debt obligations have decreased from approximately \$148.0 million at March 31, 2012 to \$127.3 million at March 31, 2013, which was a significant factor contributing to the decrease in our interest expense for Q1 2013 as compared to Q1 2012.

*Interest income.* Interest income for Q1 2013 and Q1 2012 was approximately \$21,000 and \$41,000, respectively, and resulted primarily from interest earned on interest bearing bank and money market accounts.

### ***Provision for income taxes***

Our effective tax rate for Q1 2013 and Q1 2012 was 41.2% and 35.7%, respectively. Our effective tax rate was higher than the United States federal statutory rate of 35.0% for Q1 2013 and Q1 2012 due primarily to state taxes as well as non-deductible stock option expense. The Q1 2012 rate was also favorably impacted by the final determination of the tax benefits related to certain liabilities assumed as a result of a 2011 acquisition.

### ***Adjusted EBITDA***

After adjusting for the items noted in the table below, Adjusted EBITDA was \$16.8 million for Q1 2013 as compared to \$10.3 million for Q1 2012.

EBITDA and Adjusted EBITDA are non-GAAP measurements. We utilize these non-GAAP measurements as a means to measure overall operating performance and to better compare current operating results with other companies within our industry. Details of the excluded items and a reconciliation of the non-GAAP financial measures to the most comparable GAAP financial measure are presented in the table below (in thousands). The non-GAAP measures do not replace the presentation of our GAAP financial results. We have provided this supplemental non-GAAP information because we believe it provides meaningful comparisons of the results of our operations for the periods presented. The non-GAAP measures are not in accordance with, or an alternative for GAAP and may be different from pro forma measures used by some companies.

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Net income</b>	\$ 6,678	\$ 3,042
Interest expense, net	1,751	1,865
Provision for income taxes	4,676	1,686
Depreciation and amortization	3,729	3,626
<b>EBITDA</b>	16,834	10,219
Strategic alternatives costs (a)	-	73
<b>Adjusted EBITDA</b>	<b>\$ 16,834</b>	<b>\$ 10,292</b>

- a) Represents costs incurred related to our review of strategic alternatives arising from unsolicited proposals to take our company private. We terminated this review in June 2012 upon determining that a continued focus on our operations was the best alternative to maximize shareholder value.

## Seasonality

Our quarterly operating results and operating cash flows normally fluctuate as a result of seasonal variations in our business. In our Social Services segment, lower client demand for our home and community based services during the holiday and summer seasons generally results in lower revenue during those periods; however, our expenses related to the Social Services segment do not vary significantly with these changes. As a result, our Social Services segment experiences lower operating margins during the holiday and summer seasons. Our NET Services segment also experiences fluctuations in demand for our 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 fixed revenue stream based on a per member per month based structure, our NET Services segment normally experiences lower operating margins in the summer season and higher operating margins in the winter and holiday seasons.

We expect quarterly fluctuations in operating results and operating cash flows to continue as a result of the seasonal demand for our home and community based services and non-emergency transportation services. As we enter new markets, we could be subject to additional seasonal variations along with any competitive response by other social services and transportation providers.

## Liquidity and capital resources

Short-term liquidity requirements consist primarily of recurring operating expenses and debt service requirements. We expect to meet these requirements through available cash, generation of cash from our segments, and from our revolving credit facility.

Sources of cash for Q1 2013 were primarily from operations. Our balance of cash and cash equivalents was approximately \$83.1 million at March 31, 2013 and \$55.9 million at December 31, 2012. Approximately \$4.6 million of cash was held by WCG at March 31, 2013 that is not available to fund domestic operations unless the funds are repatriated. We had restricted cash of approximately \$13.1 million and \$12.7 million at March 31, 2013 and December 31, 2012, respectively, related to contractual obligations and activities of our captive insurance subsidiaries and other subsidiaries. At March 31, 2013 and December 31, 2012, our total debt was approximately \$127.3 million and \$130.0 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. With respect to required debt payments, our credit agreement requires us (subject to certain exceptions as set forth in the new 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. Further, we are required to reduce the principal amount of the 6.5% convertible senior subordinated notes due 2014, or the Notes, to \$25 million, or meet certain other conditions, by September 30, 2013. In the event we do not have sufficient cash to timely meet this obligation, we will consider a variety of alternatives to address this issue, which may include sales of assets or equity, refinancing the debt outstanding under our credit facility or obtaining new financing and/or negotiations with our lenders to restructure the applicable indebtedness. We believe we will have sufficient cash to timely meet this obligation and we remain focused on deleveraging our balance sheet and continue to identify opportunities to further expand our service offerings.

## Cash flows

*Operating activities.* We generated net cash flows from operating activities of approximately \$29.8 million for Q1 2013. These cash flows included net income of approximately \$6.7 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 \$5.3 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 \$8.9 million related to the change in accounts receivable, primarily due to payments received for non-emergency transportation services and

- approximately \$11.3 million due to the increase in accounts payable and accrued expenses primarily attributable to the timing of payments related to compensation, taxes, interest and non-emergency transportation contracts.

*Investing activities.* Net cash used in investing activities totaled approximately \$1.4 million for Q1 2013, which was mainly used to purchase property and equipment to support the growth of our operations.

*Financing activities.* Net cash used in financing activities totaled approximately \$1.1 million for Q1 2013, which resulted primarily from repayments of our term loan in the aggregate amount of approximately \$2.8 million, offset by approximately \$1.9 million of cash received from employee stock option exercises.

*Exchange rate change.* The effect of exchange rate changes on our cash flow related to the activities of WCG for Q1 2013 was a decrease to cash of approximately \$83,000.

### ***Obligations and commitments***

*Convertible senior subordinated notes.* On November 13, 2007, we issued the Notes under the amended note purchase agreement dated November 9, 2007 to the purchasers named therein in connection with the acquisition of Charter LCI Corporation, including its subsidiaries, in December 2007, or LogistiCare. The proceeds of \$70.0 million were used to partially fund the cash portion of the purchase price paid by us to acquire LogistiCare. The Notes are general unsecured obligations subordinated in right of payment to any existing or future senior debt including our credit facility described below.

We pay interest at a rate of 6.5% per annum on the Notes in cash semiannually in arrears on May 15 and November 15 of each year. The Notes will mature on May 15, 2014.

As of March 31, 2013, we repurchased approximately \$22.5 million principal amount of the Notes with cash.

*Credit facility.* On March 11, 2011, we replaced the then existing credit facility, or Old Credit Facility, with a new credit agreement and paid all amounts due under the Old Credit Facility with cash in the amount of \$12.3 million and proceeds from the new credit agreement as discussed in further detail below.

On March 11, 2011, we entered into a new credit agreement, or Credit Agreement, with Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, SunTrust Bank, as syndication agent, Bank of Arizona, Alliance Bank of Arizona and Royal Bank of Canada, as co-documentation agents, 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 Credit Agreement provides us with a senior secured credit facility, or the Senior Credit Facility, in aggregate principal amount of \$140.0 million, comprised of a \$100.0 million term loan facility and a \$40.0 million revolving credit facility. There is an option to increase the amount of the term loan facility and/or the revolving credit facility by an aggregate amount of up to \$85.0 million as described below. The Senior 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 March 11, 2011, we borrowed the entire amount available under the term loan facility and used the proceeds thereof to refinance the Old Credit Facility. Prospectively, the proceeds of the Senior Credit Facility may be used to (i) fund ongoing working capital requirements; (ii) make capital expenditures; (iii) repay the Notes; and (iv) other general corporate purposes.

