

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 001-34221

The Providence Service Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

700 Canal Street, Third Floor,
Stamford, Connecticut
(Address of principal executive offices)

06902
(Zip Code)

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

44 E. Broadway Blvd., Suite 350
Tucson, Arizona 85701
(Former name, former address and former fiscal year, if changed since last report)

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 3, 2016, there were outstanding 14,860,533 shares (excluding treasury shares of 2,352,279) of the registrant’s Common Stock, \$0.001 par value per share.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 95,217	\$ 84,770
Accounts receivable, net of allowance of \$5,646 in 2016 and \$5,587 in 2015	153,940	178,049
Other receivables	14,800	16,298
Prepaid expenses and other	31,111	30,718
Restricted cash	3,903	4,012
Deferred tax assets	6,516	5,877
Total current assets	305,487	319,724
Property and equipment, net	61,419	57,787
Goodwill, net	339,227	340,029
Intangible assets, net	275,728	285,951
Other assets	28,521	30,625
Restricted cash, less current portion	13,639	16,044
Deferred tax asset	1,830	42
Total assets	<u>\$ 1,025,851</u>	<u>\$ 1,050,202</u>
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term obligations	\$ 33,313	\$ 31,375
Accounts payable	28,481	30,007
Accrued expenses	100,327	130,552
Accrued transportation costs	84,467	64,537
Deferred revenue	28,491	28,667
Reinsurance and related liability reserves	8,507	10,134
Total current liabilities	283,586	295,272
Long-term obligations, less current portion	274,540	268,696
Other long-term liabilities	27,451	25,052
Deferred tax liabilities	91,765	93,474
Total liabilities	677,342	682,494
Commitments and contingencies (Note 13)		
Reedeemable convertible preferred stock		
Convertible preferred stock, net: Authorized 10,000,000 shares; \$0.001 par value; 803,518 and 803,518 issued and outstanding; 5.5%/8.5% dividend rate	77,576	77,576
Stockholders' equity		
Common stock: Authorized 40,000,000 shares; \$0.001 par value; 17,210,031 and 17,186,780 issued and outstanding (including treasury shares)	17	17
Additional paid-in capital	293,841	293,012
Retained earnings	70,345	69,209
Accumulated other comprehensive loss, net of tax	(18,323)	(16,831)
Treasury shares, at cost, 2,333,784 and 1,895,998 shares	(74,402)	(54,823)
Total Providence stockholders' equity	271,478	290,584
Noncontrolling interest	(452)	(452)
Total stockholders' equity	270,933	290,132
Total liabilities and stockholders' equity	<u>\$ 1,025,851</u>	<u>\$ 1,050,202</u>

See accompanying notes to the 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,	
	2016	2015
Service revenue, net	\$ 432,650	\$ 419,829
Operating expenses:		
Service expense	386,488	366,537
General and administrative expense	19,172	19,466
Depreciation and amortization	14,336	13,053
Total operating expenses	<u>419,996</u>	<u>399,056</u>
Operating income	12,654	20,773
Other expenses:		
Interest expense, net	3,635	5,195
Equity in net loss of investee	2,717	2,483
Loss (gain) on foreign currency transactions	(75)	319
Income from continuing operations before income taxes	6,377	12,776
Provision for income taxes	4,248	6,921
Income from continuing operations, net of tax	2,129	5,855
Discontinued operations, net of tax	-	394
Net income	2,129	6,249
Net loss (income) attributable to noncontrolling interests	106	(12)
Net income attributable to Providence	<u>\$ 2,235</u>	<u>\$ 6,237</u>
Net income available to common stockholders (Note 11)	<u>\$ 1,002</u>	<u>\$ 5,092</u>
Basic earnings per common share:		
Continuing operations	\$ 0.07	\$ 0.30
Discontinued operations	-	0.02
Basic earnings per common share	<u>\$ 0.07</u>	<u>\$ 0.32</u>
Diluted earnings per common share:		
Continuing operations	\$ 0.07	\$ 0.30
Discontinued operations	-	0.02
Diluted earnings per common share	<u>\$ 0.07</u>	<u>\$ 0.32</u>
Weighted-average number of common shares outstanding:		
Basic	15,057,598	15,976,050
Diluted	15,185,548	16,145,176

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Three months ended March 31,	
	2016	2015
Net income	\$ 2,129	\$ 6,249
Net loss (income) attributable to noncontrolling interest	106	(12)
Net income attributable to Providence	2,235	6,237
Other comprehensive loss:		
Foreign currency translation adjustments, net of tax	(1,492)	(5,295)
Other comprehensive loss	(1,492)	(5,295)
Comprehensive income	637	954
Comprehensive loss (income) attributable to noncontrolling interest	93	(6)
Comprehensive income attributable to Providence	\$ 730	\$ 948

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Three months ended March 31,	
	2016	2015
Operating activities		
Net income	\$ 2,129	\$ 6,249
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,521	5,089
Amortization	8,815	9,811
Provision for doubtful accounts	494	599
Stock-based compensation	612	2,864
Deferred income taxes	(3,954)	(1,512)
Amortization of deferred financing costs and debt discount	532	539
Excess tax benefit upon exercise of stock options	(41)	(1,989)
Equity in net loss of investee	2,717	2,483
Other non-cash charges (credits)	(43)	319
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	22,520	(49,699)
Other receivables	1,487	77
Restricted cash	-	(106)
Prepaid expenses and other	(3,222)	6,364
Reinsurance liability reserve	(1,728)	(1,121)
Accounts payable and accrued expenses	4,071	14,083
Income taxes payable on sale of business	(28,337)	-
Accrued transportation costs	19,930	17,830
Deferred revenue	516	2,879
Other long-term liabilities	2,615	631
Net cash provided by operating activities	34,634	15,390
Investing activities		
Purchase of property and equipment	(9,814)	(6,394)
Net decrease in short-term investments	(5)	(5)
Acquisitions, net of cash acquired	-	(1,665)
Equity investments	(3,229)	-
Restricted cash for reinsured claims losses	2,514	694
Net cash used in investing activities	(10,534)	(7,370)
Financing activities		
Proceeds from issuance of preferred stock, net of issuance costs	-	80,667
Preferred stock dividends	(1,099)	(594)
Repurchase of common stock, for treasury	(19,579)	(721)
Proceeds from common stock issued pursuant to stock option exercise	176	2,199
Excess tax benefit upon exercise of stock options	41	1,989
Repayment of long-term debt	(7,750)	(71,312)
Proceeds from long-term debt	15,000	-
Payment of contingent consideration	-	(7,496)
Other financing costs	-	1
Net cash provided by (used in) financing activities	(13,211)	4,733
Effect of exchange rate changes on cash	(442)	(3,029)
Net change in cash and cash equivalents	10,447	9,724
Cash and cash equivalents at beginning of period	84,770	160,406
Cash and cash equivalents at end of period	\$ 95,217	\$ 170,130
Supplemental cash flow information:		
Cash paid for interest	\$ 3,165	\$ 4,439
Cash paid for income taxes	\$ 28,564	\$ 1,713
Accrued unfunded future equity investment capital contributions	\$ 1,531	\$ -

See accompanying notes to the unaudited condensed consolidated financial statements

The Providence Service Corporation
Notes to the Unaudited Condensed Consolidated Financial Statements
March 31, 2016

(in thousands except years, share and per share data)

1. Organization and Basis of Presentation

Description of Business

The Providence Service Corporation (“we”, the “Company” or “Providence”) is a holding company, whose subsidiaries provide critical healthcare and workforce development services. We operate in three segments: Non-Emergency Transportation Services (“NET Services”), Workforce Development Services (“WD Services”) and Health Assessment Services (“HA Services”). NET Services coordinates non-emergency transportation for individuals whose limited mobility and/or financial resources would otherwise hinder them from accessing necessary healthcare and social services. WD Services primarily provides employability and offender rehabilitation services to eligible participants of government sponsored programs. HA Services provides care optimization and delivery solutions, including comprehensive health assessments (“CHAs”) for health plans as well as in-home care management offerings.

Basis of Presentation

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 non-governmental entities. All amounts are presented in US dollars in thousands, unless the context otherwise requires or otherwise noted.

The Company’s unaudited condensed 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 considered necessary for fair presentation have been included.

The Company has made estimates relating to the reporting of assets and liabilities, revenues and expenses and certain disclosures to prepare these unaudited condensed consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2016. Management has evaluated events and transactions that occurred after the balance sheet date and through the date these unaudited condensed consolidated financial statements were filed, and considered the effect of such events in the preparation of these unaudited condensed consolidated financial statements.

The condensed consolidated balance sheet at December 31, 2015 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 unaudited condensed 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, 2015.

Reclassifications

We have reclassified certain amounts relating to our prior period results to conform to our current period presentation. On November 1, 2015, the Company completed the sale of the Human Services segment and, as such, operating results for this segment are reported as discontinued operations, net of tax in the condensed consolidated statements of income for the three months ended March 31, 2015. See Note 15, *Discontinued Operations* for further information. Effective January 1, 2016, the Company adopted ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”) and reclassified debt issuance costs to a contra-liability account in the condensed consolidated balance sheet as of December 31, 2015. Additionally, the Company recast its condensed consolidated statement of other comprehensive income for the three months ended March 31, 2015 to conform with the presentation of other comprehensive income included in the Company’s Form 10-K for the year ended December 31, 2015.

2. Significant Accounting Policies and Recent Accounting Pronouncements

The Company adopted the following accounting pronouncements during the three months ended March 31, 2016:

In April 2015, the FASB issued ASU 2015-03, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company capitalizes debt issuance costs incurred in connection with its credit facilities, line-of-credit, and other borrowings (“deferred financing costs”), and amortizes such costs over the life of the respective debt liability.

Upon adoption of ASU 2015-03 on January 1, 2016, the Company elected to present deferred financing costs for both its credit facilities and line-of credit arrangement as a direct deduction from the carrying amount of the respective debt liability. Accordingly, deferred financing costs, net of amortization, totaling \$3,774 at December 31, 2015 have been reclassified from “Other assets” to “Long-term obligations, less current portion” in the condensed consolidated balance sheets. Deferred financing costs, net of accumulated amortization, totaling approximately \$4,347 and \$4,879 at March 31, 2016 and December 31, 2015, respectively, are included in “Long-term obligations, less current portion” in the condensed consolidated balance sheets.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* (“ASU 2015-02”), which changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (“VIE”), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. The new guidance excludes money market funds that are required to comply with Rule 2a-7 of the Investment Company Act of 1940 and similar entities from the U.S. GAAP consolidation requirements. The new consolidation guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2015. The adoption of ASU 2015-02 on January 1, 2016 had no impact on the consolidation of the Company’s existing VIEs.

