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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

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	**86-0845127**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1275 Peachtree Street	**Sixth Floor**	**Atlanta**	**Georgia**	**30309**
(Address of principal executive offices)				**(Zip Code)**

(404) 888-5800
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, $0.001 par value per share	PRSC	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☐

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

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates based on the closing price for such common equity as reported on The NASDAQ Global Select Market on the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2019) was $668.8 million.

As of February 24, 2020, there were 13,025,727 outstanding shares (excluding treasury shares of 4,942,502) of the registrant's Common Stock, $0.001 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into Items 10 through 14 in Part III of this Annual Report on Form 10-K: the registrant's definitive proxy statement on Schedule 14A relating to the registrant's 2020 Annual Meeting of Stockholders; provided that if such proxy statement is not filed on or before April 30, 2020, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

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Part I

In this Annual Report on Form 10-K, the words the "Company", the "registrant", "we", "our", "us", "Providence" and similar terms refer to The Providence Service Corporation and, except as otherwise specified herein, to our subsidiaries. When such terms are used in reference to the Company's common stock, $0.001 par value per share (the "Common Stock"), and the Series A Convertible Preferred Stock, $0.001 par value per share (the "Preferred Stock"), they refer specifically to The Providence Service Corporation.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain statements that may be deemed "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements related to the Company's 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. The Company may also make forward-looking statements in other reports filed with the Securities and Exchange Commission (the "SEC"), in materials delivered to stockholders and in press releases. In addition, the Company's representatives may from time to time make oral forward-looking statements. In certain cases, you may identify forward looking-statements by words such as "may", "will", "should", "could", "expect", "plan", "project", "intend", "anticipate", "believe", "seek", "estimate", "predict", "potential", "target", "forecast", "likely", the negative of such terms or comparable terminology. In addition, statements that are not historical statements of fact should also be considered forward-looking statements. These forward-looking statements are based on the Company's current expectations, assumptions, estimates and projections about its business and industry, and involve risks, uncertainties and other factors that may cause actual events to be materially different from those expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, the risks described under Item 1A in Part I of this Annual Report on Form 10-K.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. The Company is under no obligation to (and expressly disclaims any such obligation to) update any of the information in any forward-looking statement if such forward-looking statement later turns out to be inaccurate, whether as a result of new information, future events or otherwise.

Item 1. *Business.*

Overview

The Providence Service Corporation is a Delaware corporation formed in 1996 that is the largest manager of non-emergency medical transportation ("NET") programs for state governments and managed care organizations ("MCOs") in the United States ("U.S.") primarily through its brands LogistiCare and Circulation. In addition, our NET Services segment includes the Company's activities related to executive, accounting, finance, internal audit, tax, legal, certain strategic and corporate development functions and the results of the Company's captive insurance company. During 2018, the Company announced an Organizational Consolidation plan ("Organizational Consolidation") to integrate substantially all activities and functions performed at the corporate holding company level into its wholly-owned subsidiary, LogistiCare Solutions LLC ("LogistiCare"). Effective January 1, 2019, the consolidation was substantially complete. LogistiCare retained its name and continues to be headquartered in Atlanta, GA, and the Company continues to be named The Providence Service Corporation and is listed on NASDAQ Global Select Market ("NASDAQ") under the ticker symbol "PRSC". See Note 10, *Restructuring and Related Reorganization Costs,* and Note 24*, Segments,* in our accompanying consolidated financial statements for further information on the Organizational Consolidation.

Providence also owns a minority investment in CCHN Group Holdings, Inc. and its subsidiaries ("Matrix"). Matrix is a nationwide provider of a broad array of assessment and care management services that improve health outcomes for individuals and financial performance for health plans. Matrix's national network of community-based clinicians deliver in-home services while its fleet of mobile health clinics provide community-based care with advance diagnostic capabilities. These solutions combined with Matrix's advanced engagement approach, helps health plans manage risks, close care gaps and connect members to care.

Business Strategies

The Company's mission is to provide effective and quality NET services and logistics and to create shareholder value by pursuing and implementing six key strategies.

Centers of Excellence Operations and Local Focus

Our operational structure includes six Centers of Excellence ("COEs"): Transportation Network, Call Center Operations, Client Services, Technology, Growth and Process Improvement. The COEs are designed to enhance the visibility, flexibility and control we have over our operations. The Transportation Network COE is focused on increases to capacity and improvements to quality designed to reduce cost and enhance the member experience. Within our Call Center Operations, activities such as contact center workflow standardization, cross training and intensive operations management are aimed at improving employee productivity. Client Services focuses on local operations as well as holistic approaches to our customers and client retention. Our Technology COE is focused on the support of operations and development of proprietary technology to elevate the member experience and differentiate our product. Growth focuses on sales, marketing and business development. Our Process Improvement COE supports all of our other COEs in the pursuit of effective and efficient operations.

In addition to the COE oversight structure, we re-aligned the execution of certain controls and procedures at the local level to better manage costs and our transportation network. We believe this structure positions the Company for effective scalability of our business model while also ensuring that the nuances of local activity are taken into account in controlling costs which when combined, provide us with a competitive advantage.

Technology Transformation

On September 21, 2018, we acquired Circulation which extended our business model and presented new market opportunities with the addition of a technology platform. The platform is currently used by certain customers; however, we are working to expand its use by developing the technology into a platform we call "Circulation Select". We believe Circulation Select will leverage rider benefits on the front end with all of the payor benefits including reporting on the back end. We expect Circulation Select will reduce inbound calls from members looking for assistance on the location of the transportation provider, improve on-time percentages and enhance member satisfaction. We expect to pilot Circulation Select within our customer base in late 2020. Specifically, we believe Circulation Select will provide revenue growth and the below benefits:

- member communications through texting, email and automated calls including the ability for the member to see the location of the transportation provider in real time on a mobile device,
- proactive management for rejected, canceled and late rides, and
- driver application enhancements for transportation providers.

Client and Member Satisfaction

Transportation related to care is one of the most impactful experiences contributing to our clients' members' and patients' satisfaction during their care encounter. At the core of our operational and technology strategies is a focus on driving client and member satisfaction. Our COEs' operational structure allows us to develop locally tailored network solutions with a higher level of visibility. Greater access to real time information, enabled through our technology, provides us the ability to shorten cycle times to identify and resolve client and member issues.

Organic Growth

Across the healthcare market, we see an increasing understanding of the benefit of removing transportation as a barrier to care and a way to improve other determinants of health, such as access to food, shelter, socialization, and pharmacy. We believe that our scale, deep experience, operational strategy, and technology uniquely position us to address customer needs related to transportation of vulnerable populations. We approach sales, marketing and business development in a manner that is focused on driving market share in our core Medicaid market including states and MCOs, Medicare Advantage ("MA") plans, health systems and providers. Simultaneously, we target business development efforts with partners to enter new transportation markets, including the movement of home health providers, pharmacy delivery and beneficiaries of workers compensation. We expect there will be network effects as we serve more and more healthcare constituencies within a geography.

Inorganic Growth

We closely follow our core NET market and expansion markets mentioned above for tuck-in acquisition opportunities. We believe our experience, relationships in the industry, scale and executive team strongly position us to be a consolidator in healthcare transportation. Our acquisition strategy may include an evaluation of new entrants, which may not be able to otherwise compete without the benefits of scale and experience, and closely-held businesses that may seek a new capital structure or sale to achieve liquidity for founders. With our balance sheet, strong team and track record, we believe we are a natural consolidator.

Smart Capital Allocation

The NET Services segment has historically generated positive cash flows and our strong balance sheet provides us with optionality with respect to capital allocation and how we can best drive shareholder value. Our focus for 2020 is to drive operational efficiency, invest in our operations as well as Circulation Select technology to enhance client and member experience. We will also continue to assess the opportunities for capital deployment in order to create value for shareholders, which may include dividends, share repurchases and/or acquisitions.