Interest on the outstanding principal amount of the loans accrues, at our election, at a per annum rate equal to the London Interbank Offering Rate, or LIBOR, plus an applicable margin or the base rate plus an applicable margin. The applicable margin ranges from 2.25% to 3.00% in the case of LIBOR loans and 1.25% to 2.00% in the case of the base rate loans, in each case, based on our consolidated leverage ratio as defined in the Credit Agreement. The interest rate applied to our term loan at March 31, 2013 was 3.2%. Interest on the loans is payable at least once every three months in arrears. 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 0.35% to 0.50% and 2.25% to 3.00%, respectively, in each case, based on our consolidated leverage ratio.

We are subject to financial covenants, including consolidated net leverage and consolidated net senior leverage covenants as well as a consolidated fixed charge covenant. We were in compliance with all financial covenants as of March 31, 2013.

No amounts were borrowed under the revolving credit facility as of March 31, 2013; however, \$25.0 million of the revolving credit facility may be allocated to collateralize certain letters of credit. As of March 31, 2013, there were six letters of credit in the amount of approximately \$6.7 million collateralized under the revolving credit facility. At March 31, 2013, our available credit under the revolving credit facility was \$33.3 million.

The terms of the Notes and the Credit Agreement are more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading entitled "Liquidity and capital resources" included in our Annual Report on Form 10-K for the year ended December 31, 2012.

*Contingent obligations.* Under The Providence Service Corporation Deferred Compensation Plan, as amended, or Deferred Compensation Plan, eligible employees and independent contractors or 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. As of March 31, 2013, there were six participants in the Deferred Compensation Plan. 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. As of March 31, 2013, 25 highly compensated employees participated in this plan.

### ***Reinsurance and Self-Funded Insurance Programs***

#### *Reinsurance*

We reinsure a substantial portion of our 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, 2013, the cumulative reserve for expected losses since inception in 2005 of these reinsurance programs was approximately \$3.1 million and \$6.2 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, 2013 was approximately \$3.4 million. Further, SPCIC had restricted cash of approximately \$10.7 million at March 31, 2013 and December 31, 2012, which was restricted to secure the reinsured claims losses of SPCIC under the 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. 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, 2013 was approximately \$3.4 million.

The decision to reinsure our risks and provide a self-funded health insurance program to our employees was made based on current conditions in the insurance marketplace that have led to increasingly higher levels of self-insurance retentions, increasing number of coverage limitations, and fluctuating insurance premium rates.

#### *Health Insurance*

We offer our employees an option to participate in a self-funded health insurance program. The liability for the self-funded health plan of approximately \$1.9 million and \$2.1 million as of March 31, 2013 and December 31, 2012, respectively, was recorded in “Reinsurance liability reserve” in our condensed consolidated balance sheets.

#### **New Accounting Pronouncements**

In February 2013, the FASB issued ASU 2013-02-*Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (“ASU 2013-02”). ASU 2013-02 is intended to improve the reporting of reclassifications out of accumulated other comprehensive income. Accordingly, an entity is required to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this ASU supersede the presentation requirements for reclassifications out of accumulated other comprehensive income in ASU 2011-05 and ASU 2011-12. ASU 2013-02 is effective for reporting periods beginning after December 15, 2012. We adopted ASU 2013-02 effective January 1, 2013. The adoption of ASU 2013-02 has not had an effect on our consolidated financial statements.

#### **Pending Accounting Pronouncements**

Other accounting standards and exposure drafts, such as exposure drafts related to revenue recognition, leases and fair value measurements, that have been issued or proposed by the FASB or other standards setting bodies that do not require adoption until a future date are being evaluated to determine whether adoption will have a material impact on our consolidated financial statements.

#### **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. 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, 2012. 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 translation*

We conduct business in Canada through our wholly-owned subsidiary WCG, and as such, our cash flows and earnings are subject to fluctuations from changes in foreign currency exchange rates. We believe that the impact of currency fluctuations does not represent a significant risk to us given the size and scope of our current international operations. Therefore, we do not hedge against the possible impact of this risk. A 10% adverse change in the foreign currency exchange rate would not have a significant impact on our results of operations or financial position.

#### *Interest rate and market risk*

As of March 31, 2013, we had borrowings under our term loan of approximately \$79.8 million and no borrowings under our revolving line of credit. Borrowings under the Credit Agreement accrued interest at LIBOR plus 3.00% per annum as of March 31, 2013. An increase of 1% in the LIBOR rate would cause an increase in interest expense of up to \$1.8 million over the remaining term of the Credit Agreement, which expires in 2016.

We have convertible senior subordinated notes of approximately \$47.5 million outstanding at March 31, 2013 in connection with an acquisition completed in 2007. These notes bear a fixed interest rate of 6.5%.

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.

#### *Concentration of credit risk*

We provide government sponsored social services and non-emergency transportation services to individuals and families pursuant to approximately 650 contracts as of March 31, 2013. Contracts we enter into with governmental agencies and with other entities that contract with governmental agencies accounted for approximately 81% and 80% of our revenue for the three months ended March 31, 2013 and 2012, respectively. The related contracts are subject to possible statutory and regulatory changes, rate adjustments, administrative rulings, rate freezes and funding reductions. Reductions in amounts paid under these contracts for our services or changes in methods or regulations governing payments for our services could materially adversely affect our revenue and profitability. For the three months ended March 31, 2013, we conducted a portion of our operations in Canada through WCG. At March 31, 2013, approximately \$8.4 million, or 6.6%, of our net assets were located in Canada. We are subject to the risks inherent in conducting business across national boundaries, any one of which could adversely impact our business. In addition to currency fluctuations, these risks include, among other things: (i) economic downturns; (ii) changes in or interpretations of local law, governmental policy or regulation; (iii) restrictions on the transfer of funds into or out of the country; (iv) varying tax systems; (v) delays from doing business with governmental agencies; (vi) nationalization of foreign assets; and (vii) government protectionism. We intend to continue to evaluate opportunities to establish additional operations in Canada. One or more of the foregoing factors could impair our current or future operations and, as a result, harm our overall business.

#### **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 Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of the end of the period covered by this report (March 31, 2013) (“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, 2013 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, 2013.

##### *(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, 2013:

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, 2013				
to				
January 31, 2013	4,872(1)	\$ 16.05	-	243,900
<u>Month 2:</u>				
February 1, 2013				
to				
February 29, 2013	-		-	243,900
<u>Month 3:</u>				
March 1, 2013				
to				
March 31, 2013	16,611(1)	\$ 18.42	-	243,900
Total	<u>21,483</u>	\$ 17.88	<u>-</u>	<u>243,900</u>

- (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, 2013, we spent approximately \$14.4 million to purchase 756,100 shares of our common stock on the open market under this program.