Updates to the recent accounting pronouncements as disclosed in the Company’s Form 10-K for the year ended December 31, 2015 are as follows:

In March 2016, the FASB issued ASU No. 2016-07, *Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting* (“ASU 2016-07”). This ASU eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The ASU requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The ASU is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 and should be applied prospectively upon their effective date. The adoption of ASU 2016-07 will impact the Company’s accounting and disclosures related to future equity method investments.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (“ASU 2016-08”). This ASU is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations and whether an entity reports revenue on a gross or net basis. Additionally, in April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* (“ASU 2016-10”). This clarifies two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. ASU 2016-08 and ASU 2016-10 will have the same effective dates and transition requirements as the new revenue standard issued in ASU 2014-09. The Company currently is evaluating the impact of the adoption of these ASUs on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). This ASU is intended to improve the accounting for employee share-based payments and affect all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. For public companies, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any organization in any interim or annual period. The Company currently is evaluating the impact of the adoption of ASU 2016-09 on the Company’s consolidated financial statements and whether it will early adopt ASU 2016-09.

There were no other significant updates to the new accounting guidance not yet adopted by the Company as disclosed in its Form 10-K for the year ended December 31, 2015.

3. Equity Investment

The Company entered into a joint venture agreement in November 2014 to form Mission Providence Pty Ltd (“Mission Providence”). Mission Providence delivers employment services in Australia. The Company has a 60% ownership in Mission Providence, and has rights to 75% of Mission Providence’s distributions of cash or profit surplus twice per calendar year. The Company provided to Mission Providence \$3,229 in capital contributions during the three months ended March 31, 2016, and may continue to provide further contributions in exchange for its equity interests.

The Company determined it has a variable interest in Mission Providence. However, it does not have unilateral power to direct the activities that most significantly impact Mission Providence’s economic performance, which include budget approval, business planning, the appointment of key officers and liquidation and distribution of share capital. As a result, the Company is not the primary beneficiary of Mission Providence. The Company accounts for this investment under the equity method of accounting and the Company’s share of Mission Providence’s losses are recorded as “Equity in net loss of investee” in the accompanying condensed consolidated statements of income. Cash contributions made to Mission Providence in exchange for its equity interests are included in the condensed consolidated statements of cash flows as “Equity investments”. The investment is accounted for as part of the WD Services segment.

The following table summarizes the carrying amounts of the assets and liabilities included in the Company’s condensed consolidated balance sheet and the maximum loss exposure related to the Company’s interest in Mission Providence as of March 31, 2016 and December 31, 2015:

	Other Assets	Accrued Expenses	Maximum Exposure to Loss
March 31, 2016	\$ 6,960	\$ 1,531	\$ 6,960
December 31, 2015	\$ 9,324	\$ 4,654	\$ 9,324

Accrued Expenses relate to future funding commitments required under the joint venture agreement pursuant to the Company’s 60% equity interest that have been approved by the Mission Providence joint venture Board. An additional AUD \$4,286 (approximately \$3,287 as of March 31, 2016) in future funding commitments required by the joint venture agreement have not been recognized as of March 31, 2016 because such commitments have not been approved for funding by the Mission Providence joint venture Board.

Summary financial information for Mission Providence on a standalone basis is as follows:

	March 31, 2016	December 31, 2015
Current assets	\$ 7,004	\$ 7,789
Long-term assets	9,561	8,869
Current liabilities	13,240	10,488
Long-term liabilities	-	-

	Three months ended March 31, 2016	Three months ended March 31, 2015
Revenue	\$ 7,399	\$ -
Operating loss	(4,428)	(4,800)
Net loss	(2,974)	(3,358)

4. Prepaid Expenses and Other

Prepaid expenses and other were comprised of the following:

	March 31, 2016	December 31, 2015
Prepaid income taxes	\$ 722	\$ 1,607
Prepaid insurance	1,752	3,714
Prepaid taxes and licenses	4,422	4,895
Prepaid rent	2,180	2,246
Deposits held for leased premises and bonds	3,848	3,622
Other	18,187	14,634
Total prepaid expenses and other	<u>\$ 31,111</u>	<u>\$ 30,718</u>

5. Accrued Expenses

Accrued expenses consisted of the following:

	March 31, 2016	December 31, 2015
Accrued compensation	\$ 28,402	\$ 27,546
NET Services accrued contract payments	22,627	26,669
Taxes payable	3,769	24,302
Other	45,529	52,035
Total accrued expenses	<u>\$ 100,327</u>	<u>\$ 130,552</u>

6. Restructuring and Related Reorganization Costs

In the fourth quarter of 2015, WD Services approved two redundancy plans. The first plan relates to the termination of employees currently delivering services under a new offender rehabilitation program. The second plan primarily relates to the termination of employees delivering services under the Company's employability and skills training programs and certain other employees in the United Kingdom (the "UK"). The Company recorded severance and related charges of approximately \$1,171 during the three months ended March 31, 2016 relating to revisions of estimated termination benefits as well as an increase in the number of individuals impacted by these plans. The severance charges incurred are recorded as "Service expense" in the accompanying condensed consolidated statements of income. The cost is estimated based upon the employee groups impacted, average salary and benefits, and redundancy benefits pursuant to the existing policies. The final identification of the employees is subject to customary consultation procedures.

Summary of Severance and Related Charges

	December 31, 2015	Costs Incurred	Cash Payments	Foreign Exchange Rate Adjustments	March 31, 2016
Charges related to new offender rehabilitation program	\$ 6,538	\$ 1,065	\$ (583)	\$ (190)	\$ 6,830
Charges related to UK restructuring	2,059	106	(693)	(62)	1,410
Total	<u>\$ 8,597</u>	<u>\$ 1,171</u>	<u>\$ (1,276)</u>	<u>\$ (252)</u>	<u>\$ 8,240</u>

The total of accrued severance and related costs of \$8,240 and \$8,597 are reflected in “Accrued expenses” in the condensed consolidated balance sheets at March 31, 2016 and December 31, 2015, respectively. The amount accrued as of March 31, 2016 is expected to be settled primarily in 2016.

7. Long-Term Obligations

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

	March 31, 2016	December 31, 2015
\$240,000 revolving loan, LIBOR plus 2.25% - 3.25% (effective rate of 3.18% at March 31, 2016) with interest payable at least once every three months through August 2018	\$ 34,700	\$ 19,700
\$250,000 term loan, LIBOR plus 2.25% - 3.25% (effective rate of 3.36% at March 31, 2016), with principal payable quarterly beginning March 31, 2015 and interest payable at least once every three months, through August 2018	225,000	231,250
\$60,000 term loan, LIBOR plus 2.25% - 3.25% (effective rate of 3.36% at March 31, 2016), with principal payable quarterly beginning December 31, 2014 and interest payable at least once every three months, through August 2018	52,500	54,000
	312,200	304,950
Unamortized discount on debt	(4,347)	(4,879)
	307,853	300,071
Less current portion	33,313	31,375
Total long-term obligations, less current portion	<u>\$ 274,540</u>	<u>\$ 268,696</u>

The fair value of the long-term obligations approximated \$315,845 and \$308,892 at March 31, 2016 and December 31, 2015, respectively. The fair value of the Company’s long-term obligations has been determined based on an income approach to discount the future debt payments using current market yields and is categorized within Level 3 of the fair value hierarchy.

8. Convertible Preferred Stock, Net

The Company completed a rights offering on February 5, 2015 (the “Rights Offering”) providing all of the Company’s existing common stock holders the non-transferrable right to purchase their pro rata share of \$65,500 of convertible preferred stock at a price equal to \$100.00 per share. The convertible preferred stock is convertible into shares of Providence’s common stock at a conversion price equal to \$39.88 per share, which was the closing price of the Company’s common stock on the NASDAQ Global Select Market on October 22, 2014.

Stockholders exercised subscription rights to purchase 130,884 shares of the Company's convertible preferred stock. Pursuant to the terms and conditions of the Standby Purchase Agreement (the "Standby Purchase Agreement") between Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Coliseum Capital Co-Invest, L.P. and Blackwell Partners, LLC (collectively, the "Standby Purchasers") and the Company, the remaining 524,116 shares of the Company's preferred stock were purchased by the Standby Purchasers at the \$100 per share subscription price. The Company received \$65,500 in aggregate gross proceeds from the consummation of the Rights Offering and Standby Purchase Agreement. Additionally, on March 12, 2015, the Standby Purchasers exercised their right to purchase an additional 150,000 shares of the Company's convertible preferred stock, at a purchase price of \$105.00 per share or a total purchase price of \$15,750, of the same series and having the same conversion price as the convertible preferred stock sold in the Rights Offering.

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

In the event the Company does not declare and pay a cash dividend, the Company will declare a paid in kind ("PIK") dividend by increasing the liquidation preference of the convertible preferred stock to an amount equal to the liquidation preference in effect at the start of the applicable dividend period, plus an amount equal to the liquidation preference then in effect multiplied by eight and one-half percent (8.5%) per annum, computed on the basis of a 365-day year and the actual number of days elapsed from the start of the applicable dividend period to the applicable date of determination. All holders of the Company's convertible preferred stock are able to convert their convertible preferred stock into shares of common stock at a rate of approximately 2.51 shares of common stock for each share of convertible preferred stock. As of March 31, 2016, 1,482 shares of convertible preferred stock were converted to 3,715 shares of common stock.

Cash dividends are payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, which commenced on April 1, 2015, and, if declared, will begin to accrue on the first day of the applicable dividend period. PIK dividends, if applicable, will accrue cumulatively on the same schedule as set forth above for cash dividends and will also be compounded at the applicable annual rate on each applicable subsequent dividend date. Cash dividends totaling \$1,099 and \$594 were distributed to convertible preferred stockholders on April 1, 2016 and April 1, 2015, respectively.