NET Services

Services offered. NET Services provides non-emergency transportation solutions to clients, including health systems, in 50 states and the District of Columbia. As of December 31, 2019, approximately 24.2 million eligible members received our transportation services, and during 2019, NET Services managed approximately 63.2 million gross trips. NET Services accounts for substantially all of our consolidated revenue.

NET Services primarily contracts with state Medicaid programs and MCOs, including MA plans, (collectively "NET customers") for the coordination of their members' ("NET end-users") non-emergency transportation needs. NET end-users are typically Medicaid or Medicare eligible members, whose limited mobility or financial resources hinders their ability to access necessary healthcare and social services. We believe our transportation services enable access to care that not only improves the quality of life and health of the populations we serve, but also enables many of the individuals we serve to pursue independent living in their homes rather than in more expensive institutional care settings. In addition, studies have shown that missed medical appointments lessens patient compliance with clinical guidelines and lead to complications and expensive medical services. Moreover, preventive care has proven to lower the cost of overall care by avoiding potentially more serious, costly emergent services later. We provide access to non-emergency medical transportation on a more cost effective basis than self-administered state Medicaid or MCO transportation programs while improving the lives of the populations we serve.

The delivery of our NET Services program is dependent upon a highly-integrated technology platform and business process as well as the management of a multifaceted network of subcontracted transportation providers. Our technology platform is purpose-built for the unique needs of our industry and is highly scalable, capable of supporting substantial growth in our clients' current and future membership base. In addition, our technology platform efficiently provides a broad interconnectivity among NET end-users, NET customers, and our network of transportation providers. We believe this technological capability and our industry experience uniquely position us as a focal point in the evolving healthcare industry to introduce valuable population insights. In 2016 and 2017, we introduced service offerings and new technological features for NET end-users to improve service levels, lower costs and build the foundation for additional data analytics capabilities. In 2018, we acquired Circulation to provide additional technological improvements through their digital transportation platform. Circulation's technology allows for real time notifications to members on their mobile devices, integration with a wide variety of Advanced Traffic Management Systems ("ATMS") and Transportation Network Companies ("TNCs"), real time ride tracking, network management and analytics.

To fulfill the transportation needs of NET end-users, we apply our proprietary technology platform to an extensive network of approximately 6,600 transportation resources. This includes our in-network roster of fully contracted transportation providers who operate sedans, wheelchair equipped vehicles, multi-passenger vans and ambulances. Our system also utilizes partnerships with on-demand transportation network companies, mass transit entities, mileage reimbursement programs, taxis and county-based emergency medical service providers. To promote safety, quality, and compliance, our in-network transportation providers undergo an in-depth credentialing and education process.

Our transportation management services also include fraud, waste, and abuse prevention and utilization review programs designed to monitor that our transportation services are provided in compliance with Medicaid and Medicare program rules and regulations as well as to remediate issues that are identified. Compliance controls include ongoing monitoring, auditing and remediation efforts, such as validating NET end-user eligibility for the requested date of service and employing a series of gatekeeping questions to verify that the treatment type is covered and the appropriate mode of transportation is assigned. We also conduct post-trip confirmations of attendance directly with the healthcare providers for certain repetitive trips and we employ field monitors to inspect transportation provider vehicles and to observe transports in real time. Our claims validation process generally limits payment to trips that are properly documented, have been authorized in advance, and are billed at the pre-trip estimated amount. Our claims process is increasingly digital, which provides more protection to member protected health information and reduces the impact on the environment. Transportation providers are able to submit their bills and supporting documentation through a secured web portal directly to us.

Revenue and customers. In 2019, contracts with state Medicaid agencies and MCOs represented 48.7% and 51.3%, respectively, of NET Services' revenue. NET Services derived 12.7%, 12.6%, and 13.8% of its revenue from a single state Medicaid agency for the years ended December 31, 2019, 2018 and 2017, respectively. The next four largest NET Services customers in the aggregate comprised 19.7%, 21.4% and 22.3% of NET Services' revenue for the years ended December 31, 2019, 2018 and 2017, respectively.

Contracts with state Medicaid agencies are typically for three to five years with multiple renewal options thereafter. Contracts with MCOs continue until terminated by either party upon reasonable notice in accordance with the terms of the contract, and allow for regular price adjustments based upon utilization and transportation cost. As of December 31, 2019, 20.8% of NET Services revenue was generated under state Medicaid contracts that are subject to renewal within the next 12 months. In 2019, NET Services renewed contracts representing 12.4% of its revenue in such year.

We generated 84.6% of our revenue in 2019 under capitated contracts where we assume the responsibility of meeting the covered healthcare related transportation requirements based on per-member per-month fees for the number of members in the customer's program or a flat fee for the contract period. Revenue is recognized based on the population served during the period. Under certain capitated contracts, known as reconciliation contracts, partial payment is received as a prepayment during the month service is provided. These prepayments are periodically reconciled to actual utilization and costs and may result in refunds to the customer, or additional payments due from the customer. The remaining 15.4% of our revenue was generated under other types of fee arrangements, including administrative services only, fee for service and cost plus (collectively "FFS"), under which fees are generated based upon billing rates for specific services or defined membership populations.

Seasonality. Our quarterly operating income and cash flows normally fluctuate as a result of seasonal variations in the business, principally due to lower transportation demand during the winter season and higher demand during the summer season.

Competition. We compete with a variety of national organizations that provide similar healthcare and social services related transportation, such as Medical Transportation Management, Southeastrans, Veyo, and Access2Care, as well as local and regional providers. Most local competitors seek to win contracts for specific counties or small geographic territories whereas we and other larger competitors seek to win contracts for an entire state or large regional area. We compete based upon a number of factors, including our nationwide network, technical expertise, experience, service capability, service quality, and price.

Matrix Investment

The Company owns a non-controlling equity interest in Matrix. The Company and an affiliate of Frazier Healthcare Partners (the "Frazier Subscriber"), which holds the controlling equity interest in Matrix, are party to the Second Amended and Restated Limited Liability Company Agreement (the "Operating Agreement") of Mercury Parent, LLC, the company through which the parties hold their equity interests in Matrix. The Operating Agreement sets forth certain terms and conditions regarding the ownership by the Company and Frazier Subscriber of interests in Mercury Parent and their indirect ownership of common stock of Matrix, and provides for, among other things, certain liquidity and governance rights and other obligations

and rights, in each case, on the terms and conditions contained therein. At December 31, 2019, the Company owned a 43.6% non-controlling interest in Matrix. We account for our interest in Matrix under the equity method whereby the Company's proportionate share of Matrix's net assets is recorded as equity investment in our consolidated balance sheets and our proportionate share of its financial results are recorded as equity net gain (loss) on investee within our consolidated statements of operations.

Services offered. Matrix offers in-home care optimization services for members, including comprehensive health assessments ("CHAs"), through a national network of community-based clinicians and a fleet of mobile health clinics with advanced diagnostics capabilities. As of December 31, 2019, Matrix utilized a national network of approximately 3,000 clinical providers, including 2,300 nurse practitioners ("NPs"), located across 48 states, to provide its services primarily to members of MA health plans.

Matrix primarily generates revenue through the performance of CHAs, which seek to confirm a health plan member's information related to health status, social, environmental and medical risks to assist MA plans in improving the accuracy of such information. Matrix also operates a care management offering which provides additional data analytics and chronic care management services.

Matrix's services are dependent upon its technology platform which integrates the clinical provider network, operations infrastructure, call centers and clients. Matrix's platform is designed for the unique needs of its industry, is highly scalable and can support substantial growth. We believe Matrix's network and platform position Matrix as a focal point in the evolving healthcare industry in the introduction of both additional population insights and care management services. With data provided by its health plan clients, Matrix utilizes analytics to determine which members it can most effectively lower costs and improve outcomes through face-to-face engagements with clinicians. Each program is customized and is served by a comprehensive team of case managers, nurse practitioners, registered nurses, and trained call center colleagues.