**Item 5. Other Information.**

*Appointment of Chief Executive Officer*

The Board of Directors (the “Board”) of the Company appointed Warren Rustand, the Company’s interim Chief Executive Officer, as Chief Executive Officer, effective May 7, 2013 (the “Effective Date”). Mr. Rustand has served as the Company’s interim Chief Executive Officer since November 2012. In addition, Mr. Rustand has served as a director of the Company since May 2005, and was the Company’s Lead Director from January 2007 to November 2012. Since January 2004, Mr. Rustand has served as managing director of SC Capital Partners LLC, an investment banking group which includes corporate advisory services, a private equity fund, and capital sourcing, with a focus on the microcap market. Since January 2001, he has served as the Chief Executive Officer of Summit Capital Consulting, a firm which specializes in the development of small to midsize companies by sourcing, and structuring, financial and human capital resources for their organizations. Mr. Rustand has served as a member of the board of directors for over 40 public, private, and not-for-profit organizations. The range of these organizations is from multibillion dollar public companies, to midsize, early stage, and startup companies. From 1996-1998 Mr. Rustand was chairman and Chief Executive Officer of Rural/Metro Corporation, a medical transportation company. Mr. Rustand received a bachelor degree and master degree from the University of Arizona in 1965 and 1972, respectively.

There are no family relationships between Mr. Rustand and any director or officer of the Company.

The Company uses CBIZ Benefits and Insurance Services, Inc. (“CBIZ”), a subsidiary of CBIZ, Inc., to administer and consult on its self-insured employee health benefits, 401(k) and deferred compensation plans. For 2012, CBIZ and its subsidiaries received fees paid by the Company of approximately \$331,000 and commissions of approximately \$150,000 paid by third parties related to business with the Company. Eric Rustand, Mr. Rustand’s son, is a Senior Benefits Consultant for CBIZ. Eric Rustand is the lead consultant for CBIZ in connection with employee health benefits plans for the Company. For

2012, Eric Rustand received approximately \$106,000 in compensation from CBIZ related to CBIZ's business with the Company. The business relationship between the Company and CBIZ existed prior to Mr. Rustand becoming a member of the Board and will continue in 2013. The Board has deemed this relationship to be immaterial based on the dollar amounts involved in the transaction.

The Company entered into an employment agreement (the "Employment Agreement"), dated the Effective Date with Mr. Rustand in connection with his appointment as Chief Executive Officer. Mr. Rustand has been appointed as Chief Executive Officer for a term which ceases on December 31, 2015. Mr. Rustand had served as the Company's interim Chief Executive Officer since November 19, 2012, pursuant to a Letter Agreement, dated as of even date, with the Company. The Employment Agreement replaced the Letter Agreement on the Effective Date, except for certain bonus provisions described below.

Mr. Rustand will be entitled to an annual base salary of \$590,000. In addition to an annual base salary during the term of the Employment Agreement, Mr. Rustand is eligible to participate in bonus plans or incentive compensation programs, if any, as may be in effect from time to time, at a level consistent with his position and with the Company's then current policies and practices. For the remainder of 2013 (beginning the Effective Date), Mr. Rustand is eligible to participate in a bonus program whereby he will be paid a pro-rata portion (based on the number of days during the fiscal year following the Effective Date) of an amount equal to seventy-five percent (75%) of his annual base salary upon the achievement of a financial performance target set by the Board for 2013 and a pro-rata portion of an additional amount equal to a portion of a pool equal to twenty percent (20%) of the amount by which the Company exceeds such financial performance target for 2013 up to twenty-five (25%) of Mr. Rustand's annual base salary (as more fully described in the Employment Agreement filed herewith as exhibit 10.2). Additionally, Mr. Rustand will be entitled to receive a bonus specified under the Letter Agreement (filed by the Company in a Current Report on Form 8-K on November 23, 2012). This bonus will be calculated, paid and pro-rated based on the number of days elapsed commencing January 1, 2013 and through the day immediately prior to the Effective Date.

The Company will maintain term life insurance on the life of Mr. Rustand for a period of five years. Mr. Rustand will have the absolute right to designate the beneficiaries under his the policy. The Company will pay the premium for the shorter of (i) the period of five years commencing on the later of (a) the Effective Date or (b) the date the insurance goes into effect or (ii) the period Mr. Rustand is employed by the Company. Premiums in respect thereof will thereafter be paid by Mr. Rustand.

Mr. Rustand is eligible to receive a severance benefit in the event he is terminated by the Company without Cause (as such term is defined in the Employment Agreement). The severance benefit to which Mr. Rustand will be entitled following such termination is equal to (i) any bonus, if earned, relating to a fiscal year which was completed before the effectiveness of his termination, (ii) any bonus, if earned, for the fiscal year through the date of effectiveness of his termination, and (iii) an amount equal to (a) the lesser of (1) Mr. Rustand's annual base salary that would have been paid from the date of effectiveness of his termination through the end of the term of the Employment Agreement, or (2) Mr. Rustand's annual base salary in effect as of the date of effectiveness of his termination, or (b) if greater, at least six months of Mr. Rustand's annual base salary in effect as of the date of effectiveness of his termination. Payment of the severance benefit to Mr. Rustand will be contingent upon his execution of a general release in favor of the Company and that on or prior to the payment date such general release is not revoked and Mr. Rustand is not in material breach of the Employment Agreement (as more fully described in the Employment Agreement).

Certain payment provisions of the Employment Agreement with Mr. Rustand are also triggered by a Change in Control (as such term is defined in the Employment Agreement) and an ensuing negative employment event as described below. If a Change in Control of the Company occurs during the term of the Employment Agreement, and after such Change in Control but prior to the end of the term of the Employment Agreement the Company terminates Mr. Rustand's employment without Cause (in lieu of any other amounts payable under the Employment Agreement), Mr. Rustand is entitled to receive (i) the greater of (a) his annual base salary through the end of the term of the Employment Agreement or (b) fifty percent (50%) of his annual base salary, and (ii) a pro-rata portion of any bonus earned prior to Mr. Rustand's termination.

If the sum of any lump sum payments due to Mr. Rustand would constitute an "excess parachute payment" (as defined in Section 280G of the Internal Revenue Code of 1986, as amended), then such lump sum payment or other benefit due to Mr. Rustand will be reduced to the largest amount that will not result in receipt by him of a parachute payment.

The Employment Agreement contains restrictive covenants providing for Mr. Rustand's non-competition, non-solicitation/non-piracy, non-disclosure and non-disparagement. The term of the non-competition and non-solicitation covenants is for a period that includes the term of the Employment Agreement, and for a period of two years after the Employment Agreement is terminated for any reason.

The preceding description of the Employment Agreement is qualified in its entirety by reference to the text of the Employment Agreement, which is attached hereto as Exhibit 10.2 and is incorporated by reference herein.

**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
10.1	Form of 2013 Performance Restricted Stock Unit Agreements.
10.2	Employment Agreement dated May 7, 2013 between The Providence Service Corporation and Warren S. Rustand.
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(1)	XBRL Instance Document
101.SCH(1)	XBRL Schema Document
101.CAL(1)	XBRL Calculation Linkbase Document

101.LAB(1) XBRL Label Linkbase Document

101.PRE(1) XBRL Presentation Linkbase Document

101.DEF(1) XBRL Definition Linkbase Document

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(1) Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files included in Exhibit 101 hereto are deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.