The convertible preferred stock is accounted for outside of stockholders' equity as it may be redeemed upon certain change in control events that are not solely in the control of the Company. Dividends are recorded in stockholders' equity and consist of the 5.5%/8.5% dividend. At the time of issuance of the convertible preferred stock, the Company recorded a discount on convertible preferred stock related to beneficial conversion features that arose due to the closing price of the Company's common stock being higher than the conversion price of the convertible preferred stock on the commitment date. The amortization of this discount was recorded in stockholders' equity. The discount was fully amortized as of June 30, 2015.

As of March 31, 2016, the 803,518 outstanding shares of convertible preferred stock are convertible into 2,014,840 shares of common stock.

9. Stockholders' Equity

The following table reflects changes in common stock, additional paid-in capital, retained earnings, accumulated other comprehensive loss, treasury stock and noncontrolling interest for the three months ended March 31, 2016:

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Non- controlling Interest	Total
	Shares	Amount				Shares	Amount		
Balance at December 31, 2015	17,186,780	\$ 17	\$ 293,012	\$ 69,209	\$ (16,831)	1,895,998	\$ (54,823)	\$ (452)	\$ 290,132
Stock-based compensation	-	-	612	-	-	-	-	-	612
Exercise of employee stock options, including net tax windfall of \$41	11,513	-	217	-	-	-	-	-	217
Restricted stock issued	11,738	-	-	-	-	2,051	(100)	-	(100)
Stock repurchase plan	-	-	-	-	-	435,735	(19,479)	-	(19,479)
Foreign currency translation adjustments, net of tax	-	-	-	-	(1,492)	-	-	13	(1,479)
Convertible preferred stock dividends	-	-	-	(1,099)	-	-	-	-	(1,099)
Noncontrolling interests	-	-	-	-	-	-	-	(106)	(106)
Net income attributable to Providence	-	-	-	2,235	-	-	-	-	2,235
Balance at March 31, 2016	<u>17,210,031</u>	<u>\$ 17</u>	<u>\$ 293,841</u>	<u>\$ 70,345</u>	<u>\$ (18,323)</u>	<u>2,333,784</u>	<u>\$ (74,402)</u>	<u>\$ (545)</u>	<u>\$ 270,933</u>

10. Stock-Based Compensation and Similar Arrangements

The Company provides stock-based compensation to employees and non-employee directors under the Company's 2006 Long-Term Incentive Plan ("2006 Plan"). Typical awards issued under this plan include stock option awards, restricted stock awards ("RSAs") and performance based restricted stock units ("PRSUs"). In addition, the Company has a long-term incentive plan designed to provide long-term performance based awards to certain executive officers of the Company which also falls under the 2006 Plan.

The following table reflects the amount of stock-based compensation, for share settled awards, recorded in each financial statement line item for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,	
	2016	2015
Service expense	\$ 135	\$ 1,912
General and administrative expense	477	919
Discontinued operations, net of tax	-	33
Total stock-based compensation	<u>\$ 612</u>	<u>\$ 2,864</u>

Stock-based compensation, for share settled awards, includes benefits from forfeitures of stock-based compensation awards. At March 31, 2016, the Company had 474,773 stock options outstanding with a weighted-average exercise price of \$35.15. The Company also had 50,632 shares of unvested RSAs outstanding at March 31, 2016 with a weighted-average grant date fair value of \$43.63 and 49,760 unvested PRSUs outstanding.

The Company also awards stock equivalent unit awards ("SEUs") and stock option equivalent units that are cash settled awards and are not included as part of the 2006 Plan. During the three months ended March 31, 2016 and 2015, respectively, the Company recorded \$730 and \$2,032 of stock-based compensation expense for cash settled awards which is included as "General and administrative expense" in the accompanying condensed consolidated statements of income. At March 31, 2016 the Company had 12,259 SEUs and 200,000 stock option equivalent units outstanding.

The Company also provides cash settled long-term incentive plans for executive management and key employees of its three operating segments which were put into place in the fourth quarter of 2015. For the three months ended March 31, 2016, approximately \$1,548 of expense is included as "Service expense" in the condensed consolidated statements of income related to these plans.

11. Earnings Per Share

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

	Three months ended March 31,	
	2016	2015
Numerator:		
Net income attributable to Providence	\$ 2,235	\$ 6,237
Less dividends on convertible preferred stock	(1,099)	(594)
Less accretion of convertible preferred stock discount	-	(246)
Less income allocated to participating securities	(134)	(305)
Net income available to common stockholders	<u>\$ 1,002</u>	<u>\$ 5,092</u>
Continuing operations	\$ 1,002	\$ 4,720
Discontinued operations	-	372
	<u>\$ 1,002</u>	<u>\$ 5,092</u>
Denominator:		
Denominator for basic earnings per share -- weighted-average shares	15,057,598	15,976,050
Effect of dilutive securities:		
Common stock options	121,009	169,126
Performance-based restricted stock units	6,941	-
Denominator for diluted earnings per share -- adjusted weighted-average shares assumed conversion	<u>15,185,548</u>	<u>16,145,176</u>
Basic earnings per share:		
Continuing operations	\$ 0.07	\$ 0.30
Discontinued operations	-	0.02
	<u>\$ 0.07</u>	<u>\$ 0.32</u>
Diluted earnings per share:		
Continuing operations	\$ 0.07	\$ 0.30
Discontinued operations	-	0.02
	<u>\$ 0.07</u>	<u>\$ 0.32</u>

The accretion of convertible preferred stock discount in the table above is related to a beneficial conversion feature of the Company's convertible preferred stock that was fully amortized as of June 30, 2015. Income allocated to participating securities is calculated by allocating a portion of net income attributable to Providence less dividends on convertible stock and accretion of convertible preferred stock discount to the convertible preferred stock holders on a pro-rata as converted basis; however, the convertible preferred stockholders are not required to absorb losses.

For the three months ended March 31, 2016 and 2015, employee stock options to purchase 33,957 and 463,000 shares of common stock, respectively, were not included in the computation of diluted earnings per share as the effect of these options would have been antidilutive. For the three months ended March 31, 2016 and 2015, 803,518 and 381,000 shares of convertible preferred stock, respectively, were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

12. Income Taxes

The Company's effective tax rate from continuing operations for the three months ended March 31, 2016 and 2015 was 66.6% and 54.2%, respectively. The effective tax rates for these periods exceeded the United States (the "US") federal statutory rate of 35% primarily due to foreign net operating losses (including equity investment losses) for which the future income tax benefit currently cannot be recognized, significant losses in foreign jurisdictions with tax rates lower than the US rate of 35%, state income taxes and certain non-deductible expenses such as amortization of deferred consideration related to acquisitions.

13. Commitments and Contingencies

Legal proceedings

On June 15, 2015, a putative stockholder class action derivative complaint was filed in the Court of Chancery of the State of Delaware (the "Court"), captioned Haverhill Retirement System v. Kerley et al., C.A. No. 11149-VCL. The complaint names Richard A. Kerley, Kristi L. Meints, Warren S. Rustand, Christopher Shackelton (the "Individual Defendants") and Coliseum Capital Management, LLC ("Coliseum Capital Management") as defendants, and the Company as a nominal defendant. The complaint purported to allege that the dividend rate increase term originally in the Company's outstanding convertible preferred stock was an impermissibly coercive measure that impaired the voting rights of the Company's stockholders in connection with the vote on the removal of certain voting and conversion caps previously applicable to the preferred stock (the "Caps"), that the Individual Defendants breached their fiduciary duties by approving the dividend rate increase term and attempting to coerce the stockholder vote relating to the Company's preferred stock, and that the Company failed to disclose all material information necessary to allow the Company's stockholders to cast an informed vote on the Caps. The complaint also purported to assert derivative claims alleging that the Individual Defendants breached their fiduciary duties to the Company by entering into the subordinated note and Standby Purchase Agreement with Coliseum Capital Management, and granting Coliseum Capital Management certain stock options. The complaint further alleged that Coliseum Capital Management aided and abetted the Individual Defendants in breaching their fiduciary duties. The complaint sought, among other things, an injunction prohibiting the stockholder vote relating to the dividend rate increase, corporate governance reforms, unspecified damages and other relief.

On August 31, 2015, after arm's length negotiations, the parties reached an agreement in principle and executed a memorandum of understanding ("MOU") providing for the settlement of claims concerning the dividend rate increase term and stockholder vote and related disclosure. The MOU stated that the defendants had entered into the partial settlement of the litigation solely to eliminate the distraction, burden, expense, and potential delay of further litigation involving claims that have been settled. Pursuant to the partial settlement, the Company agreed to supplement the disclosures in its definitive proxy statement on Schedule 14A ("Definitive Proxy Statement"), Coliseum Capital Management and certain of its affiliates and the Company entered into an amendment to that certain Series A Preferred Stock Exchange Agreement, by and among Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Coliseum Capital Co-Invest, L.P., Blackwell Partners, LLC, and The Providence Service Corporation dated as of February 11, 2015 described in the Definitive Proxy Statement, and the Board of Directors of the Company agreed to adopt a policy related to the Board's determination each quarter as to whether the Company should pay cash dividends or allow dividends to be paid in the form of PIK dividends on the preferred stock, as further described in the supplemental proxy disclosures. On September 2, 2015, Providence issued supplemental disclosures through a supplement to the proxy statement on Schedule 14A. On September 16, 2015, Providence stockholders approved the removal of the Caps. At a hearing on February 9, 2016, the Court denied approval of the settlement.

On January 12, 2016, the plaintiff filed a verified amended class action and derivative complaint. In addition to the defendants named in the earlier complaint, the amended complaint names David Shackelton, Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Blackwell Partners, LLC, Coliseum Capital Co-Invest, L.P. (collectively, and together with Coliseum Capital Management, LLC, "Coliseum") and RBC Capital Markets, LLC, ("RBC Capital Markets") as additional defendants. The amended complaint purports to assert direct and derivative claims for breach of fiduciary duty against some or all of the Individual Defendants and David Shackelton (collectively, the "Amended Individual Defendants") regarding the approval of the subordinated note, the rights offering, the Standby Purchase Agreement with Coliseum Capital Management, and grant to Coliseum Capital Management of certain stock options. The amended complaint also purports to assert a derivative claim for unjust enrichment against Coliseum and further alleges that Coliseum and RBC Capital Markets aided and abetted the Amended Individual Defendants in breaching their fiduciary duties. The amended complaint seeks, among other things, revision or rescission of the terms of the subordinated note and preferred stock, corporate governance reforms, unspecified damages and other relief.