Revenue, customers and clients. As of December 31, 2019, Matrix's customers included 65 health plans, including for-profit multi-state health plans and non-profit health plans that operate in only one state or several counties within one state. For the year ended December 31, 2019, Matrix's top five customers accounted for 69% of its revenue, with its largest customer comprising 29% of its revenue and its second largest customer comprising 28% of its revenue. Matrix enters into annual or multi-annual contracts under which it is paid on a per assessment basis. However, volumes are not guaranteed under contracts and customers may choose to utilize other third-party providers or in-source capabilities.

Seasonality. Matrix attempts to perform CHAs evenly throughout the year to efficiently utilize NP capacity, although the timing of performance is driven by client demand.

Competition. We believe that Matrix and Signify Health are the largest independent providers of CHAs to the health plan market. There are many smaller competitors, such as EMSI Healthcare Services, MedXM, which was acquired by Quest Diagnostics on February 1, 2018, and Inovalon. In addition, some health plans in-source CHA services. Matrix's chronic care management competitors include Landmark Healthcare, PopHealthCare and Optum.

Employees

As of December 31, 2019, we had approximately 3,800 employees. None of our employees are members of a collective bargaining agreement. We believe we have good relationships with our employees.

Regulatory Environment

Overview

Our business is subject to numerous U.S. federal, state and local laws, regulations and agency guidance. These laws significantly affect the way in which we operate various aspects of our business. We must also comply with state and local licensing requirements, state and federal requirements for participation in Medicare and Medicaid, requirements for contracting with MA plans, and contractual requirements imposed upon us by the federal, state and local agencies and third-party commercial customers to which we provide services. Failure to follow the rules and requirements of these programs can significantly affect our ability to be paid for the services we provide and be authorized to provide services on an ongoing basis.

The Medicare and Medicaid programs are governed by significant and complex laws. Both Medicare and Medicaid are financed, at least in part, with federal funds. Therefore, any direct or indirect recipients of those funds are subject to federal fraud, waste and abuse laws. In addition, there are federal privacy and security laws that govern the healthcare industry. State laws primarily pertain to the licensure of certain categories of healthcare professionals and providers and the state's interest in regulating the quality of healthcare in the state, regardless of the source of payment, but may also include state laws pertaining to fraud, waste and abuse, privacy and security laws, and the state's regulation of its Medicaid program. Federal and state regulatory laws that may affect our business, include, but are not limited to the following:

- false and other improper claims or false statements laws pertaining to reimbursement;
- the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and its privacy, security, breach notification and enforcement and code set regulations and guidance, along with evolving state laws protecting patient privacy and requiring notifications of unauthorized access to, or use of, patient medical information;
- civil monetary penalties law;
- anti-kickback laws;
- the Stark Law and other self-referral, financial inducement, fee splitting, and patient brokering laws;
- The Centers for Medicare & Medicaid Services ("CMS") regulations pertaining to Medicare as well as CMS releases applicable to the operation of MA plans, such as reimbursement rates, risk adjustment and data collection methodologies, adjustments to quality management measurements and other relevant factors; and
- state licensure laws.

A violation of certain of these laws could result in civil and criminal damages and penalties, the refund of monies paid by government or private payors, our exclusion from participation in federal healthcare payor programs, or the loss of our segments' license to conduct business within a particular state's boundaries.

Federal Law

Federal healthcare laws apply in any case in which we provide an item or service that is reimbursable or provide information to our customers that results in reimbursement by a federal healthcare payor program to us. The principal federal laws that affect our business include those that prohibit the filing of false or improper claims or other data with federal healthcare payor programs and those that prohibit unlawful inducements for the referral of business reimbursable under federal healthcare payor programs.

False and Other Improper Claims

Under the federal False Claims Act (31 U.S.C. §§ 3729-3733) and similar state laws, the government may impose civil liability on us if we knowingly submit a false claim to the government or cause another to submit a false claim to the government, or knowingly make a false record or statement intended to get a false claim paid by the government. The False Claims Act defines a claim as a demand for money or property made directly to the government or to a contractor, grantee, or other recipient if the money is to be spent on the government's behalf or if the government will reimburse the contractor or grantee. Liability can be incurred for submitting (or causing another to submit) false claims with actual knowledge or for submitting false claims with reckless disregard or deliberate ignorance. Liability can also be incurred for knowingly making or using a false record or statement to receive payment from the federal government or for knowingly and improperly avoiding or decreasing an obligation to pay or transmit money or property to the government. Consequently, a provider need not take an affirmative action to conceal or avoid an obligation to the government, but the mere retention of an overpayment from the government could lead to potential liability under the False Claims Act.

Many states also have similar false claims statutes. In addition, healthcare fraud is a priority of the U.S. Department of Justice ("DOJ"), the Department of Health and Human Services ("DHHS"), its program integrity contractors and its Office of

Inspector General, the Federal Bureau of Investigation and state Attorneys General. These agencies have devoted a significant amount of resources to investigating healthcare fraud.

If we are ever found to have violated the False Claims Act, we could be required to make significant payments to the government (including damages and penalties in addition to the return of reimbursements previously collected) and could be excluded from participating in federal healthcare programs or providing services to entities which contract with those programs. Although we monitor our billing practices for compliance with applicable laws, such laws are very complex, and we might not be able to detect all errors or interpret such laws in a manner consistent with a court or an agency's interpretation. While the criminal statutes generally are reserved for instances evidencing fraudulent intent, the civil and administrative penalty statutes are being applied by the federal government in an increasingly broad range of circumstances. Examples of the types of activities giving rise to liability for filing false claims include billing for services not rendered, misrepresenting services rendered (i.e., miscoding), applications for duplicate reimbursement and providing false information that results in reimbursement or impacts reimbursement amounts. Additionally, the federal government takes the position that a pattern of claiming reimbursement for unnecessary services violates these statutes if the claimant should have known that the services were unnecessary. The federal government also takes the position that claiming reimbursement for services that are substandard is a violation of these statutes if the claimant should have known that the care was substandard. Criminal penalties also are available even in the case of claims filed with private insurers if the federal government shows that the claims constitute mail fraud or wire fraud or violate any of the federal criminal healthcare fraud statutes.

State Medicaid agencies and state Attorneys General also have authority to seek criminal or civil sanctions for fraud and abuse violations. In addition, private insurers may bring actions under state false claim laws. In certain circumstances, federal and state laws authorize private whistleblowers to bring false claim or "qui tam" suits on behalf of the government against providers and reward the whistleblower with a portion of any final recovery. In addition, the federal government has engaged a number of private audit organizations to assist it in tracking and recovering claims for healthcare services that may have been improperly submitted.

Governmental investigations and whistleblower "qui tam" suits against healthcare companies have increased significantly in recent years, and have resulted in substantial penalties and fines and exclusions of persons and entities from participating in government healthcare programs. For more information on the risks related to a failure to comply with applicable government coding and billing rules, see "Risk Factors—Regulatory Risks—We could be subject to actions for false claims or recoupment of funds pursuant to certain audits if they do not comply with government coding and billing rules, which could have a material adverse impact on our operating results."

Health Information Practices

Under HIPAA, DHHS issued rules to define and implement standards for the electronic transactions and code sets for the submission of transactions such as claims, and privacy and security of individually identifiable health information in whatever manner it is maintained.

The Final Rule on Enforcement of the HIPAA Administrative Simplification provisions, including the transaction standards, the security standards and the privacy rule, published by DHHS addresses, among other issues, DHHS's policies for determining violations and calculating civil monetary penalties, how DHHS will address the statutory limitations on the imposition of civil monetary penalties, and various procedural issues. The rule extends enforcement provisions currently applicable to the healthcare privacy regulations to other HIPAA standards, including security, transactions and the appropriate use of service code sets.