## EXHIBIT INDEX

### Exhibit Number

### Description

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## 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, 2016, 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, 2016, 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, 2015 (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, 2016.
- (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, 2015, 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: \_\_\_\_\_, or if by email: \_\_\_\_\_. 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: Warren S. Rustand  
Title: Chief Executive Officer

**EMPLOYMENT AGREEMENT**

**THIS EMPLOYMENT AGREEMENT** (this "Agreement"), is entered into as of this 7th day of May, 2013 (the "Effective Date") by and between THE PROVIDENCE SERVICE CORPORATION, a Delaware corporation, with its corporate headquarters located at 64 East Broadway Blvd., Tucson, Arizona, 85701 (the "Company"), and **Warren Rustand**, an individual residing at 5750 E. Santa Fee, Tucson, AZ 85715 ("Employee").

**BACKGROUND**

**WHEREAS**, Employee has served as the Company's interim Chief Executive Officer since November 19, 2012 pursuant to that certain Letter Agreement, dated November 19, 2012, between Employee and the Company (the "Letter Agreement"); and

**WHEREAS**, effective as of the Effective Date, Employee has been appointed as the Company's Chief Executive Officer, and the Company and Employee are entering into this Agreement to set out the agreement between them regarding the terms of Employee's employment effective beginning the Effective Date and to replace the Letter Agreement as of such date.

**NOW, THEREFORE**, in consideration of the facts, mutual promises and covenants contained herein and intending to be legally bound hereby, the parties hereto agree that, effective as of the Effective Date, the Letter Agreement is terminated and, except as provided in Section 3(c), shall no longer have any force or effect, and hereby further agree:

1. Employment and Term. The Company hereby agrees to employ Employee and Employee hereby agrees to work in the employ of the Company. Such employment will have a term (the "Term") commencing as of the Effective Date and, if not previously terminated in accordance with the terms of this Agreement, ending at the close of business on December 31, 2015. Employee's employment may continue hereunder following the Term. Employee's employment, whether during the Term or thereafter, shall be subject in all respects to the terms and conditions set forth in this Agreement, as well as to all of the Company's policies and rules that are binding on executive employees generally.

2. Office and Duties.

(a) During the Term, Employee shall serve as the Chief Executive Officer of the Company, and shall report directly to the Company's Board of Directors (the "Board") and/or an executive committee established by the Board, whether acting as such or through the Chairman of the Board.

(b) In his capacity as Chief Executive Officer of the Company, Employee shall have such authority, perform such duties, discharge such responsibilities and render such services as are designated from time to time by the Board.

(c) While employed by the Company or any Affiliate (as hereinafter defined), Employee shall render his services diligently, faithfully and to the best of his ability, and shall devote substantially all of his working time, energy, skill and best efforts to the performance of his duties hereunder, in a manner that will further the business and interests of the Company.

(d) While employed by the Company or any Affiliate, Employee shall not be engaged in any business activity which, in the reasonable judgment of the Board, conflicts with Employee's duties hereunder, whether or not such activity is in breach of Section 7 or pursued for pecuniary advantage.

3. Compensation.

(a) Base Salary. In consideration of the services rendered by Employee to the Company during the Term, effective as of the Effective Date, Employee shall receive an annual base salary of Five Hundred Ninety Thousand and 00/100 Dollars (\$590,000.00) (the "Base Salary"), payable in equal periodic installments in accordance with the Company's regular payroll practices in effect from time to time.

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(b) Bonus Plans/Incentive Compensation Programs. In addition to the annual Base Salary, during the Term, Employee shall be eligible to participate in bonus plans or incentive compensation programs, if any, as may be approved by the Board from time to time (“Bonus”). For the balance of the current calendar year, Employee will participate in the following Bonus program: Employee shall be paid a Pro Rata Portion (as hereinafter defined) of an amount equal to seventy-five percent (75%) of the Base Salary upon the achievement of one hundred percent (100%) of the Company’s budgeted EBITDA performance for 2013, and a Pro Rata Portion of an additional amount equal to your “Allocation” of twenty percent (20%) of the amount by which the Company exceeds such budgeted EBITDA performance for such year, up to twenty-five percent (25%) of the Base Salary. For the purposes hereof, (i) the “Pro Rata Portion” shall mean the percentage defined by a fraction, the numerator of which is the number of days starting the Effective Date and ending as of the end of the 2013 calendar year, and the denominator of which is three hundred sixty-five (365) and (ii) your “Allocation” shall mean the percentage defined by a fraction, the numerator of which is your Base Salary and the denominator is the sum of the base salaries of the other senior executives who are also entitled to bonuses based on the Company’s performance in excess of budgeted EBITDA performance. Unless otherwise specified in respect of a Bonus for years during the Term following 2013, the Bonus shall be paid, net of any required withholdings, following the completion and filing of the Company’s annual audited financial statements, and Employee’s rights to receive the Bonus shall be contingent upon being employed by the Company on the date that payment of the Bonus is due, except as otherwise expressly provided in this Agreement.

(c) Letter Agreement Bonus. Notwithstanding anything herein to the contrary, Employee will be entitled to receive a Bonus as specified under the Letter Agreement in the section entitled “Bonus Opportunity,” which Bonus shall be calculated and paid as therein set forth and pro-rated based on the number of days elapsed commencing January 1, 2013 and through the day immediately prior to the Effective Date.

(d) Benefits.

(i) During his employment hereunder, Employee also shall be entitled to participate in all fringe benefits, if any, as may be in effect from time to time that are generally available to the Company’s senior executive officers, and such other fringe benefits as the Board and/or Compensation Committee shall deem appropriate, subject to eligibility requirements thereof (collectively, the “Benefits”).

(ii) During the Term, in addition to the foregoing Benefits, the Company shall, subject to the terms hereof (including as set forth in Section 3(d)(iii)), use its reasonable efforts to procure and maintain term life insurance (“Life Insurance”) on the life of Employee (if such term insurance is not already in effect on the date of this Agreement). Such Life Insurance shall be in the amount of One Million Two Hundred Thousand and 00/100 Dollars (\$1,200,000.00). Employee shall be the owner of the Life Insurance policy and shall have the absolute right to designate the beneficiaries thereunder. The premiums in respect of such Life Insurance policy shall be paid by the Company for the shorter of (A) the period of five (5) years commencing on the later of (1) the date of this Agreement or (2) the date the Life Insurance goes into effect or (B) the period Employee is employed by the Company hereunder; premiums in respect thereof shall thereafter be paid by Employee.

(iii) Employee agrees to submit to any physical examination required by the insurer of any such policy and will otherwise cooperate with the Company in connection with any life insurance on Employee’s life the Company may wish to obtain, provided, however, that the results of any such physical examination shall not be shared with the Company or used in any way in connection with Employee’s employment other than the procurement of insurance pursuant to this Subsection. Employee agrees to execute any HIPAA or other privacy waiver in favor of the Company that the Company considers necessary or appropriate for sharing of such information, or to waive the coverage otherwise under this Section 3(d). In the event Employee is determined to be suffering from a congenital defect or other illness or condition which would preclude the Company from obtaining the insurance referred to in the preceding paragraph at a cost substantially equivalent to the cost of obtaining such insurance for a healthy individual of Employee’s age and gender, the Company shall, in lieu of purchasing the insurance in the amount set forth in the preceding paragraph, purchase the amount of insurance, if any, that can be purchased at a cost substantially equivalent to the cost of obtaining such insurance for a healthy individual of Employee’s age and gender.