By stipulated orders dated March 24, 2016, the Court allowed the plaintiff to file a second amended complaint on or before May 7, 2016 and provided that the defendants need not respond to the amended complaint.

For further information regarding this legal proceeding, please see Note 19, *Commitments and Contingencies*, in the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The Company has indemnified the Standby Purchasers from and against any and all losses, claims, damages, expenses and liabilities relating to or arising out of (i) any breach of any representation, warranty, covenant or undertaking made by or on behalf of the Company in the Standby Purchase Agreement and (ii) the transactions contemplated by the Standby Purchase Agreement and the 14.0% Unsecured Subordinated Note in aggregate principal amount of \$65,500, except to the extent that any such losses, claims, damages, expenses and liabilities are attributable to the gross negligence, willful misconduct or fraud of such Standby Purchaser. The Company recorded approximately \$106 of indemnified legal expenses of the Standby Purchasers as required by the Standby Purchase Agreement related to this case during the three months ended March 31, 2016, which is included in "General and administrative expenses" in the condensed consolidated statement of income.

The Company recorded approximately \$557 in fully insured legal expenses related to this case during the three months ended March 31, 2016, which is included in "General and administrative expenses" in the condensed consolidated statement of income and has been fully reduced by an insurance receivable. The Company has recognized an insurance receivable of approximately \$1,819 and \$2,210 in "Other receivables" in the condensed consolidated balance sheets at March 31, 2016 and December 31, 2015, respectively, which is related to reimbursement of legal costs through insurance proceeds related to this legal proceeding.

In addition to the matter described above, in the ordinary course of business, we are a party to various lawsuits. Management does not expect these lawsuits to have a material impact on the liquidity, results of operations, or financial condition of Providence. We also evaluate other potential contingent matters, including ongoing matters of our acquired companies that arose prior to our date of purchase. Our indemnification agreements or other agreements may not protect us from liability, even where the relevant matter existed prior to our ownership of the acquired companies. As of March 31, 2016, HA Services has certain malpractice claims that arose prior to our date of purchase. We believe it is reasonably possible that a loss has occurred; however, we are not able to reliably estimate the amount of such loss. Although, we do not believe that the aggregate amount of liability reasonably possible with respect to these matters would have a material adverse effect on our financial results, litigation is inherently uncertain and the actual losses incurred in the event that our legal proceedings were to result in unfavorable outcomes could have a material adverse effect on our business and financial performance.

Other Indemnifications

The Company has provided certain standard indemnifications in connection with the sale of the Human Services segment. All representation and warranties made by the Company in the Membership Interest Purchase Agreement (the "Purchase Agreement") to sell the Human Services segment survive through the 15th month following the closing date. However, certain representations, including tax representations, survive until the expiration of applicable statutes of limitation, and healthcare representations survive until the third anniversary of the closing date. As of March 31, 2016, no claims have been filed against the representations and warranties contained in the Purchase Agreement.

Deferred Compensation Plan

The Company has one deferred compensation plan for management and highly compensated employees of NET Services as of March 31, 2016. The deferred compensation plan is unfunded, and 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 consolidated condensed balance sheets, was approximately \$1,341 and \$1,600 at March 31, 2016 and December 31, 2015, respectively.

14. Transactions with Related Parties

The Company incurred legal expenses under an indemnification agreement with the Standby Purchasers as further discussed in Note 13, *Commitments and Contingencies*. Convertible preferred stock dividends earned by the Standby Purchasers during the three months ended March 31, 2016 and 2015 totaled \$1,047 and \$566, respectively.

15. Discontinued Operations

On November 1, 2015, the Company completed the sale of the Human Services segment. The operating results of this segment are reported as discontinued operations, net of tax, in the condensed consolidated statements of income for the three months ended March 31, 2015.

Results of Operations

The following table summarizes the results of operations classified as discontinued operations, net of tax, for the three months ended March 31, 2015:

	Three months ended March 31, 2015
Service revenue, net	\$ 85,966
Operating expenses:	
Service expense	77,319
General and administrative expense	5,218
Depreciation and amortization	1,847
Total operating expenses	<u>84,384</u>
Operating income	1,582
Other expenses:	
Interest expense, net	<u>812</u>
Income from discontinued operations	770
Provision for income taxes	<u>376</u>
Discontinued operations, net of tax	<u>\$ 394</u>

Interest expense, net

The Company allocated interest expense to discontinued operations based on the portion of the revolving line of credit that was required to be paid with the proceeds from the sale of the Human Services segment. The total allocated interest expense was \$839 for the three months ended March 31, 2015 and is included in "Interest expense, net" in the table above.

Cash Flow Information

The following table presents depreciation, amortization and capital expenditures of the discontinued operations for the three months ended March 31, 2015:

	Three months ended March 31, 2015
Cash flows from discontinued operating activities:	
Depreciation	\$ 879
Amortization	968
Cash flows from discontinued investing activities:	
Purchase of property and equipment	\$ 86

16. Segments

The Company has three reportable and operating segments: NET Services, WD Services and HA Services. Segment results are based on how our chief operating decision maker manages our business, makes operating decisions and evaluates operating performance. The operating results of the segments include revenue and expenses incurred by the segment, as well as an allocation of direct expenses incurred by Corporate on behalf of the segment. Indirect expenses, including unallocated corporate functions and expenses, such as executive, finance, human resources, information technology and legal, as well as the results of our captive insurance company (the "Captive") and elimination entries recorded in consolidation are reflected in Corporate and Other.

The following table sets forth certain financial information from continuing operations attributable to the Company's business segments for the three months ended March 31, 2016 and 2015.

	Three months ended March 31, 2016				
	NET Services	WD Services	HA Services	Corporate and Other	Total
Service revenue, net	\$ 290,984	\$ 91,043	\$ 50,592	\$ 31	\$ 432,650
Service expense	266,969	81,672	37,790	57	386,488
General and administrative expense	2,837	7,871	656	7,808	19,172
Depreciation and amortization	2,877	3,579	7,796	84	14,336
Operating income (loss)	<u>\$ 18,301</u>	<u>\$ (2,079)</u>	<u>\$ 4,350</u>	<u>\$ (7,918)</u>	<u>\$ 12,654</u>
Equity in net loss of investee	\$ -	\$ 2,717	\$ -	\$ -	\$ 2,717

	Three months ended March 31, 2015				
	NET Services	WD Services	HA Services	Corporate and Other	Total
Service revenue, net	\$ 254,760	\$ 107,618	\$ 57,432	\$ 19	\$ 419,829
Service expense	229,247	94,232	43,213	(155)	366,537
General and administrative expense	2,497	7,225	523	9,221	19,466
Depreciation and amortization	2,277	3,316	7,182	278	13,053
Operating income (loss)	<u>\$ 20,739</u>	<u>\$ 2,845</u>	<u>\$ 6,514</u>	<u>\$ (9,325)</u>	<u>\$ 20,773</u>
Equity in net loss of investee	\$ -	\$ 2,483	\$ -	\$ -	\$ 2,483

Geographic Information

Domestic service revenue, net, totaled 79.9% and 75.3% of service revenue, net for the three months ended March 31, 2016 and 2015, respectively. Foreign service revenue, net, totaled 20.1% and 24.7% of service revenue, net for the three months ended March 31, 2016 and 2015, respectively.

At March 31, 2016, approximately \$118,042, or 33.9%, of the Company's net assets were located in countries outside of the US. At December 31, 2015, approximately \$108,587, or 29.5%, of the Company's net assets were located in countries outside of the US.

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, 2016 and 2015, 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, 2015. For purposes of "Management's Discussion and Analysis of Financial Condition and Results of Operations," references to Q1 2016 and Q1 2015 mean the three months ended March 31, 2016 and the three months ended March 31, 2015, respectively.

Overview of our business

The Providence Service Corporation is a holding company that owns and manages diverse operating subsidiaries, comprised of providers of healthcare and workforce development services to a variety of end markets. Our operations currently are organized into three principal business segments: NET Services, WD Services, and HA Services.

Critical accounting estimates and policies

As of March 31, 2016, there has been no change in our critical accounting policies. 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, 2015.

Results of operations

Segment reporting. Our operations are organized and reviewed by management along our segment lines, which are: NET Services, WD Services, and HA Services. Effective November 1, 2015, we completed the sale of our Human Services segment. The Human Services segment results of operations are separately discussed in the "Discontinued operations, net of tax", section set forth below.

Segment results are based on how our chief operating decision maker manages our business, makes operating decisions and evaluates operating performance. The operating results of the segments include revenue and expenses incurred by the segment, as well as an allocation of direct expenses incurred by our corporate division on behalf of the segment. Indirect expenses, including unallocated corporate functions and expenses, such as executive, finance, human resources, information technology and legal, as well as the results of our captive insurance company (the "Captive") and elimination entries recorded in consolidation are reflected in Corporate and Other.

Consolidated Results. The following table sets forth results of operations and the percentage of consolidated total revenues represented by items in our unaudited condensed consolidated statements of income for Q1 2016 and Q1 2015 (in thousands):

	Three months ended March 31,			
	2016		2015	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue, net	432,650	100.0%	419,829	100.0%
Operating expenses:				
Service expense	386,488	89.3%	366,537	87.3%
General and administrative expense	19,172	4.4%	19,466	4.6%
Depreciation and amortization	14,336	3.3%	13,053	3.1%
Total operating expenses	<u>419,996</u>	<u>97.1%</u>	<u>399,056</u>	<u>95.1%</u>
Operating income	12,654	2.9%	20,773	4.9%
Non-operating expense:				
Interest expense, net	3,635	0.8%	5,195	1.2%
Equity in net loss of investee	2,717	0.6%	2,483	0.6%
Loss (gain) on foreign currency transactions	(75)	0.0%	319	0.1%
Income from continuing operations before income taxes	6,377	1.5%	12,776	3.0%
Provision for income taxes	4,248	1.0%	6,921	1.6%
Income from continuing operations, net of tax	2,129	0.5%	5,855	1.4%
Discontinued operations, net of tax	-	0.0%	394	0.1%
Net income	2,129	0.5%	6,249	1.5%
Net loss (income) attributable to noncontrolling interest	106	0.0%	(12)	0.0%
Net income attributable to Providence	<u>2,235</u>	<u>0.5%</u>	<u>6,237</u>	<u>1.5%</u>

Service revenue, net. Consolidated service revenue, net for Q1 2016 increased \$12.8 million, or 3.1%, compared to Q1 2015. Revenue for Q1 2016 compared to Q1 2015 includes an increase in revenue attributable to NET Services of approximately \$36.2 million. This increase in revenue was partially offset by a decrease in revenue attributable to WD Services of approximately \$16.6 million and a decrease in revenue of HA Services of approximately \$6.8 million.