The Health Information Technology for Economic and Clinical Health Act ("HITECH"), enacted as part of the American Recovery and Reinvestment Act of 2009, extends certain of HIPAA's obligations to parties providing services to healthcare entities covered by HIPAA known as "business associates," imposes new notice of privacy breach reporting obligations, extends enforcement powers to state Attorneys General and amends the HIPAA privacy and security laws to strengthen the civil and criminal enforcement of HIPAA. HITECH establishes four categories of violations that reflect increasing levels of culpability, four corresponding tiers of penalty amounts that significantly increase the minimum penalty amount for each violation, and a maximum penalty amount of $1.5 million for all violations of an identical provision. With the additional HIPAA enforcement power under HITECH, the Office for Civil Rights of the DHHS and states are increasing their investigations and enforcement of HIPAA compliance. We have taken steps to ensure compliance with HIPAA and are monitoring compliance on an ongoing basis.

Additionally, the HITECH Final Rule imposes various requirements on covered entities and business associates, and expands the definition of "business associates" to cover contractors of business associates. Even when we are not operating as

covered entities, they may be deemed to be "business associates" for HIPAA rule purposes of such covered entities. We monitor compliance obligations under HIPAA as modified by HITECH, and implement operational and systems changes, associate training and education, conduct risk assessments and allocate resources as needed. Any noncompliance with HIPAA requirements could expose us to criminal and increased civil penalties provided under HITECH and require significant costs in order to comply with its requirements or to remediate potential issues that may arise.

Federal and State Anti-Kickback Laws

Federal law commonly known as the "Anti-Kickback Statute" prohibits the knowing and willful offer, solicitation, payment or receipt of anything of value (direct or indirect, overt or covert, in cash or in kind) which is intended to induce: the referral of an individual for a service for which payment may be made by Medicare, Medicaid or certain other federal healthcare programs; or the ordering, purchasing, leasing, or arranging for, or recommending the purchase, lease or order of, any service or item for which payment may be made by Medicare, Medicaid or certain other federal healthcare programs.

Interpretations of the Anti-Kickback Statute have been very broad and under current Law, courts and federal regulatory authorities have stated that the Anti-Kickback Statute is violated if even one purpose (as opposed to the sole or primary purpose) of the arrangement is to induce referrals. Even bona fide investment interests in a healthcare provider may be questioned under the Anti-Kickback Statute if the government concludes that the opportunity to invest was offered as an inducement for referrals.

This act is subject to numerous statutory and regulatory "safe harbors." Compliance with the requirements of a safe harbor offers defenses against Anti-Kickback Statute allegations. Failure of an arrangement to satisfy all of the requirements of a particular safe harbor does not mean that the arrangement is unlawful. However, it may mean that such an arrangement will be subject to scrutiny by the regulatory authorities.

Many states, including some where we do business, have adopted anti-kickback laws that are similar to the federal Anti-Kickback Statute. Some of these state laws are very closely patterned on the federal Anti-Kickback Statute; others, however, are broader and reach reimbursement by private payors. If our activities were deemed to be inconsistent with state anti-kickback or illegal remuneration laws, we could face civil and criminal penalties or be barred from such activities, any of which could harm us.

If our arrangements are found to violate the Anti-Kickback Statute or applicable state laws, we, along with our clients, would be subject to civil and criminal penalties, and these arrangements would not be legally enforceable, which could materially and adversely affect our business. For more information on the risks related to failure to comply with applicable anti-bribery and anti-corruption regulations, see "Risk Factors—Regulatory Risks—Our business could be subject to civil penalties and loss of business if we fail to comply with applicable bribery, corruption and other regulations governing business with governments."

Federal and State Self-Referral Prohibitions

We may be subject to federal and state statutes banning payments for referrals of patients and referrals by physicians to healthcare providers with whom the physicians have a financial relationship. Section 1877 of the Social Security Act, also known as the "Stark Law", prohibits physicians from making a "referral" for "designated health services" for Medicare (and in many cases Medicaid) patients from entities or facilities in which such physicians directly or indirectly hold a "financial relationship".

A financial relationship can take the form of a direct or indirect ownership, investment or compensation arrangement. A referral includes the request by a physician for, or ordering of, or the certifying or recertifying the need for, any designated health services.

Certain services that we provide may be identified as "designated health services" for purposes of the Stark Law. Such segments cannot provide assurance that future regulatory changes will not result in other services they provide becoming subject to the Stark Law's ownership, investment or compensation prohibitions in the future.

Many states, including some states where we do business, have adopted similar or broader prohibitions against payments that are intended to induce referrals of clients. Moreover, many states where such segments operate have laws similar to the Stark Law prohibiting physician self-referrals. While we believe that we are operating in compliance with the Stark Law, there can be no guarantee that violations will not occur.

Healthcare Reform

On March 23, 2010, the President of the United States signed into law comprehensive health reform through the Patient Protection and Affordable Care Act (Pub. L. 11-148) ("PPACA"). On March 30, 2010, the President of the United States signed a reconciliation budget bill that included amendments to the PPACA (Pub. L. 11-152). These laws in combination form the "ACA" referred to herein. The changes to various aspects of the healthcare system in the ACA were far-reaching and included, among many others, substantial adjustments to Medicare reimbursement, establishment of individual mandates for healthcare coverage, extension of coverage to certain populations, expansion of Medicaid, restrictions on physician-owned hospitals, and increased efficiency and oversight provisions.

Some of the provisions of the ACA took effect immediately, while others will take effect later or will be phased in over time, ranging from a few months following approval to ten years. Due to the complexity of the ACA, it is likely that additional legislation will be considered and enacted. The ACA requires the promulgation of regulations that will likely have significant effects on the healthcare industry and third-party payors. Thus, the healthcare industry and our operations may be subjected to significant new statutory and regulatory requirements and contractual terms and conditions, and consequently to structural and operational changes and challenges.

The ACA also implemented significant changes to healthcare fraud and abuse laws that intensify the risks and consequences of enforcement actions. These included expansion of the False Claims Act by: (a) narrowing the public disclosure bar; and (b) explicitly stating that violations of the Anti-Kickback Statute trigger false claims liability. In addition, the ACA lessened the intent requirements under the Anti-Kickback Statute to provide that a person may violate the statute without knowledge or specific intent. The ACA also provided new funding and expanded powers to investigate fraud, including through expansion of the Medicare Recovery Audit Contractor ("RAC") program to Medicare Parts C and D and Medicaid and authorizing the suspension of Medicare and Medicaid payments to a provider of services pending an investigation of a credible allegation of fraud. Finally, the legislation created enhanced penalties for noncompliance, including increased criminal penalties and expansion of administrative penalties under Medicare and Medicaid. Collectively, such changes could have a material adverse impact on our operations.

On January 20, 2017, the President of the United States issued an executive order that directed federal agencies to take steps to ensure the government's implementation of the ACA minimizes the burden on impacted parties (such as individuals and states). The underlying intent of the executive order was to take the first steps to repeal and replace the ACA. The executive order specifically instructed agencies to "waive, defer, grant exemptions from, or delay implementation of provisions" that place a "fiscal burden on any State" or that impose a "cost, fee, tax, penalty, or regulatory burden" on stakeholders including patients, providers, and insurers. The order stated that any changes should be made only to the extent "permitted by law" and should comply with the law governing administrative rule-making. The executive order did not, however, provide specifics on next steps or provisions that would be reexamined nor was it clear how the executive branch would be reconciled with Republican congressional efforts to repeal and replace the ACA or what portions of the ACA may continue in any replacement legislation. There are multiple pending legislative proposals to amend the ACA which, among other effects, could repeal all or parts of the ACA without replacing its extension of coverage to expansion populations. In addition, there are pending legislative proposals to materially restructure Medicaid and other government health care programs and there is litigation challenging, amongst other claims, the constitutionality of the ACA. Most recently, on December 14, 2018, a federal district court judge in Texas issued a widely anticipated opinion that struck down the entire ACA as unconstitutional. The judge ruled in favor of the plaintiffs by determining that the ACA's individual mandate is no longer a tax and is therefore an unconstitutional exercise of congressional authority. The judge also found that the individual mandate could not be severed from the rest of the ACA, rendering the entire ACA unconstitutional. Sixteen states and the District of Columbia intervened as defendants in *Texas v. United States* to proffer a defense of the constitutionality of the ACA. The DOJ declined to defend the ACA on constitutional grounds. The intervenor defendant states appealed the District Court's decision to the Fifth Circuit Court of Appeals. On December 18, 2019, the Fifth Circuit Court of Appeals released a decision affirming the lower court's ruling that ACA's individual mandate was unconstitutional, but the Fifth Circuit Court of Appeals did not hold the individual mandate as severable or inseverable. Instead, it remanded the case back to the same lower court judge. We are not able to predict the outcome of this matter nor are we able to predict the impact of a full or partial invalidation of the ACA.