(e) Vacation. During his employment hereunder, Employee shall be entitled to the number of paid vacation days in each calendar year as determined by the Company from time to time for its senior executive officers. Vacation days which are not used during any calendar year may not be accrued or carried over to the next year, nor shall Employee be entitled to compensation for unused vacation days.

(f) Business Expenses. During his employment hereunder, the Company shall pay or reimburse Employee for all reasonable expenses incurred or paid by Employee in the performance of Employee's duties hereunder, upon timely presentation of expense statements or vouchers and such other information as the Company may reasonably require and in accordance with the generally applicable policies and practices of the Company, in each case to the extent such expenses are consistent with Company policies; provided that the Company may at any time, further limit, or eliminate, Employee's right to incur such expenses. Any reimbursement due hereunder shall be separately requested and paid as soon as practicable and in any case within one (1) year after Employee incurs the expense for which reimbursement is requested.

(g) Withholding. All payments made pursuant to this Agreement shall be subject to such withholding taxes as may be required by any applicable law.

4. Representations of Employee. Employee represents to the Company that: (a) there are no restrictions, agreements or understandings whatsoever to which Employee is a party that would prevent, or make unlawful, Employee's execution of this Agreement and his employment hereunder; (b) Employee's execution of this Agreement and Employee's employment hereunder shall not constitute a breach of any contract, agreement or understanding, oral or written, to which Employee is a party, or by which Employee is bound; and (c) Employee is of full capacity, free and able to execute this Agreement and to enter into this Agreement with the Company.

5. Termination. This Agreement and Employee's employment hereunder shall continue during the Term and thereafter until terminated as provided herein. Upon termination of this Agreement and Employee's employment hereunder, Employee shall immediately resign from any officer or other position in which he is serving on behalf of the Company or any Affiliate, and shall tender his resignation as a director of the Company and any and all Affiliates of the Company (with such tender being subject to being accepted by the Board).

(a) Termination by Company for Cause. The Company shall have the right, during the Term and thereafter, to terminate this Agreement and Employee's employment hereunder at any time for "Cause", effective immediately or as of a date specified by the Company in a notice of termination. For purposes of this Agreement, the term "Cause" shall mean the following:

(i) Employee commits fraud or theft against the Company or any of its subsidiaries, affiliates, joint ventures and related organizations, including any entity managed by the Company (collectively referred to as "Affiliates"), or is indicted, convicted of, or pleads guilty or nolo contendere to, a felony or any crime involving fraud or moral turpitude;

(ii) In carrying out his duties hereunder, Employee engages in conduct that constitutes gross neglect or willful misconduct and that results, in either case, in material financial or reputational harm to the Company or its Affiliates;

(iii) Employee materially breaches any provision of this Agreement (including but not limited to the restrictive covenants contained in Section 7) or breaches any fiduciary duty or duty of loyalty owed to the Company or its Affiliates or shareholders;

(iv) Employee engages in any wrongful or questionable conduct which does or which is reasonable likely to bring the Company or its Affiliates into public disgrace or embarrassment, or which is reasonable likely to cause one or more of its customers or clients to cease doing business with, or reduce the amount of business with, the Company or its Affiliates;

(v) Employee repeatedly neglects or refuses to perform his duties or responsibilities as directed by the Board or any committee established by the Board, or violates any express direction of any lawful rule, regulation or policy established by the Company, the Board or any committee established by the Board which is consistent with the scope of Employee's duties under this Agreement, and such failure, refusal or violation continues uncured for a period ten (10) days after written notice from the Company to Employee specifying the failure, refusal or violation and the Company's intention to terminate this Agreement for Cause;

(vi) Employee commits any act or omission resulting in or intended to result in direct material personal gain to Employee at the expense of the Company or its Affiliates; or

(vii) Employee materially compromises trade secrets or other confidential and proprietary information of the Company or its Affiliates.

Action or inaction by Employee shall not be considered "willful" unless done or omitted by him intentionally and without his reasonable belief that his action or inaction was in the best interests of the Company or its Affiliates, and shall not include failure to act by reason of total or partial incapacity due to physical or mental illness.

(b) Termination upon Death/Termination by Company upon Disability of Employee. Employee's employment will terminate upon his death. The Company shall have the right to terminate this Agreement and Employee's employment hereunder at any time upon the Disability of Employee. The term, "Disability", as used herein, means any physical or mental illness, disability or incapacity which prevents Employee from performing the essential functions of his job, with or without reasonable accommodations, hereunder for a period of not less than one hundred fifty (150) consecutive days or for an aggregate of one hundred eighty (180) days during any period of twelve (12) consecutive months. Periods where Employee can perform the essential functions of his job with a reasonable accommodation shall not be included in the determination of a Disability hereunder. During any period of Disability, Employee agrees to submit to reasonable medical examinations upon the reasonable request, and at the expense, of the Company.

(c) Termination By Company Without Cause. The Company shall have the right to terminate this Agreement and Employee's employment hereunder at any time without Cause and/or without the occurrence of Employee's death or Disability by giving written notice which shall be effective on the date specified in such notice of termination.

(d) Termination by Employee. If Employee shall desire to terminate his employment hereunder for any reason, whether or not during the Term, Employee shall first give the Company not less than sixty (60) days prior written notice of termination. Upon a termination of Employee's employment with the Company under this Section 5(d), the effective date of termination shall be the date set forth in Employee's resignation notice (assuming such date is in compliance with the notice provisions of this Section 5(d)) or an earlier date as determined by the Company after the Company's receipt of such notice, in its sole discretion, but not earlier than the date on which the Company learned of Employee's decision to terminate his employment.

(e) Notice of Termination. Any termination, except for death, pursuant to this Section 5 shall be communicated by a Notice of Termination. For purposes of this Agreement, a "Notice of Termination" shall mean a written notice which shall indicate those specific termination provisions in this Agreement relied upon and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's employment under the provisions so indicated. The Notice of Termination shall also set forth that Employee's employment is terminated and be delivered in accordance with the terms of this Agreement.

Notwithstanding anything to the contrary set forth herein, Sections 7, 8 and 9 shall survive the end of the Term and/or the termination of Employee's employment hereunder for any reason, and shall remain in full force and effect thereafter.

#### 6. Payments Upon Termination and Change in Control.

(a) Termination for Cause. In the event Employee's employment hereunder is terminated for Cause at any time, whether or not during the Term, all of Employee's rights to his Base Salary, Benefits and Bonus, if any, shall immediately terminate as of the date of such termination, except that Employee shall be entitled to any earned and unpaid portion of Employee's Base Salary and accrued Benefits up to the date of termination, less all deductions or offsets for amounts owed by Employee to the Company. Employee shall not be entitled to any Bonus, prorated or otherwise. The Company shall have no further obligations to Employee under this Agreement.