Total operating expenses. Consolidated operating expenses for Q1 2016 increased \$20.9 million, or 5.2%, compared to Q1 2015. Operating expenses for Q1 2016 compared to Q1 2015 included an increase in expenses attributable to NET Services of approximately \$38.7 million. This increase in operating expenses was partially offset by a decrease in operating expenses of WD Services of approximately \$11.7 million, a decrease in operating expenses of HA Services of approximately \$4.7 million and a decrease in operating expenses of Corporate and Other of approximately \$1.4 million.

Operating income. Consolidated operating income for Q1 2016 decreased approximately \$8.1 million, or 39.1%, compared to Q1 2015. The decrease was primarily attributable to decreases in operating income in Q1 2016 as compared to Q1 2015 of WD Services of approximately \$4.9 million, NET Services of \$2.4 million and HA Services of \$2.2 million. These decreases were partially offset by a decrease in Corporate and Other operating loss of approximately \$1.4 million.

Interest expense, net. Consolidated interest expense, net for Q1 2016 decreased approximately \$1.6 million, or 30.0%, compared to Q1 2015. The decrease was primarily related to a decrease in long-term obligations from \$505.4 million at March 31, 2015 to \$312.2 million at March 31, 2016, due to the repayment of debt in conjunction with the sale of the Human Services segment in November 2015.

Equity in net loss of investee. Equity in net loss of investee relates to our investment in Mission Providence. Mission Providence began providing services in July 2015. We record 75% of Mission Providence's profit or loss.

Loss (gain) on foreign currency transactions. The foreign currency gain of \$0.1 million and loss of \$0.3 million for Q1 2016 and Q1 2015, respectively, were primarily due to translation adjustments of our foreign subsidiaries.

Provision for income taxes. Our effective tax rate from continuing operations for Q1 2016 and Q1 2015 was 66.6% and 54.2%, respectively. The effective tax rate exceeded the United States federal statutory rate of 35% for these periods primarily due to foreign net operating losses (including equity investment losses) for which the future income tax benefit currently cannot be recognized, significant losses in foreign jurisdictions with tax rates lower than the US rate of 35%, state income taxes, and certain non-deductible expenses such as amortization of deferred consideration related to acquisitions.

Discontinued operations, net of tax. The following table summarizes the major classes of line items included in income from discontinued operations, net of tax, and the percentage of service revenue from discontinued operations, for Q1 2015 (in thousands):

	Three months ended March 31, 2015	
	\$	Percentage of Revenue
Service revenue, net	85,966	100.0%
Service expense	77,319	89.9%
General and administrative expense	5,218	6.1%
Depreciation and amortization	1,847	2.1%
Interest expense, net	812	0.9%
Income from discontinued operations before provision for income taxes	770	0.9%
Provision for income taxes	376	0.4%
Discontinued operations, net of tax	<u>394</u>	<u>0.5%</u>

The results above include an allocation of interest expense related to 50% of the net proceeds from the sale of the Human Services segment, which was required to be repaid by the lenders under the terms of the Company's credit facility.

Net loss (income) attributable to noncontrolling interests. We have minority interests, some of which are in companies that are currently experiencing losses due to start-up costs. As such we have a net loss attributable to noncontrolling interests.

Segment Results. The following analysis includes discussion of each of our segments.

NET Services

NET Services segment financial results are as follows for Q1 2016 and Q1 2015 (in thousands):

	Three Months Ended March 31,			
	2016		2015	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue, net	290,984	100.0%	254,760	100.0%
Service expense	266,969	91.7%	229,247	90.0%
General and administrative expense	2,837	1.0%	2,497	1.0%
Depreciation and amortization	2,877	1.0%	2,277	0.9%
Operating income	<u>18,301</u>	6.3%	<u>20,739</u>	8.1%

Service revenue, net. Services revenue, net for Q1 2016 increased \$36.2 million, or 14.2%, compared to Q1 2015. The increase was primarily related to the full quarter impact of new contracts that commenced in 2015 in Florida, California, and Texas; increased membership under existing contracts in Florida, California, Michigan and Pennsylvania; and higher rates in certain existing markets.

Service expense, net. Service expense for our NET Services segment included the following for Q1 2016 and Q1 2015 (in thousands):

	Three Months Ended March 31,			
	2016		2015	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Purchased services	217,329	74.7%	186,650	73.3%
Payroll and related costs	40,582	13.9%	33,713	13.2%
Other operating expenses	8,976	3.1%	8,554	3.4%
Stock-based compensation	82	0.0%	330	0.1%
Total service expense	<u>266,969</u>	91.7%	<u>229,247</u>	90.0%

Service expense for Q1 2016 increased \$37.7 million, or 16.5%, compared to Q1 2015. The increase in service expense was primarily attributable to an increase in purchased transportation services due primarily to higher volume. Purchased transportation services as a percentage of revenue increased slightly, primarily as a result of an increase in utilization amongst Medicaid expansion and other members. Additionally, our payroll and related costs increased for Q1 2016 as compared to Q1 2015 primarily due to the hiring of additional executive management members to support growth and operational initiatives and the hiring of other employees to support new contracts and increased call volume associated with increased utilization, and a long-term incentive plan for management put into place in the fourth quarter of 2015. Our other operating expenses also increased in Q1 2016 as compared to Q1 2015 due to volume, although they decreased slightly as a percentage of revenue.

General and administrative expense. General and administrative expenses in Q1 2016 increased \$0.3 million, or 13.6%, as compared to Q1 2015, due to increased facility costs resulting from the overall growth of our operations. As a percentage of revenue, general and administrative expense remained constant at approximately 1.0%.

Depreciation and amortization expense. Depreciation and amortization expenses increased approximately \$0.6 million primarily due to the addition of long-lived assets in our expanded call centers. As a percentage of revenue, depreciation and amortization increased slightly from 0.9% for Q1 2015 to 1.0% for Q1 2016.

WD Services

WD Services segment financial results are as follows for Q1 2016 and Q1 2015 (in thousands):

	Three Months Ended March 31,			
	2016		2015	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue, net	91,043	100.0%	107,618	100.0%
Service expense	81,672	89.7%	94,232	87.6%
General and administrative expense	7,871	8.6%	7,225	6.7%
Depreciation and amortization	3,579	3.9%	3,316	3.1%
Operating income (loss)	(2,079)	-2.3%	2,845	2.6%

Service revenue, net. Service revenue, net in Q1 2016 decreased \$16.6 million, or 15.4%, compared to Q1 2015. The decrease in Q1 2016 compared to Q1 2015 was primarily related to revenue declines associated with declining referrals and an altered pricing structure under the segment's primary employability program in the United Kingdom.

Service expense. Service expense for our WD Services segment included the following for Q1 2016 and Q1 2015 (in thousands):

	Three Months Ended March 31,			
	2016		2015	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Payroll and related costs	56,879	62.5%	66,562	61.9%
Purchased services	14,494	15.9%	16,194	15.0%
Other operating expenses	10,267	11.3%	9,904	9.2%
Stock-based compensation	32	0.0%	1,572	1.5%
Total service expense	81,672	89.7%	94,232	87.6%

Service expense in Q1 2016 decreased \$12.6 million, or 13.3%, compared to Q1 2015. Payroll and related costs decreased primarily as a result of decreased headcount associated with declining referrals under WD Services' primary employability program. Partially offsetting these decreases was increased payroll and related costs associated with a significant new offender rehabilitation program that began in 2015 and approximately \$1.2 million in termination benefits primarily related to two redundancy plans designed to better align headcount with service delivery volumes and new information technology systems. Stock-based compensation decreased approximately \$1.5 million in Q1 2016 as compared to Q1 2015 due to the settlement of outstanding awards in the fourth quarter of 2015 in relation to the separation of two executives.

General and administrative expense. General and administrative expense in Q1 2016 increased \$0.6 million compared to Q1 2015 due to facility costs related to the growth associated with our new programs.

Depreciation and amortization expense. Depreciation and amortization expense for Q1 2016 increased approximately \$0.3 million compared to Q1 2015.

HA Services

HA Services segment financial results are as follows for Q1 2016 and Q1 2015 (in thousands):

	Three Months Ended March 31,			
	2016		2015	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue, net	50,592	100.0%	57,432	100.0%
Service expense	37,790	74.7%	43,213	75.2%
General and administrative expense	656	1.3%	523	0.9%
Depreciation and amortization	7,796	15.4%	7,182	12.5%
Operating income	<u>4,350</u>	8.6%	<u>6,514</u>	11.3%

Service revenue, net. HA Services revenue in Q1 2016 decreased \$6.8 million, or 11.9%, as compared to Q1 2015. The decrease was primarily attributable to decreased volume specifically related to one large customer that reduced their volume commitment for 2016 versus 2015, as well as a slight decline in pricing. Partially offsetting this decrease was an increase in volume by other customers.

Service expense. Service expense for our HA Services segment included the following for Q1 2016 and Q1 2015 (in thousands):

	Three Months Ended March 31,			
	2016		2015	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Payroll and related costs	31,903	63.1%	35,112	61.1%
Purchased services	308	0.6%	227	0.4%
Other operating expenses	5,557	11.0%	7,864	13.7%
Stock-based compensation	22	0.0%	10	0.0%
Total service expense	<u>37,790</u>	74.7%	<u>43,213</u>	75.2%

Service expense in Q1 2016 decreased \$5.4 million, or 12.5%, compared to Q1 2015 due primarily to decreased headcount and other costs directly associated with comprehensive health assessment (“CHA”) volume, partially offset by increased expense related to a long-term incentive plan for management put into place in the fourth quarter of 2015.