In 2017, legislation was proposed in the U.S. Congress, but did not advance out of committee and was not passed, which would reduce or eliminate certain non-emergency medical transportation services provided by NET Services as a required Medicaid benefit. A similar proposal was made in 2018 by the President of the United States in a federal budget proposal. If additional privatization initiatives are proposed or enacted, or if previously enacted privatization initiatives are challenged, repealed or invalidated, there could be a material adverse impact on our operating results.

Surveys and Audits

Our business is subject to periodic surveys by government authorities or their contractors to ensure compliance with various requirements. Regulators conducting periodic surveys often provide reports containing statements of deficiencies for alleged failures to comply with various regulatory requirements. In most cases, if a deficiency finding is made by a reviewing agency, we will work with the reviewing agency to agree upon the steps to be taken to bring our program into compliance with applicable regulatory requirements. In some cases, however, an agency may take a number of adverse actions against a program, including:

- the imposition of fines or penalties or the recoupment of amounts paid;
- temporary suspension of admission of new clients to our program's service;
- in extreme circumstances, exclusion from participation in Medicaid, Medicare or other programs;
- revocation of our license; or
- contract termination.

While we believe that our programs are in compliance with Medicare, Medicaid and other program certification requirements and state licensure requirements, failure to comply with these requirements could have a material adverse impact on our business and our ability to enter into contracts with other agencies to provide services.

Billing/claims Reviews and Audits

Agencies and other third-party commercial payors periodically conduct pre-payment or post-payment medical reviews or other audits of our claims or other audits in conjunction with obligations to comply with the requirements of Medicare or Medicaid. In order to conduct these reviews, payors request documentation from us and then review that documentation to determine compliance with applicable rules and regulations, including the eligibility of clients to receive benefits, the appropriateness of the care provided to those clients, and the documentation of that care. Any determination that such segments have not complied with applicable rules and regulations could result in adjustment of payments or the incurrence of fines and penalties, or in situations of significant compliance failures review or non-renewal of related contracts.

Corporate Practice of Medicine and Fee Splitting - Matrix

Some states in which Matrix operates prohibit general business entities from "practicing medicine," the definition of which varies from state to state and can include employing physicians, as well as engaging in fee-splitting arrangements with these healthcare providers. Among other things, Matrix currently contracts with and employs NPs to perform CHAs. We believe that Matrix has structured operations appropriately; however, Matrix could be alleged or found to be in violation of some or all of these laws. If a state determines that some portion of its business violates these laws, it may seek to have Matrix discontinue or restructure those portions of operations or subject Matrix to increased costs, penalties, fines, certain license requirements or other measures. Any determination that Matrix has acted improperly in this regard may result in liability to them. In addition, agreements between Matrix and the professional may be considered void and unenforceable.

Professional Licensure and Other Requirements - Matrix

Many of Matrix's employees are subject to federal and state laws and regulations governing the ethics and practice of their professions. For example, mid-level practitioners (e.g., NPs) are subject to state laws requiring physician supervision and state laws governing mid-level scope of practice. As physicians' use of mid-level practitioners increases, state governing boards are implementing more robust regulations governing mid-levels and their scope of practice under physician supervision. The ability of Matrix to provide mid-level practitioner services may be restricted by the enactment of new state laws governing mid-level scope of practice and by state agency interpretations and enforcement of such existing laws. In addition, services rendered by mid-level practitioners may not be reimbursed by payors at the same rates as payors may reimburse physicians for the same services. Lastly, professionals who are eligible to participate in Medicare and Medicaid as individual providers must not have been excluded from participation in government programs at any time. The ability of Matrix to provide services depends upon the ability of personnel to meet individual licensure and other requirements and maintain such licensure in good standing.

Additional Information

The Company's website at www.prscholdings.com provides access to its periodic reports, certain corporate governance documents, press releases, interim shareholder reports and links to its subsidiaries' websites. The Company makes available to the public on its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the SEC. Copies are also available, without charge, upon request to The Providence Service Corporation, 1275 Peachtree Street, Sixth Floor, Atlanta, GA 30309, (404) 888-5800, Attention: Corporate Secretary. The information contained on our website is not part of, and is not incorporated by reference in, this Annual Report on Form 10-K or any other report we file with or furnish to the SEC.

Item 1A. ***Risk Factors.***

You should consider and read carefully all of the risks and uncertainties described below, as well as other information included in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks described below are not the only ones facing us. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could materially and adversely affect our business, financial condition and results of operations. This Annual Report on Form 10-K also contains forward-looking statements and estimates that involve risks and uncertainties. Our actual results could differ materially from those anticipated in any forward-looking statements as a result of specific factors, including the risks and uncertainties described below.

Risks Related to Our Business

There can be no assurance that our contracts will survive until the end of their stated terms, or that upon their expiration will be renewed or extended on satisfactory terms, if at all. Disruptions to, the early expiration of, or the failure to renew our contracts could have a material adverse impact on our financial condition and results of operations.

Our NET Services contracts are subject to frequent renewal. For example, many of our state Medicaid contracts, which represented 48.7% of our revenue for the year ended December 31, 2019, have terms ranging from three to five years and are typically subject to a competitive bidding process near the end of the term. We also contract with MCOs, which represented 51.3% of our revenue for the year ended December 31, 2019. MCO contracts typically continue until terminated by either party upon reasonable notice in accordance with the terms of the contract. We cannot anticipate if, when or to what extent we will be successful in renewing our state Medicaid contracts or retaining our MCO contracts. As of December 31, 2019, 20.8% of our revenue was generated under state Medicaid contracts that are subject to renewal within the next 12 months. Renewed contracts represented 12.4% of our revenue for the year ended December 31, 2019.

In addition, with respect to many of our state contracts, the payor may terminate the contract without cause, or for convenience, at will and without penalty to the payor, either immediately or upon the expiration of a short notice period in the event that, among other reasons, government appropriations supporting the programs serviced by the contract are reduced or eliminated.

We cannot anticipate if, when or to what extent a payor might terminate its contract with us prior to its expiration, or fail to renew or extend a contract with us. If we are unable to retain or renew our contracts, or replace lost contracts, on satisfactory terms our financial condition and results of operations could be materially adversely affected. While we pursue new contract awards and also undertake efficiency measures, there can be no assurance that such measures will fully offset the impact of contracts that are not renewed or are canceled on our financial condition and results of operations.

We obtain a significant portion of our business through responses to government requests for proposals and we may not be awarded contracts through this process in the future, or contracts we are awarded may not be profitable.

We obtain, and will continue to seek to obtain, a significant portion of our business from state government entities, which generally entails responding to a government request for proposal ("RFP"). To propose effectively, we must accurately estimate our cost structure for servicing a proposed contract, the time required to establish operations and submit the most attractive proposal with respect to both technical and price specifications. We must also assemble and submit a large volume of information within rigid and often short timetables. Our ability to respond successfully to an RFP will greatly affect our business. If we misinterpret bid requirements as to performance criteria or do not accurately estimate performance costs in a binding bid for an RFP, we will seek to correct such mistakes in the final contract. However, there can be no assurance that we will be able to modify the proposed contract and we may be required to perform under a contract that is not profitable.

If we fail to satisfy our contractual obligations, we could be liable for damages and financial penalties, which may place existing pledged performance and payment bonds at risk as well as harm our ability to keep our existing contracts or obtain new contracts and future bonds.