(b) Termination Due to Death or Disability. In the event Employee's employment hereunder is terminated at any time, whether or not during the Term, due to his death or Disability, all of Employee's rights to his Base Salary, Benefits (except to the extent that any Benefits are expressly available following termination of employment) and Bonus, if any, shall immediately terminate as of the effective date of such termination, except that Employee (or, in the event that Employee's employment hereunder is terminated due to Employee's death, Employee's heirs, personal representatives or estate) shall be entitled to any earned and unpaid portion of Employee's Base Salary, any Bonus (if earned) relating to a fiscal year which was completed before Employee's death or Disability and accrued Benefits up to the date of termination, in each case less all deductions or offsets for amounts owed by Employee to the Company. Subject to the provisions of the applicable Company stock option or stock incentive plan, should Employee's death occur within one (1) year following his termination for Disability, but prior to his exercise of any options vested at the date of termination, Employee's estate shall be entitled to exercise Employee's options for the earlier of (i) the remainder of the one (1) year period or (ii) the date upon which the option would have expired by its terms. The foregoing clause (ii) shall apply to the extent needed to avoid adverse tax consequences under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). The Company shall have no further obligations to Employee under this Agreement.

(c) Termination By the Company Without Cause. If, during the Term, the Company terminates Employee's employment other than for Cause or the occurrence of Employee's death or Disability, Employee shall be entitled to continue to receive (i) any Bonus (if earned) relating to a fiscal year which was completed before the effectiveness of such termination (payable as set forth in Section 3(b)), (ii) any Bonus for the fiscal year through the date of effectiveness of such termination, to the extent earned, pro-rated (based on a percentage defined by a fraction, the numerator of which is the number of days during the fiscal year prior and through the date of effectiveness of the termination, and the denominator of which is three hundred sixty-five (365)), payable following the completion and filing of the Company's annual audited financial statements, and (iii) an amount equal to (I) the lesser of (A) Employee's Base Salary that would have been paid from the date of effectiveness of such termination through the end of the Term or (B) Employee's Base Salary in effect as of the date of effectiveness of such termination, or (II) if greater, at least six (6) months of Employee's Base Salary in effect as of the date of effectiveness of such termination (in the case of clause (iii), Employee's Base Salary will be paid in periodic payments which correspond to the Company's regular payroll periods); provided that any payments set out in clauses (i), (ii) and (iii) shall only be made so long as Employee is not in breach of this Agreement and shall be net of appropriate tax and other withholdings. Notwithstanding the foregoing, the Company may suspend payments of such Bonus or Base Salary until seven (7) days following the date on which Employee executes and delivers to the Company a general release of all claims relating to Employee's employment and termination from employment (the "General Release") in a form provided by the Company (which General Release shall not affect any rights Employee may have under COBRA or under any vested award previously issued to Employee by the Company under any Company benefit plan) assuming such General Release is not revoked during such seven (7) day period and assuming Employee is not in breach of this Agreement. Employee understands that if the conditions set forth in the preceding sentence are not met, Employee shall not be entitled to a Bonus or any payments of Base Salary relating to periods of time following the effective date of the termination of Employee's employment under this Section 6(c) or otherwise. The Company shall have no further obligations to Employee under this Agreement.

(d) Termination By Employee During Term; Termination Following Term. In the event Employee terminates his employment, whether or not during the Term, or if the Company terminates this Agreement and Employee's employment hereunder effective following the end of the Term, all of Employee's rights to his Base Salary, Benefits (except to the extent any Benefits are expressly available following such event) and Bonus, if any, shall immediately terminate as of the effective date of termination, except that Employee shall be entitled to any earned and unpaid portion of his Base Salary and accrued Benefits up to the date of termination. Employee shall not be entitled to any Bonus, prorated or otherwise. The Company shall have no further obligations to Employee under this Agreement.

(e) Payment Upon Change in Control. Notwithstanding any other provision in this Agreement to the contrary, if a “Change in Control” of the Company (as defined herein) shall occur during the Term, and after such Change in Control but prior to the end of the Term the Company terminates Employee’s employment without Cause with such termination being effective during the Term, in lieu of any other amounts payable under this Agreement, Employee shall be entitled to receive (i) the greater of (A) the Base Salary through the end of the Term and (B) fifty percent (50%) of the annual Base Salary, in either case in a lump sum payment, payable immediately upon cessation of employment and (ii) a pro-rata portion of the Bonus, contingent on the Company’s achievement of any performance criteria relating to such Bonus, payable promptly following completion and filing of the Company’s year-end audit for the applicable year (such payments shall be net of appropriate tax and other withholdings, and are referred to collectively as the “Change in Control Payments”); provided, however, that if such Change in Control Payments, either alone or together with other payments or benefits, either cash or non-cash, that Employee 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 Employee under any plan for the benefit of employees, which would constitute an “excess parachute payment” (as defined in Section 280G of the Code), then such Change in Control Payments or other benefits shall be reduced to the largest amount that will not result in receipt by Employee of an excess parachute payment. A Change in Control will have no other effect on this Agreement, which will remain in full force and effect.

(i) Definition of Change in Control. For purposes of this Agreement, the term “Change in Control” shall mean an event or events, in which:

(A) any “person” as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (the “1934 Act”) (other than (1) the Company, (2) any subsidiary of the Company, (3) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or of any subsidiary of the Company or (4) any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), is or becomes the “beneficial owner” (as defined in Section 13(d) of the 1934 Act), together with all affiliates and Associates (as such terms are used in Rule 12b-2 of the General Rules and Regulations under the 1934 Act) of such person, directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company’s then outstanding securities;

(B) the consummation of a merger or consolidation of the Company with any other company, other than (1) a merger or consolidation which would result in the holders of voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, having at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or (2) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) after which no “person” (with the method of determining “beneficial ownership” used in clause (A) of this definition) owns more than 50% of the combined voting power of the securities of the Company or the surviving entity of such merger or consolidation; or

(C) the Company consummates its liquidation or sale or disposition by the Company of all or substantially all of the Company’s assets.

(f) Recognition. Employee recognizes and accepts that the Company shall not, in any case, be responsible for any additional amount, severance pay, termination pay, severance obligation or other payments or damages whatsoever arising from the termination of Employee’s employment above and beyond those specifically provided for herein.

## 7. Restrictive Covenants.

(a) Business of the Company. The term “Business of the Company”, as used in this Section 7, shall mean the provision by the Company or its Affiliates of social services, counseling, client monitoring and mentoring, substance abuse treatment and counseling, school support services, case management and foster care services to children, adults and families in community based settings such as a client’s home, school or workplace, intake, assessment and referral, case management and network management services to governmental agencies and provider networks, educational tutoring, job readiness and private parole or probation, non-emergency medical transportation and any other business in which the Company or its Affiliates have been, plan or have planned to be engaged during Employee’s employment with the Company or its Affiliates.

(b) Non-Competition. During Employee's employment with the Company or any of its Affiliates and for a period of two (2) years thereafter, Employee will not, in any capacity (including, but not limited to, owner, partner, member shareholder, consultant, advisor, financier, agent, employee, officer, director, manager or otherwise), directly or indirectly, for his own account or for the benefit of any natural person, corporation, partnership, trust, estate, joint venture, sole proprietorship, association, cooperative or other entity (any of the foregoing, a "Person"), establish, engage in, finance, advise, work for, or be connected with, except as an employee of the Company, any business in competition with the Business of the Company if such business competes with the Business of the Company or any Affiliate in any State, county, or municipality where the Company or its Affiliates conduct business, are preparing to conduct business or have conducted business during Employee's employment with the Company or any of its Affiliates.