General and administrative expense. General and administrative expense in Q1 2016 increased \$0.1 million, compared to Q1 2015 due to increased facility costs.

Depreciation and amortization expense. Depreciation and amortization expense in Q1 2016 increased \$0.6 million, or 8.5%, compared to Q1 2015. Depreciation and amortization includes approximately \$6.5 million of amortization of intangible assets for Q1 2016 and Q1 2015.

Corporate and Other

Corporate and Other includes the headcount and professional service costs incurred at the holding company level, at the Captive, and elimination entries to account for inter-segment transactions. Corporate and Other financial results are as follows for Q1 2016 and Q1 2015 (in thousands):

	Three Months Ended March 31,	
	2016	2015
	\$	\$
Service revenue, net	31	19
Service expense (a)	57	(155)
General and administrative expense	7,808	9,221
Depreciation and amortization	84	278
Operating loss	(7,918)	(9,325)

(a) Negative amounts are present for this line item due to elimination entries that are included in Corporate and Other. Offsetting amounts are reflected in the financial results of our operating segments.

Operating loss. Corporate and Other operating loss in Q1 2016 decreased by approximately \$1.4 million, or 15.1%, as compared to Q1 2015, primarily due to decreases in cash settled stock-based compensation expense of approximately \$1.3 million. Additional decreases in general and administrative expenses related to various items, including insurance costs and share settled stock-based compensation expense. Partially offsetting these decreases were costs resulting from the sale of our Human Services segment, including bonuses approved in 2016 of approximately \$1.0 million and contract termination fees of \$0.2 million, as well as increased legal fees.

Seasonality

Our quarterly operating results and operating cash flows normally fluctuate due in part to seasonal factors and uneven demand for services and the timing of new contracts, which impact the amount of revenues earned and expenses incurred. NET Services experiences fluctuations in demand during the summer, winter and holiday seasons. Due to higher demand in the summer months, lower demand during the winter and holiday seasons, and a primarily fixed revenue stream based on a per member, per month payment structure, NET Services normally experiences lower operating margins during the summer season and higher operating margins during the winter and holiday seasons. HA Services has historically, with the exception of the year ended December 31, 2015, experienced higher volumes in the second half of the calendar year. WD Services is impacted by both the timing of commencement and expiration of major contracts. Under many of WD Services' contracts in new service lines, we invest significant sums of money in personnel, leased office space, purchased or developed technology, and other costs, and generally incur these costs prior to commencing services and receiving payments. This results in significant variability in financial performance and cash flows between quarters and for comparative periods. It is expected that future contracts will be structured in a similar fashion.

Liquidity and capital resources

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

Cash flow from operating activities was our primary source of cash in Q1 2016. Our balance of cash and cash equivalents was \$95.2 million and \$84.8 million at March 31, 2016 and December 31, 2015, respectively, including \$38.1 million and \$37.5 million held in foreign countries, respectively. Such cash held in foreign countries is generally used to fund foreign operations, although it may be used also to repay intercompany indebtedness existing between Providence and its foreign subsidiaries. In addition, we had restricted cash of \$17.5 million and \$20.1 million at March 31, 2016 and December 31, 2015, respectively, primarily related to contractual obligations and activities of our captive insurance subsidiary. At March 31, 2016 and December 31, 2015, our total debt was \$312.2 million and \$305.0 million, respectively.

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

Cash flows

Operating activities. We generated net cash flows from operating activities of \$34.6 million for Q1 2016. These cash flows included net income of \$2.1 million. Non-cash items included \$8.8 million of amortization expense, \$5.5 million of depreciation expense, \$0.6 million in stock-based compensation expense, and \$2.7 million in equity in net loss of investee. In addition, we made income tax payments of approximately \$28.3 million in relation to the sale of our Human Services segment. Changes in working capital items include the following significant items:

- \$19.9 million source of cash due to the increase in accrued transportation costs of NET Services. This increase was primarily related to increased volume and unit costs of transportation services.
- \$22.5 million source of cash due to the decrease in accounts receivable, the majority of which is due to a decrease in NET Services' accounts receivable of \$21.8 million due primarily to timing of collections for two significant customer balances.

Investing activities. Net cash used in investing activities totaled \$10.5 million for Q1 2016. During the quarter, \$9.8 million of cash was used to purchase property and equipment primarily related to information technology purchases to support the growth of our operating segments, and \$3.2 million was used to fund our equity investment in Mission Providence. These cash outflows were partially offset by a decrease in the restricted cash of the Captive of approximately \$2.5 million.

Financing activities. Net cash used in financing activities totaled \$13.2 million for Q1 2016. During the quarter, we borrowed \$15.0 million under our revolving credit facility during Q1 2016 and paid scheduled term loan payments of \$7.8 million. During the quarter, cash paid for common stock repurchases pursuant to our \$70.0 million stock repurchase program totaled \$19.5 million and we paid convertible preferred stock dividends of \$1.1 million.

Obligations and commitments

Credit facility. We are party to a credit agreement with Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, and the other lenders party thereto. The credit agreement provides us with senior secured credit facilities, which consisted of the following at March 31, 2016:

- \$60.0 million term loan subject to quarterly amortization payments, which commenced on December 31, 2014, so that the following percentages of the term loan outstanding on the closing date are repaid as follows: 7.5% between December 31, 2014 and September 30, 2015, 10.0% between December 31, 2015 and September 30, 2016, 12.5% between December 31, 2016 and September 30, 2017, 15.0% between December 31, 2017 and June 30, 2018 and the remaining balance on August 2, 2018. At March 31, 2016, \$52.5 million was outstanding.
- \$250.0 million term loan subject to quarterly amortization payments, which commenced on March 31, 2015, so that the following percentages of the term loan outstanding on the closing date are repaid as follows: 7.5% between March 31, 2015 and December 31, 2015, 10.0% between March 31, 2016 and December 31, 2016, 12.5% between March 31, 2017 and December 31, 2017, 15.0% between March 31, 2018 and June 30, 2018 and the remaining balance on August 2, 2018. At March 31, 2016, \$225.0 million was outstanding.
- \$240.0 million revolving credit facility, including a subfacility of \$25 million for letters of credit. As of March 31, 2016, we had \$34.7 million of borrowings and eight letters of credit in the amount of approximately \$7.3 million outstanding under the revolving credit facility. At March 31, 2016, our available credit under the revolving credit facility was \$198.0 million.

The credit facility matures on August 2, 2018.

Interest on the outstanding principal amount of the loans accrues, at our election, at a per annum rate equal to LIBOR, plus an applicable margin or the base rate plus an applicable margin. The applicable margin ranges from 2.25% to 3.25% in the case of LIBOR loans and 1.25% to 2.25% in the case of the base rate loans, in each case, based on our consolidated leverage ratio as defined in the credit agreement. The interest rate applied to our term loan at March 31, 2016 was 3.36%. 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 range from 0.25% to 0.50% and 2.25% to 3.25%, respectively, in each case, based on our consolidated leverage ratio.

Our obligations under the credit facilities are guaranteed by substantially all of our present and future wholly owned domestic subsidiaries, excluding certain domestic subsidiaries, which includes our insurance captives. Our obligations under, and each guarantor's obligations under its guaranty of, the credit facilities are secured by a first priority lien on substantially all of our respective assets, including a pledge of 100% of the issued and outstanding stock of our domestic subsidiaries, excluding our insurance captives, and 65% of the issued and outstanding stock of our first tier foreign subsidiaries.

The credit agreement contains customary affirmative and negative covenants and events of default. The negative covenants include restrictions on our ability to, among other things, incur additional indebtedness, create liens, make investments, give guarantees, pay dividends, sell assets, and merge and consolidate. We are subject to financial covenants, including consolidated net leverage and consolidated fixed charge covenants. We were in compliance with all covenants as of March 31, 2016.

Rights offering. We completed a Rights Offering, on February 5, 2015 (the "Rights Offering") allowing all of the Company's existing common stock holders the non-transferrable right to purchase their pro rata share of \$65.5 million of convertible preferred stock at a price equal to \$100.00 per share. The convertible preferred stock is convertible into shares of our common stock at a conversion price equal to \$39.88, which was the closing price of our common stock on the NASDAQ Global Select Market on October 22, 2014.

Stockholders exercised subscription rights to purchase 130,884 shares of the Company's convertible preferred stock. Pursuant to the terms and conditions of the Standby Purchase Agreement between Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Coliseum Capital Co-Invest, L.P. and Blackwell Partners, LLC (collectively, the "Standby Purchasers") and the Company, the remaining 524,116 shares of the Company's preferred stock was purchased by Standby Purchasers at the \$100.00 per share subscription price. The Standby Purchasers beneficially owned approximately 94% of our outstanding convertible preferred stock after giving effect to the Rights Offering and the Standby Purchase Agreement. The Company received \$65.5 million in aggregate gross proceeds from the consummation of the Rights Offering and Standby Purchase Agreement, which it used to repay the related party unsecured subordinated bridge note that was outstanding as of December 31, 2014.

Additionally, on March 12, 2015, the Standby Purchasers exercised their right to purchase an additional 150,000 shares of the Company's convertible preferred stock at a \$105.00 per share subscription price.

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

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

Cash dividends are payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year and commenced on the first calendar day of the first January, April, July or October following the date of original issuance of the convertible preferred stock, and, if declared, will begin to accrue on the first day of the applicable dividend period. Paid in kind ("PIK") dividends, if applicable, will accrue and be cumulative on the same schedule as set forth above for cash dividends and will also be compounded at the applicable annual rate on each applicable subsequent dividend date. PIK dividends are paid upon the occurrence of a liquidation event, conversion or redemption in accordance with the terms of the convertible preferred stock. Cash dividends were declared for the quarter ended March 31, 2016 and totaled approximately \$1.1 million.

Contingent obligations. We maintain a 409(A) Deferred Compensation Rabbi Trust Plan for highly compensated employees of our NET Services operating segment. Benefits are paid from our general assets under this plan.