Our failure to comply with our contractual obligations could, in addition to providing grounds for immediate termination of the contract for cause, negatively impact our financial performance and damage our reputation, which, in turn, could have a material adverse effect on our ability to maintain current contracts or obtain new contracts. The termination of a contract for cause could, for instance, subject us to liabilities for excess costs incurred by a payor in obtaining similar services from another source. In addition, our contracts require us to indemnify payors for our failure to meet standards of care, and some of them contain liquidated damages provisions and financial penalties if we breach these contracts, which amounts could be material. For example, we have a minimum volume commitment under one of our transportation-related contracts. To the

extent our actual use is less than the minimum commitment for a specified period, we may be subject to significant expense, without the benefit of corresponding revenue. As of December 31, 2019, the maximum penalty we would incur if we do not meet our minimum volume commitment over the remaining term of the agreement is $6.0 million. Our failure to meet contractual obligations could also result in substantial actual and consequential financial damages.

Any acquisition or integration that we undertake could disrupt our business, not generate anticipated results, dilute stockholder value or have a material adverse impact on our operating results.

Our growth strategy involves the evaluation of potential entry into complementary markets and service lines through acquisition, particularly with opportunities that may leverage the advantages inherent in our large-scale technology-enabled operations and networks. We have made acquisitions and anticipate that we will continue to consider and pursue strategic acquisition opportunities the success of which depends in part on our ability to integrate an acquired company into our business operations. For example, we completed the acquisition of Circulation in September 2018 and as a result, we terminated the development of our legacy LCAD NextGen technology ("NextGen"), resulting in an impairment charge of $14.2 million in 2018. Integration of any acquired company will place significant demands on our management, systems, internal controls and financial and physical resources. This could require us to incur significant expense for, among other things, hiring additional qualified personnel, retaining professionals to assist in developing the appropriate control systems and expanding our information technology infrastructure. The nature of our business is such that qualified management personnel can be difficult to find. Our inability to manage growth effectively could have a material adverse effect on our financial results.

There can be no assurance that the companies we acquire will generate income or incur expenses at the historical or projected levels on which we based our acquisition decisions, that we will be able to maintain or renew the acquired companies' contracts, that we will be able to realize operating and economic efficiencies upon integration of acquired companies or that the acquisitions will not adversely affect our results of operations or financial condition.

We expect to continually review opportunities to acquire other businesses that would complement our current services, expand our markets or otherwise offer prospects for growth. In connection with our acquisition strategy, we could issue stock that would dilute existing stockholders' percentage ownership, or we could incur or assume substantial debt or contingent liabilities. Acquisitions involve numerous risks, including, but not limited to, the following:

- challenges and unanticipated costs assimilating the acquired operations;
- known and unknown legal or financial liabilities associated with an acquisition;
- diversion of management's attention from our core businesses;
- adverse effects on existing business relationships with customers;
- entering markets in which we have limited or no experience;
- potential loss of key employees of purchased organizations;
- incurrence of excessive leverage in financing an acquisition;
- failure to maintain and renew contracts and other revenue streams of the acquired business;
- costs associated with litigation or other claims arising in connection with the acquired company;
- unanticipated operating, accounting or management difficulties in connection with an acquisition; and
- dilution to our earnings per share.

There can be no assurance that we will be successful in overcoming problems encountered in connection with any acquisition or integration and our inability to do so could disrupt our operations and adversely affect our business. Our failure to address these risks or other problems encountered in connection with past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and harm our business generally.

We may be unable to realize the benefits of any strategic initiatives that are adopted by the Company.

From time to time we may launch strategic initiatives designed to enhance shareholder value. Such strategic initiatives may require considerable time and resources; however, there can be no assurance as to the outcome of these strategic initiatives, including the current initiative to expand our Circulation technology platform.

Our investments in any joint ventures and unconsolidated entities could be adversely affected by our lack of sole decision-making authority, our reliance on our joint venture partner's financial condition, any disputes that may arise between us and our joint venture partner and our exposure to potential losses from the actions of our joint venture partner.

We currently hold a non-controlling interest in Matrix, which constitutes 21.9% of our consolidated assets. We do not

have unilateral power to direct the activities that most significantly impact such business' economic performance. Our future growth may depend, in part, on future similar arrangements, any of which could be material to our financial condition and results of operations. These arrangements involve risks not present with respect to our wholly-owned subsidiaries, which may negatively impact our financial condition and results of operations or make the arrangements less successful than anticipated, including the following:

- we may be unable to take actions that we believe are appropriate but are opposed by our joint venture partner under arrangements that require us to cede or share decision-making authority over major decisions affecting the ownership or operation of the joint venture and any property owned by the joint venture, such as the sale or financing of the business or the making of additional capital contributions for the benefit of the business;
- our joint venture partner may take actions that we oppose;
- we may be unable to sell or transfer our interest in a joint venture to a third party if we fail to obtain the prior consent of our joint venture partner;
- our joint venture partner may become bankrupt or fail to fund their share of required capital contributions, which could adversely impact the joint venture or increase our financial commitment to the joint venture;
- our joint venture partner may have business interests or goals with respect to a business that conflict with our business interests and goals, including with respect to the timing, terms and strategies for investment, which could increase the likelihood of disputes regarding the ownership, management or disposition of the business;
- disagreements with our joint venture partner could result in litigation or arbitration that increases our expenses, distracts our officers and directors, and disrupts the day-to-day operations of the business, including the delay of important decisions until the dispute is resolved; and
- we may suffer losses as a result of actions taken by our joint venture partner with respect to our joint venture investment.

We derive a significant amount of our revenues from a few payors, which puts our financial condition and results of operations at risk. Any changes in the funding, financial viability or our relationships with these payors could have a material adverse impact on our financial condition and results of operations.

We generate a significant amount of our revenue from a few payors under a small number of contracts. For example, for the years ended December 31, 2019, 2018 and 2017, we generated 47.6%, 51.4%, and 52.4%, respectively, of our consolidated revenue from ten payors. Additionally, the top five payors represented, in the aggregate, 32.4%, 34.0%, and 36.1%, respectively, of revenue for the years ended December 31, 2019, 2018 and 2017. Furthermore, a single payor related to Matrix represented 29.2%, 31.5%, and 30.9% of Matrix revenue for the years ended December 31, 2019, 2018 and 2017, respectively. The loss of, reduction in amounts generated by, or changes in methods or regulations governing payments for our services under these contracts could have a material adverse impact on our revenue and results of operations. In addition, any consolidation of any of our private payors could increase the impact that any such risks would have on our revenue, financial position, and results of operations.

If we fail to estimate accurately the cost of performing certain contracts, we may experience reduced or negative margins.

During 2019, 2018 and 2017, 84.6%, 79.2%, and 77.9% of our revenue, respectively, was generated under capitated contracts with the remainder generated through FFS and flat fee contracts. Under most of our capitated contracts, we assume the responsibility of managing the needs of a specific geographic population by contracting out transportation services to local transportation companies on a per ride or per mile basis. We use “pricing models” to determine applicable contract rates, which take into account factors such as estimated utilization, state specific data, previous experience in the state or with similar services, the medically covered programs outlined in the contract, identified populations to be serviced, estimated volume, estimated transportation provider rates and availability of mass transit. The amount of the fixed per-member, monthly fee is determined in the bidding process, but is predicated on actual historical transportation data for the subject geographic region as provided by the payor, actuarial work performed in-house as well as by third party actuarial firms and actuarial analysis provided by the payor. If the utilization of our services is more than we estimated, the contract may be less profitable than anticipated, or may not be profitable at all. Under our FFS contracts, we receive fees based on our interactions with government-sponsored clients. To earn a profit on these contracts, we must accurately estimate costs incurred in providing services. Our risk relating to these contracts is that our client population is not large enough to cover our fixed costs, such as rent and overhead. Our FFS contracts are not reimbursed on a cost basis and therefore, if we fail to estimate our costs accurately, we may experience reduced margins or losses on these contracts. Revenue under certain contracts may be adjusted prospectively if client volumes are below expectations. If we are unable to adjust our costs accordingly, our profitability may be negatively affected. In addition, certain contracts with state Medicaid agencies are renewable or extended at the state's option without an adjustment to pricing terms. If such renewed contracts require us to incur higher costs, including inflation or regulatory changes, than originally anticipated, our results of operations and financial condition may be adversely affected.