(c) Non-Solicitation/Non-Piracy. During Employee's employment with the Company or any of its Affiliates and for a period of two (2) years thereafter, Employee will not, directly or indirectly, for his own account or for the benefit of any Person or entity:

(i) solicit, service, supply or sell to, contact, or aid in the solicitation, servicing, supplying or selling to any Person or entity which is or was a customer, prospective customer, client, prospective client, contractor, subcontractor or supplier of the Company or its Affiliates within three (3) years prior to Employee's termination of employment ("Company Customers/Clients"), for the purpose of (A) selling services or goods in competition with the Business of the Company; (B) inducing Company Customers/Clients to cancel, transfer or cease doing business in whole or in part with the Company or any of its Affiliates or (C) inducing Company Customers/Clients to do business with any Person in competition with the Business of the Company; or

(ii) solicit, aid in solicitation of, induce, contact for the purpose of, encourage or in any way cause any employee of the Company or any of its Affiliates to leave the employ of the Company or its Affiliates, or otherwise interfere with such employee's relationship with the Company or any of its Affiliates.

(d) Non-Disclosure. Other than in furtherance of the Business of the Company, in the ordinary course in Employee's capacity as an employee hereunder, Employee will not, at any time, except with the express prior written consent of the Board, directly or indirectly, disclose, communicate or divulge to any Person, or use for the benefit of any Person, any secret, confidential or proprietary knowledge or information relating to the Company or any of its Affiliates including, but not limited to, customer and client lists, customer and client accounts and information, prospective client, customer, contractor or subcontractor lists and information, services, techniques, methods of operation, pricing, costs, sales, sales strategies or methods, marketing, marketing strategies or methods, products, product development, research, know-how, policies, financial information, financial condition, business strategies or plans or other information of the Company or its Affiliates which is not generally available to the public. Upon the expiration or termination of Employee's employment with the Company or any Affiliate, Employee shall immediately deliver to the Company all memoranda, books, papers, letters and other data (whether in written form or computer stored), and all copies of same, which were made by Employee or came into Employee's possession or under his control at any time prior to the expiration or termination of Employee's employment, and which in any way relate to the business, assets or properties of the Company or any of its Affiliates as conducted or as planned to be conducted by the Company or its Affiliates.

(e) Intellectual Property. Employee will promptly communicate to the Company, in writing when requested, all software, designs, techniques, concepts, methods and ideas, other technical information, marketing strategies and other ideas and creations pertaining to the Business of the Company which are conceived of or developed by Employee alone or with others, at any time (during or after business hours) while Employee is employed by the Company or any of its Affiliates. Employee acknowledges that all of those ideas and creations are inventions and works for hire, and will be the Company's or its Affiliates' exclusive property. Employee will sign any documents which the Company deems necessary to confirm its ownership of those ideas and creations and Employee will cooperate with the Company to facilitate the ability of the Company to own or exploit all of those ideas and creations.

(f) Non-Disparagement. Employee will not at any time publish or communicate disparaging or derogatory statements or opinions about the Company or its Affiliates, including but not limited to, disparaging or derogatory statements or opinions about the Company's or its Affiliates' management, products or services to any third party. It shall not be a breach of this Section 7(f) for Employee to testify truthfully in any judicial or administrative proceeding or to make statements or allegations in legal filings that are based on Employee's reasonable belief and are not made in bad faith.

(g) Enforcement. Employee acknowledges that the covenants and agreements of this Section 7 (the "Covenants") herein are of a special and unique character, which gives them peculiar value, the loss of which cannot be reasonably or adequately compensated for in an action at law. Employee further acknowledges that any breach or threat of breach by him of any of the Covenants will result in irreparable injury to the Company for which money damages could not be adequate to compensate the Company. Therefore, in the event of any such breach or threatened breach, the Company shall be entitled, in addition to all other rights and remedies which the Company may have at law or in equity, to have an injunction issued by any competent court enjoining and restraining Employee and/or all other Persons involved therein from committing a breach or continuing such breach. The remedies granted to the Company in this Agreement are cumulative and are in addition to remedies otherwise available to the Company at law or in equity. The Covenants contained in this Section 7 are independent of any other provision of this Agreement, and the existence of any claim or cause of action which Employee or any such other Person may have against the Company shall not constitute a defense or bar to the enforcement of any of the Covenants. If the Company is obliged to resort to litigation to enforce any of the Covenants which has a fixed term, then such term shall be extended for a period of time equal to the period during which a breach of such Covenant was occurring, beginning on the date of a final court order (without further right of appeal) holding that such a breach occurred, or, if later, the last day of the original fixed term of such Covenant.

(h) Acknowledgements. Employee expressly acknowledges that the Covenants are a material part of the consideration bargained for by the Company and, without the agreement of Employee to be bound by the Covenants, the Company would not have agreed to enter into this Agreement. Employee further acknowledges and agrees that the Business of the Company and its services are highly competitive, and that the Covenants contained in this Section 7 are reasonable and necessary to protect the Company's legitimate business interests. In addition, Employee acknowledges that in the event his employment with the Company terminates, he will still be able to earn a livelihood without violating this Agreement, and that the Covenants contained in this Section 7 are material conditions to his employment and continued employment with the Company.

(i) Scope. If any portion of any Covenant or its application is construed to be invalid, illegal or unenforceable, then the remaining portions and their application shall not be affected thereby, and shall be enforceable without regard thereto. If any of the Covenants is determined to be unenforceable because of its scope, duration, geographical area or similar factor, then the court or other trier of fact making such determination shall modify, reduce or limit such scope, duration, area or other factor, and enforce such Covenant to the extent it believes such factor(s) to be lawful and appropriate.

(j) Costs; Expenses in the Event of Breach. In the event that Employee breaches or attempts to breach the Covenants contained, the Company shall be entitled to reimbursement from Employee for all costs and expenses associated with any successful action to enforce any of the Covenants, including but not limited to reasonable attorneys' fees and costs of litigation. Should the Company file an action against Employee relating to a breach of the Covenants, and a court of competent jurisdiction determines that Employee did not breach any of the Covenants, Employee shall be entitled to reimbursement from the Company of all costs and expenses associated with defending against such action asserting a breach, including reasonable attorneys' fees and costs.

#### 8. Section 409A of the Code.

(a) Amounts payable under this Agreement are intended either to be exempt from the rules of Section 409A of the Code or to satisfy those rules and shall be construed accordingly. The Company shall not be liable to Employee with respect to any Agreement-related adverse tax consequences arising under Section 409A or other provision of the Code.

(b) If any provision of this Agreement contravenes any regulations or Treasury guidance promulgated under Code Section 409A or could cause an amount payable hereunder to be subject to the interest and penalties under Code Section 409A, such provision of the Agreement shall be deemed automatically modified to maintain, to the maximum extent practicable, the original intent of the applicable provision without violating the provisions of Code Section 409A. A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a “Separation from Service” within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean Separation from Service.