Reinsurance and Self-Funded Insurance Programs

Reinsurance

We reinsure a substantial portion of our automobile, general and professional liability and workers' compensation costs under reinsurance programs through our wholly-owned captive insurance subsidiary, Social Services Providers Captive Insurance Company, or SPCIC. At March 31, 2016, the cumulative reserve for expected losses since inception of these automobile, general and professional liability and workers' compensation costs reinsurance programs was approximately \$1.5 million, \$2.6 million and \$9.0 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, 2016 was approximately \$7.2 million. Further, SPCIC had restricted cash of approximately \$16.8 million and \$19.5 million at March 31, 2016 and December 31, 2015, respectively, which was restricted to secure the reinsured claims losses of SPCIC under the automobile, general and professional liability and workers' compensation reinsurance programs.

Health Insurance

We offer our NET Services', HA Services', certain WD Services' and corporate 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 \$2.4 million as of March 31, 2016 and December 31, 2015, respectively, was recorded in "Reinsurance liability and related reserve" in our condensed consolidated balance sheets.

Off-Balance Sheet Arrangements

There have been no material changes to the Off-Balance Sheet Arrangements discussion previously disclosed in our audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Forward-Looking Statements

Certain statements contained in this quarterly report on Form 10-Q, such as any statements about our confidence, strategies or 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, as amended and section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are based on our current expectations, assumptions, estimates and projections about our business and our industry. You can identify forward-looking statements by the use of words such as "may," "should," "will," "could," "estimates," "predicts," "potential," "continue," "anticipates," "believes," "plans," "expects," "future," and "intends" and similar expressions which are intended to identify forward-looking statements.

The forward-looking statements contained herein are not guarantees of our future performance and are subject to a number of known and unknown risks, uncertainties and other factors disclosed in our annual report on Form 10-K for the year ended December 31, 2015. 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, except as otherwise required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign currency risk

As of March 31, 2016, we conducted business in 11 countries outside the US. As a result, our cash flows and earnings are subject to fluctuations due to changes in foreign currency exchange rates. During Q1 2016, we used 11 functional currencies and generated approximately \$87.0 million of our net operating revenues from operations outside the US. As we expand further into international markets, we expect this risk to increase.

A 10% adverse change in the foreign currency exchange rate from Great British Pounds to US Dollars would have a \$6.4 million negative impact on consolidated revenue and a negligible impact on net income. A 10% adverse change in other foreign currency exchange rates would not have a significant impact on the Company.

We do not currently hedge against the possible impact of currency fluctuations. However, we assess the significance of foreign currency risk on a periodic basis and may implement strategies to manage such risk as we deem appropriate.

Interest rate and market risk

As of March 31, 2016, we had borrowings under our term loans of \$277.5 million and borrowings under our revolving line of credit of \$34.7 million. Borrowings under our Credit Agreement accrue interest at LIBOR plus 2.75% per annum as of March 31, 2016. An increase of 1% in the LIBOR rate would cause an increase in interest expense of approximately \$6.7 million over the remaining term of the Credit Agreement, which matures in 2018.

We do not currently hedge against the possible impact of interest rate fluctuations. However, we assess the significance of interest rate and market risk on a periodic basis and may implement strategies to manage such risk as we deem appropriate.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures

The Company maintains systems of disclosure controls and procedures as defined in Rule 13a-15(e) of the Exchange Act, that are designed to ensure that information required to be disclosed under the Exchange Act is processed and reported within the time frames specified in the SEC's rules and forms. Disclosure controls and procedures include, among other things, processes, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Company, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, the Company's principal executive officer and principal financial officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective at a reasonable assurance level.

(b) Changes in internal controls

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(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 1. Legal Proceedings

On June 15, 2015, a putative stockholder class action derivative complaint was filed in the Court of Chancery of the State of Delaware (the “Court”), captioned *Haverhill Retirement System v. Kerley et al.*, C.A. No. 11149-VCL. The complaint names Richard A. Kerley, Kristi L. Meints, Warren S. Rustand, Christopher Shackelton (the “Individual Defendants”) and Coliseum Capital Management, LLC (“Coliseum Capital Management”) as defendants, and the Company as a nominal defendant. The complaint purported to allege that the dividend rate increase term originally in the Company’s outstanding convertible preferred stock was an impermissibly coercive measure that impaired the voting rights of the Company’s stockholders in connection with the vote on the removal of certain voting and conversion caps previously applicable to the preferred stock (the “Caps”), that the Individual Defendants breached their fiduciary duties by approving the dividend rate increase term and attempting to coerce the stockholder vote relating to the Company’s preferred stock, and that the Company failed to disclose all material information necessary to allow the Company’s stockholders to cast an informed vote on the Caps. The complaint also purported to assert derivative claims alleging that the Individual Defendants breached their fiduciary duties to the Company by entering into the subordinated note and Standby Purchase Agreement with Coliseum Capital Management and granting Coliseum Capital Management certain stock options. The complaint further alleged that Coliseum Capital Management aided and abetted the Individual Defendants in breaching their fiduciary duties. The complaint sought, among other things, an injunction prohibiting the stockholder vote relating to the dividend rate increase, corporate governance reforms, unspecified damages and other relief.

On August 31, 2015, after arm’s-length negotiations, the parties reached an agreement in principle and executed a memorandum of understanding (“MOU”) providing for the settlement of claims concerning the dividend rate increase term and stockholder vote and related disclosure. The MOU stated that the defendants had entered into the partial settlement of the litigation solely to eliminate the distraction, burden, expense, and potential delay of further litigation involving claims that have been settled. Pursuant to the partial settlement, the Company agreed to supplement the disclosures in its definitive proxy statement on Schedule 14A (“Definitive Proxy Statement”), Coliseum Capital Management and certain of its affiliates and the Company entered into an amendment to that certain Series A Preferred Stock Exchange Agreement, by and among Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Coliseum Capital Co-Invest, L.P., Blackwell Partners, LLC, and The Providence Service Corporation dated as of February 11, 2015 described in the Definitive Proxy Statement, and the Board of Directors of the Company agreed to adopt a policy related to the Board’s determination each quarter as to whether the Company should pay cash dividends or allow dividends to be paid in the form of PIK dividends on the preferred stock, as further described in the supplemental proxy disclosures. On September 2, 2015, Providence issued supplemental disclosures through a supplement to the proxy statement on Schedule 14A. On September 16, 2015, Providence stockholders approved the removal of the Caps. At a hearing on February 9, 2016, the Court denied approval of the settlement.

On January 12, 2016, the plaintiff filed a verified amended class action and derivative complaint. In addition to the defendants named in the earlier complaint, the amended complaint names David Shackelton, Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Blackwell Partners, LLC, Coliseum Capital Co-Invest, L.P. (collectively, and together with Coliseum Capital Management, “Coliseum”) and RBC Capital Markets, LLC (“RBC Capital Markets”) as additional defendants. The amended complaint purports to assert direct and derivative claims for breach of fiduciary duty against some or all of the Individual Defendants and David Shackelton (collectively, the “Amended Individual Defendants”) regarding the approval of the subordinated note, the rights offering, the Standby Purchase Agreement with Coliseum Capital Management, and grant to Coliseum Capital Management of certain stock options. The amended complaint also purports to assert a derivative claim for unjust enrichment against Coliseum and further alleges that Coliseum and RBC Capital Markets aided and abetted the Amended Individual Defendants in breaching their fiduciary duties. The amended complaint seeks, among other things, revision or rescission of the terms of the subordinated note and preferred stock, corporate governance reforms, unspecified damages and other relief.

By stipulated orders dated March 24, 2016, the Court allowed the plaintiff to file a second amended complaint on or before May 7, 2016 and provided that the defendants need not respond to the amended complaint.

For further information on this legal proceeding, please see Item 3, *Legal Proceedings*, in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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, 2016:

Period	Total Number of Shares of Common Stock Purchased (1)	Average Price Paid per Share	Total Number of Shares of Common Stock Purchased as Part of Publicly Announced Plans or Program	Maximum Dollar Value of Shares of Common Stock that May Yet Be Purchased Under the Plans or Program (2)
Month 1:				
January 1, 2016				
to				
January 31, 2016	258,289	\$ 45.16	258,143	\$ 53,223,596
Month 2:				
February 1, 2016				
to				
February 29, 2016	177,988	\$ 44.05	177,592	\$ 45,398,532
Month 3:				
March 1, 2016				
to				
March 31, 2016	1,509	\$ 49.43	-	\$ 45,398,532
Total	437,786		435,735	\$ 45,398,532

(1) Includes shares repurchased from employees in connection with the settlement of income tax and related benefit withholding obligations arising from vesting of restricted stock grants.

(2) On November 4, 2015 our Board of Directors authorized the Company to engage in a common stock repurchase program to repurchase up to \$70.0 million in aggregate value of the Company's common stock during the twelve-month period following November 4, 2015. As of March 31, 2016, we have spent approximately \$24.6 million to purchase 544,885 shares of our common stock under this plan.

Dividends

We have not paid any cash dividends on our common stock and do not plan to pay dividends on our common stock in the foreseeable future. In addition, our ability to pay dividends on common stock is limited by the terms of our credit agreement. The payment of future cash dividends, if any, will be reviewed periodically by the Board and will depend, among other things, on our financial condition, funds from operations, the level of our capital and development expenditures, any restrictions imposed by present or future debt instruments and changes in federal tax policies, if any.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

See Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

SIGNATURES

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

THE PROVIDENCE SERVICE CORPORATION

Date: May 6, 2016

By: _____
/s/ James Lindstrom
James Lindstrom
Chief Executive Officer and Director
(Principal Executive Officer)

Date: May 6, 2016

By: _____
/s/ David Shackelton
David Shackelton
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description
10.1(1)+	Separation Agreement, dated February 8, 2016, by and between The Providence Service Corporation and Michael-Bryant Hicks.
10.2*	Employment Agreement, dated April 4, 2016, between The Providence Service Corporation and Sophia Tawil.
31.1*	Certification pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 of the Chief Executive Officer.
31.2*	Certification pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 of the Chief Financial Officer.
32.1*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.
32.2*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

(1) Incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K/A filed with the Securities and Exchange Commission on February 16, 2016.

+ Management contract or compensatory plan or arrangement.