We may incur costs before receiving related revenues, which affect our liquidity.

When we are awarded a contract to provide services, we may incur expenses before we receive any contract payments. These expenses include leasing office space, purchasing office equipment, instituting information technology systems, development of supply chains and hiring personnel. As a result, in certain contracts where the payor does not fund program start-up costs, we may be required to make significant investments before receiving any related contract payments or payments sufficient to cover start-up costs. In addition, payments due to us from payors may be delayed due to billing cycles, which may adversely affect our liquidity. Moreover, any resulting mismatch in expenses and revenue could be exacerbated if we fail either to invoice the payor correctly or to collect our fee in a timely manner. Such amounts may exceed our available cash, and any resulting liquidity shortages may require additional financing, which may not be available on satisfactory terms, or at all. This could have a material adverse impact on our ongoing operations and our financial position**.**

Our business is subject to risks of litigation.

The services we provide are subject to lawsuits and claims. A substantial award payable by us could have a material adverse impact on our operations and cash flows, and could adversely affect our ability to continue to purchase appropriate liability insurance. We can be subject to claims for negligence or intentional misconduct, in addition to professional liability type claims, by an employee or a third party we engage to assist with the provision of services, including but not limited to claims arising out of accidents involving vehicle collisions, CHAs performed by Matrix, and various claims that could result from employees or contracted third parties driving to or from interactions with clients or while providing direct client services. We can be subject to employee-related claims such as wrongful discharge, discrimination or a violation of equal employment laws and permitting issues. While we attempt to insure against these types of claims, damages exceeding our insurance limits or outside our insurance coverage, such as a claim for fraud, certain wage and hour violations or punitive damages, could adversely affect our cash flow and financial condition.

Our business may be adversely impacted if the drivers we engage as independent contractors were instead classified as employees.

We believe that the drivers we engage to provide rider benefits are properly classified as independent contractors and that these drivers are not our employees. Changes to federal, state or local laws governing the definition or classification of independent contractors, or judicial or administrative challenges to our classification of these drivers as independent contractors, could affect the status of these drivers as independent contractors. A change in the classification of these drivers from independent contractors to employees could adversely affect our business and financial condition.

We face risks related to attracting and retaining qualified employees and labor relations.

Our success depends, to a significant degree, on our ability to identify, attract, develop, motivate and retain highly qualified and experienced professionals who possess the skills and experience necessary to deliver high-quality services to our clients, with the continued contributions of our senior management being especially critical to our success. Our objective of providing the highest quality of service to our clients is a significant consideration when we evaluate the education, experience and qualifications of potential candidates for employment as direct care and administrative staff. A portion of our staff is professionals with requisite educational backgrounds and professional certifications. These employees are in great demand and are likely to remain a limited resource for the foreseeable future.

Our ability to attract and retain employees with the requisite experience and skills depends on several factors including, but not limited to, our ability to offer competitive wages, benefits and professional growth opportunities. While we have established programs to attract new employees and provide incentives to retain existing employees, particularly our senior management, we cannot assure you that we will be able to attract new employees or retain the services of our senior management or any other key employees in the future. Some of the companies with which we compete for experienced personnel may have greater financial, technical, political and marketing resources, name recognition and a larger number of clients and payors than we do, which may prove more attractive to employment candidates. The inability to attract and retain experienced personnel could have a material adverse effect on our business.

The performance of our business also depends on the talents and efforts of our highly skilled information technology professionals. Our success depends on our ability to recruit, retain and motivate these individuals.

Effective succession planning is also important to our future success. If we fail to ensure the effective transfer of senior

management knowledge and smooth transitions involving senior management, our ability to execute short and long-term strategic, financial and operating goals, as well as our business, financial condition and results of operations generally, could be adversely affected.

We may have difficulty successfully completing divestitures or exiting businesses

As demonstrated most recently with the WD Services sale in 2018 and various other transactions involving WD Services, as well as the sale of a controlling interest in Matrix in 2016, we may dispose of all or a portion of our investments or exit businesses based on a variety of factors, including availability of alternative opportunities to deploy capital or otherwise maximize shareholder value as well as other strategic considerations. A divestiture or business termination could result in difficulties in the separation of operations, services, products and personnel, the diversion of management's attention, the disruption of our business and the potential loss of key employees and customers. A divestiture or business termination may be subject to the satisfaction of pre-closing conditions as well as to obtaining necessary regulatory approvals, which, if not satisfied or obtained, may prevent us from completing the disposition or business termination, whether or not the disposition or business termination has been publicly announced. A divestiture or business termination may also involve continued financial involvement in the divested assets and businesses, such as indemnities or other financial obligations, including continuing obligations to employees, in which the performance of the divested assets or businesses could impact our financial position and results of operations. Further, such divestitures may result in proceeds to us in an amount less than we expect or less than our assessment of the value of those assets. Any sale of our assets could result in a loss on divestiture. Any of the foregoing could adversely affect our financial condition and results of operations.

The indemnification provisions of acquisition and disposition agreements by which we have acquired or sold companies may result in liabilities.

We rely heavily on the representations and warranties and related indemnities provided to us by the sellers of acquired companies, including as they relate to creation, ownership and rights in intellectual property and compliance with laws and contractual requirements. However, the liability of the former owners is limited under the relevant acquisition agreements, and certain sellers may be unable to meet their indemnification responsibilities. Similarly, the purchasers of our divested operations may from time to time agree to indemnify us for operations of such businesses after the closing. We cannot be assured that any of these indemnification provisions will fully protect us, and as a result we may face unexpected liabilities that adversely affect our consolidated results of operations, financial condition and cash flows.

In addition, we have provided certain indemnifications in connection with the WD Services sale in 2018, the Matrix Transaction in 2016 and the Human Services Sale in 2015. To the extent we choose to divest other operations of our businesses in the future, we expect to provide certain indemnifications in connection with these divestitures. We may face liabilities in connection with these current or future indemnification obligations that may adversely affect our consolidated results of operations, financial condition and cash flows.

Our success depends on our ability to compete effectively in the marketplace.

We compete for clients and for contracts with a variety of organizations that offer similar services. Many organizations of varying sizes compete with us, including local not-for-profit organizations and community-based organizations, larger companies, organizations that currently provide or may begin to provide similar NET management services (including transportation network companies such as Uber and Lyft) and CHA providers. Some of these companies may have greater financial, technical, political, marketing, name recognition and other resources and a larger number of clients or payors than we do. In addition, some of these companies offer more services than we do. To remain competitive, we must provide superior services and performance on a cost-effective basis to our customers.

The market in which we operate is influenced by technological developments that affect cost-efficiency and quality of services, and the needs of our customers change and evolve regularly. Accordingly, our success depends on our ability to develop services that address these changing needs and to provide technology needed to deliver these services on a cost-effective basis. Our competitors may better utilize technology to change the way services in our industry are designed and delivered and they may be able to provide our customers with different or greater capabilities than we can provide, including better contract terms, technical qualifications, price and availability of qualified professional personnel. In addition, new or disruptive technologies and methodologies by our competitors may make our services uncompetitive.

In conjunction with our ongoing efforts to improve cost-efficiency and the customer experience, in September 2018, we completed our acquisition of Circulation. We incurred costs associated with such acquisition and will also incur costs as we

continue to implement the Circulation Select technology across LogistiCare’s existing operations, but there is no guarantee that this will ultimately serve our business purposes or result in lower costs or improved customer experience.

We have experienced, and expect to continue to experience, competition from new entrants into the markets in which we operate. Increased competition may result in pricing pressures, loss of or failure to gain market share or loss of or failure to gain clients or payors, any of which could have a material adverse effect on our operating results. Our business may also be adversely affected by the consolidation of competitors, which may result in increased pricing pressure or negotiating leverage with payors, or by the provision of our services by payors or clients directly, including through the acquisition of competitors.