(c) Notwithstanding any provisions of this Agreement to the contrary, if Employee is a “specified employee” (as such term is defined for purposes of Code Section 409A), no payment of amounts not exempt from Code Section 409A shall be made under Section 6(c) or 6(e) hereof prior to the six (6) month anniversary of Employee’s separation of service to the extent such six (6) month delay in payment is required to comply with Code Section 409A. To the extent that this Section 8(c) applies to any Severance Payment under Section 6(c) hereof, and the actions described in this sentence do not cause adverse tax consequences to be imposed under the Code, the Company shall, as soon as practicable following Employee’s termination of employment, and after Employee executes and does not revoke the General Release, deposit an amount equal to the gross amount of such Severance Payment into an irrevocable Rabbi Trust in the form prescribed by Internal Revenue Service Revenue Procedure 92-64. Such Rabbi Trust shall be established and maintained by the Company, at its own expense, pending the distribution of such amount to Employee under this Agreement. The Trustee shall be a financial institution selected by the Company and the Trustee shall invest all amounts deposited therein with the purpose of preserving the Trust principal. All principal and income from the Rabbi Trust shall be paid to Employee on the first day following the six-month anniversary of Employee’s Separation from Service. The Trustee shall withhold or cause to be withheld all withholding taxes as may be required by applicable law.

#### 9. Miscellaneous.

(a) Indulgences, Etc. Neither the failure, nor any delay, on the part of either party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same, or of any other right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

#### (b) Controlling Law; Consent to Arbitration; Service of Process.

(i) This Agreement and all questions relating to its validity, interpretation, performance and enforcement (including, without limitation, provisions concerning limitations of actions), shall be governed by and construed in accordance with the laws of the State of Arizona (notwithstanding any conflict of laws doctrines of such state or other jurisdiction to the contrary), and without the aid of any canon, custom or rule of law requiring construction against the draftsman.

(ii) Except to the extent provided for in Section 7 above (relating to injunctive relief and other equitable remedies), the Company and Employee agree that any claim, dispute or controversy arising under or in connection with this Agreement, or otherwise in connection with Employee’s employment by the Company or termination of his employment (including, without limitation, any such claim, dispute or controversy arising under any federal, state or local statute, regulation or ordinance or any of the Company’s employee benefit plans, policies or programs) shall be resolved solely and exclusively by binding, confidential, arbitration. The arbitration shall be held in Tucson, Arizona (or at such other location as shall be mutually agreed by the parties). The arbitration shall be conducted in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association (the “AAA”) in effect at the time of the arbitration, except that the arbitrator shall be selected by alternatively striking from a list of five arbitrators supplied by the AAA. All fees and expenses of the arbitration, including a transcript if either requests, shall be borne equally by the parties, however, all costs for the services of the arbitrator shall be borne solely by the Company.

(iii). Each party is responsible for the fees and expenses of its own attorneys, experts, witnesses, and preparation and presentation of proofs and post-hearing briefs (unless the party prevails on a claim for which attorney's fees are recoverable under law). In rendering a decision, the arbitrator shall apply all legal principles and standards that would govern if the dispute were being heard in court. This includes the availability of all remedies that the parties could obtain in court. In addition, all statutes of limitation and defenses that would be applicable in court, will apply to the arbitration proceeding. The decision of the arbitrator shall be set forth in writing, and be binding and conclusive on all parties. Any action to enforce or vacate the arbitrator's award shall be governed by the Federal Arbitration Act, if applicable, and otherwise by applicable state law. If either the Company or Employee improperly pursues any claim, dispute or controversy against the other in a proceeding other than the arbitration provided for herein, the responding party shall be entitled to dismissal or injunctive relief regarding such action and recovery of all costs, losses and attorney's fees related to such action.

(iv) Each of the parties hereto hereby consents to process being served in any suit, action or proceeding of any nature, by the mailing of a copy thereof by registered or certified first-class mail, postage prepaid, return receipt requested, to them at their respective addresses set forth in Section 9(c) hereof. Each of parties hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, all claims of error by reason of any such service pursuant to the terms hereof (but does not waive any right to assert lack of subject matter jurisdiction) and agrees that such service shall (A) be deemed in every respect effective service of process in any such suit, action or proceeding and (B) to the fullest extent permitted by applicable law, be taken and held to be valid personal service.

(v) Nothing in this Section 9(b) shall affect the right of any party hereto to serve process in any manner permitted by law or affect the right of any party to bring proceedings against any other party in the courts of any jurisdiction or jurisdictions.

(c) Notices. All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made and received only when delivered (personally, by courier service such as Federal Express, or by other messenger) or when deposited in the United States mails, registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below.

(i) If to Employee:

Warren Rustand  
5750 E. Santa Fee, Tucson, AZ 85715

(ii) If to the Company:

The Providence Service Corporation  
64 East Broadway Blvd.  
Tucson, AZ 85701  
Attention: Board of Directors

In addition, notice by mail shall be by air mail if posted outside of the continental United States.

Any party may alter the addresses to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 9(c) for the giving of notice.

(d) Assignment of Agreement. The rights and obligations of both parties under this Agreement shall inure to the benefit of and shall be binding upon their heirs, successors and assigns. The Company may assign or otherwise transfer its rights under this Agreement, including but not limited to all Covenants contained in Section 7 above, to any successor or affiliated business or corporation whether by sale of stock, merger, consolidation, sale of assets or otherwise. This Agreement may not, however, be assigned by Employee to a third party, nor may Employee delegate his duties under this Agreement.

(e) Execution in Counterparts. This Agreement may be executed in any number of counterparts, including by facsimile, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

(f) Provisions Separable. The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

(g) Entire Agreement. This Agreement contains the entire understanding among the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements and understandings between the parties, inducements or conditions, express or implied, oral or written, except as herein contained. The express terms hereof control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms hereof. This Agreement may not be modified or amended other than by an agreement in writing.

(h) Section Headings. The section headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

(i) Gender, Etc. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context indicates is appropriate.

(j) Independent Review and Consultation. Employee is hereby advised to consult with an attorney before signing this Agreement. Employee acknowledges that it is his decision whether or not to do so.

(k) Number of Days. In computing the number of days for purposes of this Agreement, all days shall be counted, including Saturdays, Sundays and holidays; provided, however, that if the final day of any time period falls on a Saturday, Sunday or holiday on which entities which are provincially regulated are or may elect to be closed, then the final day shall be deemed to be the next day which is not a Saturday, Sunday or such holiday.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement, intending to be legally bound hereby, as of the date first above written.

**THE PROVIDENCE SERVICE CORPORATION**

By: /s/ Christopher Shackelton

Name: Christopher Shackelton

Title: Chairman of the Board

**WARREN RUSTAND**

/s/ Warren Rustand

[Signature Page to Employment Agreement of Warren Rustand]

## 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 10, 2013

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

## CERTIFICATIONS

I, Robert E. Wilson, 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 10, 2013

/s/ Robert E. Wilson

Robert E. Wilson  
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, 2013 (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 10, 2013

/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, 2013 (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 10, 2013

/s/ Robert E. Wilson

\_\_\_\_\_  
Robert E. Wilson

Chief Financial Officer

*(Principal Financial and Accounting Officer)*