* Filed herewith.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is entered into as of this 4th day of April, 2016 (the "Effective Date") by and between The Providence Service Corporation, a Delaware corporation, with its corporate headquarters located at 44 East Broadway Blvd., Tucson, Arizona, 85701 (the "Company"), and Sophia Tawil, an individual currently residing at ----- ("Employee").

BACKGROUND

WHEREAS, the Company desires to employ and appoint Employee as the Company's Senior Vice President, General Counsel, Chief Compliance Officer and Secretary of the Company;

WHEREAS, effective as of the Effective Date, the Company's Board of Directors (the "Board") has appointed Employee as Senior Vice President, General Counsel, Chief Compliance Officer and Secretary of the Company, and Employee desires to accept such employment and position; and

WHEREAS, the Company and Employee are entering into this Agreement to set out the agreement between them regarding the terms of Employee's employment.

NOW, THEREFORE, in consideration of the facts, mutual promises and covenants contained herein and intending to be legally bound hereby, the parties hereto agree as of the Effective Date:

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 the second (2nd) anniversary of the Effective Date. 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 Senior Vice President, General Counsel, Chief Compliance Officer and Secretary of the Company, and shall report directly to the Company's Chief Executive Officer (the "CEO") and be subject to the CEO's supervision and direction.

(b) In her capacity as Senior Vice President, General Counsel, Chief Compliance Officer and Secretary 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 CEO or the Board of Directors of the Company (the "Board").

(c) While employed by the Company or any Affiliate (as hereinafter defined), Employee shall render her services diligently, faithfully and to the best of her ability, and shall devote substantially all of her working time, energy, skill and best efforts to the performance of her 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 CEO or 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 Three Hundred Fifty Thousand and 00/100 Dollars (\$350,000.00) (the "Base Salary"), payable in equal periodic installments in accordance with the Company's regular payroll practices in effect from time to time.

(b) Bonus Plans/Incentive Compensation Programs.

(i) 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").

(ii) For calendar year 2016, Employee will participate in the following Bonus program: Employee shall be paid an amount up to the sum of (A) seventy-five percent (75%) of the 2016 Base Salary upon the achievement of previously approved Adjusted Earnings per Share targets for 2016 and the achievement of certain previously approved key performance indicators, and (B) up to an additional seventy-five percent (75%) of the 2016 Base Salary if the Company exceeds such previously approved Adjusted Earnings per Share targets. The precise amount of such total Bonus shall be calculated on a basis consistent with other executive officers of the Company in respect of 2016 performance; provided that Employee's total Bonus payable hereunder will be determined in the sole discretion of the Company. Unless otherwise specified in respect of a Bonus, the Bonus shall be paid, net of any required withholdings, in the case of the Bonus for calendar year 2016, during calendar year 2017 promptly following the completion and filing of the Company's annual audited financial statements for 2016, 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.

(iii) For the 2017 calendar year, Employee shall be eligible to receive a Bonus. The percentage of the Base Salary such Bonus represents as well as the goals to be achieved before such Bonus is paid out will be determined by the Board or compensation committee of the Board.

(c) Benefits.

(i) During her 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(c)(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 Seven Hundred Thousand and 00/100 Dollars (\$700,000.00). 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 and (2) the date the Life Insurance goes into effect and (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(c). 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.

(d) Vacation. During her 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.

(e) Business Expenses. During her 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.

(f) 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 her 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, director or other position in which she is serving on behalf of the Company or any Affiliate, and shall tender her resignation as a director of any and all Affiliates of the Company.

(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, including any entity managed by the Company (collectively referred to as "Affiliates"), or is convicted of, or pleads guilty or nolo contendere to, a felony or any crime involving fraud or moral turpitude;
- (ii) In carrying out her 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 reasonably likely to bring the Company or its Affiliates into public disgrace or embarrassment, or which is reasonably 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 her duties or responsibilities as directed by the CEO or 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 CEO, 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 her intentionally and without her reasonable belief that her 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 her 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 her 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 her 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: Termination Following Term. In the event Employee terminates her 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, Employee shall give the Company not less than sixty (60) days prior written notice of termination. Upon a termination of Employee’s employment with the Company by Employee 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 her 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 her 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 her death or Disability, all of Employee's rights to her 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 her termination for Disability, but prior to her 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 in respect of such fiscal year, and (iii) an amount equal to twelve 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) (the period during which Employee's Base Salary will continue as provided in this Clause (iii), the "Post Employment Payment Period"); 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 shall suspend payments of such Bonus or Base Salary that are otherwise due within sixty (60) days of Employee's termination of employment for payment on the sixtieth (60th) day after such termination, provided that, before such day, Employee shall have executed and delivered 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 any period within which Employee may revoke such General Release has expired within sixty (60) days after Employee's termination of employment 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. Notwithstanding any other provision in this Agreement to the contrary, by notice to Employee during the Post-Employment Payment Period, the Company may elect to continue to pay Employee's Base Salary for any additional period ending no later than the second (2nd) anniversary of the effectiveness of termination of Employee's employment hereunder by the Company without Cause ("Continuing Payment Period").

(d) Termination By Employee During Term. In the event Employee terminates her employment during the Term, all of Employee's rights to her 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 her 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) an amount equal to twelve months of Employee’s Base Salary in effect as of the date of effectiveness of such termination 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 case management and network management services to governmental agencies and provider networks, educational tutoring, job readiness, apprenticeship and placement, private parole, probation and offender rehabilitation services, non-emergency medical transportation, health risk assessments, in-home and community-based care management offerings and any other business in which the Company or its Affiliates have been or have taken steps towards engaging in 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 thereafter, as applicable, during (i) the Post-Employment Payment Period or, if applicable, during the Continuing Payment Period (as defined in Section 6(c)) or (ii) the two (2) year period following the effectiveness of the Company's termination of Employee for Cause or Employee's termination of her employment hereunder, 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 her 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 directly in competition with the Business of the Company if such business competes with the Business of the Company or any Affiliate in any country, 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 (a "Competitive Business"). Notwithstanding the foregoing, (A) nothing in this Section 7(b) shall preclude Employee from serving in any capacity (i.e., whether as an employee, partner, principal, member, investor, consultant or otherwise) to or in respect of a business or entity (including, without limitation, an investment trust or investment partnership) that provides investment services or is otherwise engaged in the business of investing capital for third parties, or any manager or affiliate of any of the foregoing (any such entity, manager or affiliate hereafter called an "Investment Firm") or that provides legal or accounting services, so long as Employee does not have personal, direct and material responsibilities for the day to day operations of any Competitive Business in which such Investment Firm has made or directed an investment, (B) this Section 7(b) shall not apply, and therefore Employee shall not be subject to any covenant in this Section 7(b), in the event that, within one (1) year following the effectiveness of a Change in Control (I) Employee is terminated by the Company during or following the Term without Cause or (II) the Term has expired and Employee's employment with the Company is terminated due to resignation by Employee at a time that the Company has no basis to terminate Employee with Cause and (C) nothing in this Section 7(b) shall preclude Employee from passive ownership of the outstanding voting securities of any company other than the Company and its subsidiaries and joint ventures which is engaged in a Competitive Business.

(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 her 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. Nothing in this Section 7(c)(ii) shall preclude the Employee from making good faith generalized solicitations for employees through advertisements or search firms not specifically directed at such persons.

(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 her 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; provided that Employee can keep such documents and information as are pertinent to the terms of her employment and the compensation payable to her in respect thereof subject to other restrictions and provisions set forth in this Section 7. Notwithstanding the foregoing, this Agreement is not intended to, and shall be interpreted in a manner that does not, limit or restrict the Employee from exercising any legally protected whistleblower rights (including pursuant to Rule 21F under the Securities and Exchange Act of 1934).

(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 as required by law or in legal filings, including, without limitation, any such filings made by Employee to enforce her rights against the Company or any of its affiliates, 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 her of any of the Covenants may 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 seek an injunction to be 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 her employment with the Company terminates, she 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 her 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. For purposes of this Section 7, the term "Affiliates" excludes all entities or persons other than those controlled or partially owned by the Company.

(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 adverse tax consequences arising under Section 409A or other provision of the Code by reason of the operation of this Agreement or any benefit provided to Employee under any employee benefit plan sponsored or maintained by the Company, in either case, in accordance with its terms. For purposes of Section 409A, each payment under this Agreement will be deemed to be a separate payment as permitted under Treasury Regulation Section 1.409A-2(b)(2)(iii).

(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 this 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 payment under Section 6(c) hereof ("Severance Payment"), 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.

(d) Neither the Employee nor any of her creditors or beneficiaries shall have the right to subject any deferred compensation (within the meaning of Code Section 409A) payable under this Agreement to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A, any deferred compensation (within the meaning of Section 409A) payable to the Employee or for her benefit under this Agreement may not be reduced by, or offset against, any amount owing by the Employee to the Company or any of its Affiliates.

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 New York (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 her 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 New York City, New York (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 alternately striking from a list of five (5) 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 the 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:

Sophia Tawil

(ii) If to the Company:

The Providence Service Corporation
44 East Broadway Blvd.
Tucson, AZ 85701
Attention: Chief Executive Officer

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 subsidiary 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 her duties under this Agreement.

(e) Execution in Counterparts. This Agreement may be executed in any number of counterparts, including by a counterpart in electronic format, 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 signed by the parties hereto.

(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 her 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/ James Lindstrom
Name: James Lindstrom
Title: Chief Executive Officer

SOPHIA TAWIL

/s/ Sophia Tawil

[Signature Page to Employment Agreement of Sophia Tawil]

CERTIFICATIONS

I, James Lindstrom, certify that:

1. I have reviewed this Quarterly Report on 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 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (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 6, 2016

/s/ James Lindstrom
James Lindstrom
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, David Shackelton, certify that:

1. I have reviewed this Quarterly Report on 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 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (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 6, 2016

/s/ David Shackelton

David Shackelton
Chief Financial Officer
(Principal Financial Officer)

THE PROVIDENCE SERVICE CORPORATION
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER 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, 2016 (the "Report") that, to 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 6, 2016

/s/ James Lindstrom

James Lindstrom
Chief Executive Officer
(Principal Executive Officer)

THE PROVIDENCE SERVICE CORPORATION
CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER 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, 2016 (the "Report") that, to 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 6, 2016

/s/ David Shackelton
David Shackelton
Chief Financial Officer
(Principal Financial Officer)