We may be adversely affected by inadequacies in, or security breaches of, our information technology systems.

Our information technology systems are critically important to our operations and we must implement and maintain appropriate and sufficient infrastructure and systems to support growth and business processes. We provide services to individuals, including services that require us to collect, process and maintain sensitive and personal client information, including information relating to their health, identification numbers and other personal data. As a result, we are subject to complex and evolving U.S. privacy laws and regulations, including those pertaining to the handling of personal data, such as the California Consumer Privacy Act of 2018 ("CCPA"). Government authorities around the world are considering, or are in the process of implementing, new data protection regulations. Many of these laws and regulations are subject to uncertain application, interpretation or enforcement standards that could result in claims, changes to our business practices, data processing and security systems, penalties, increased operating costs or other impacts on our businesses. For example, the CCPA recently went into effect on January 1, 2020, and affords California residents and households expanded privacy protections. The recently enacted laws often provide for civil penalties for violations, as well as a private right of action for data breaches that may increase data breach litigation. Further, while we are using internal and external resources to monitor compliance with and to continue to modify our data processing practices and policies in order to comply with evolving privacy laws, relevant regulatory authorities could determine that our data handling practices fail to address all the requirements of certain new laws, which could subject us to penalties and/or litigation. In addition, there is no assurance that our security controls over personal data, the training of employees and vendors on data privacy and data security, and the policies, procedures and practices we implemented or may implement in the future will prevent the improper disclosure of personal data. Improper disclosure of personal data in violation of the CCPA and/or of other personal data protection laws could harm our reputation, cause loss of consumer confidence, subject us to government enforcement actions (including fines), or result in private litigation against us, which could result in loss of revenue, increased costs, liability for monetary damages, fines and/or criminal prosecution, all of which could adversely affect our business, consolidated results of operations, financial condition and cash flows.

We also rely on our information technology systems (some of which are outsourced to third parties) to manage the data, communications and business processes for all other functions, including our marketing, sales, logistics, customer service, accounting and administrative functions. Further, our systems include interfaces to third-party stakeholders, often connected via the Internet. In addition, certain of our services or information related to our services are carried out or hosted within our customers’ IT systems, and any failure or weaknesses in their IT systems may negatively impact our ability to deliver the services, for which we may not receive relief from contractual performance obligations or compensation for services provided. As a result of the data we maintain and third-party access, we are subject to increasing cybersecurity risks. The nature of our business, where services are often performed outside of locations where network security can be assured, adds additional risk.

If we do not allocate and effectively manage the resources necessary to build, sustain and protect an appropriate technology infrastructure, our business or financial results could be negatively impacted. Furthermore, computer hackers and data thieves are increasingly sophisticated and operate large scale and complex automated attacks and our information technology systems may be vulnerable to material security breaches (including the access to or acquisition of customer, employee or other confidential data), cyber-based attacks or other material system failures. Because the techniques used to obtain unauthorized access or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to implement adequate preventative measures sufficient to prevent a breach of our systems and protect sensitive data. Any breach of our data security could result in an unauthorized release or transfer of customer or employee information, or the loss of valuable business data or cause a disruption in our business. A failure to prevent, detect and respond in a timely manner to a major breach of our data security or to other cybersecurity threats could result in system disruption, business continuity issues or compromised data integrity. These events or any other failure to safeguard personal data could give rise to unwanted media attention, damage our reputation, damage our customer relationships and result in lost sales, fines or lawsuits. We may also be required to expend significant capital and other resources to protect against or respond to or alleviate problems caused by a security breach. If we are unable to prevent material failures, our operations may be impacted, and we may suffer other negative consequences such as reputational damage, litigation, remediation costs, a requirement not to operate our business until defects are remedied or penalties under various data privacy laws and regulations, any of which could

detrimentally affect our business, financial condition and results of operations.

Failure to protect our client's privacy and confidential information could lead to legal liability, adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operations.

We retain confidential information in our computer systems, including personal information about our end users, such as names, addresses, phone numbers, email addresses, identification numbers and payment account information. Malicious cyber- attacks to gain access to personal information affect many companies across various industries, including ours. Pursuant to federal and state laws, various government agencies have established rules protecting the privacy and security of personal information. In addition, most states have enacted laws, which vary significantly from jurisdiction to jurisdiction, to safeguard the privacy and security of personal information. An increasing number of states require that customers be notified if a security breach results in the inappropriate disclosure of personally identifiable customer information. Any compromise of the security of our systems that results in the disclosure of personally identifiable customer or employee information or inadvertent disclosure of any clients' personal information could damage our reputation, deter people from using our services, expose us to litigation, increase regulatory scrutiny and require us to incur significant technical, legal and other expenses. In addition, data breaches impacting other companies, such as our vendors, may allow cybercriminals to obtain personally identifiable information about our customers. Cybercriminals may then use this information to, among other things, attempt to gain unauthorized access to our customers' accounts, which could have a material adverse effect on our reputation, business and results of operations or financial condition.

Failure to maintain or to develop further reliable, efficient and secure information technology systems would be disruptive to our operations and diminish our ability to compete and grow our business successfully.

We are highly dependent on efficient and uninterrupted performance of our information technology and business systems. These systems quote, process and service our business, and perform financial functions necessary for pricing and service delivery. These systems must also be able to undergo periodic modifications and improvements without interruptions or untimely delays in service. Additionally, our ability to integrate our systems with those of our clients is critical to our success. Our information systems rely on the commitment of significant financial and managerial resources to maintain and enhance existing systems as well as develop and create new systems to keep pace with continuing changes in information processing technology or evolving industry and regulatory requirements. However, we still rely on manual processes and procedures, including accounting, reporting and consolidation processes that may result in errors and may not scale proportionately with our business growth.

A failure or delay to achieve improvements in our information technology platforms could interrupt certain processes or degrade business operations and could place us at a competitive disadvantage. If we are unable to implement appropriate systems, procedures and controls, we may not be able to successfully offer our services and grow our business and account for transactions in an appropriate and timely manner, which could have an adverse effect on our business, financial condition and results of operations.

Our results of operations will continue to fluctuate due to seasonality.

Our operating results and operating cash flows normally fluctuate as a result of seasonal variations in our business. Due to higher demand in the summer months and lower demand in the winter months, we normally experience lower operating margins in the summer and higher operating margins in the winter.

Our reported financial results could suffer if there is an impairment of long-lived assets.

We are required under generally accepted accounting principles in the United States of America ("GAAP") to review the carrying value of long-lived assets to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. Factors that may necessitate an impairment assessment include, among others, significant adverse changes in the extent or manner in which an asset is used, significant adverse changes in legal factors or the business climate that could affect the value of an asset or significant declines in the observable market value of an asset. Where the presence or occurrence of those events indicates that an asset may be impaired, we assess its recoverability by determining whether the carrying value of the asset exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the asset over the remaining economic life of the asset. If such testing indicates the carrying value of the asset is not recoverable, we estimate the fair value of the asset using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. If the fair value of those assets is less than carrying value, we record an impairment loss equal to the excess of the carrying value over the estimated fair value. The use of different estimates or assumptions in determining the fair value of our intangible assets may result in different values for those assets, which could

result in an impairment or, in the period in which an impairment is recognized, could result in a materially different impairment charge. For example, we recorded an asset impairment charge of $14.2 million in 2018 related to NextGen.

In addition, goodwill may be impaired if the estimated fair value of our reporting unit is less than the carrying value of the respective reporting unit. As a result of our growth, in part through acquisitions, goodwill and other intangible assets represent a significant portion of our assets. For example, goodwill generated in relation to the acquisition of Circulation in 2018 was $40.0 million. We perform an analysis on our goodwill balances to test for impairment on an annual basis. Interim impairment tests may also be required in advance of our annual impairment test if events occur or circumstances change that would more likely than not reduce the fair value, including goodwill, of our reporting unit below the reporting unit's carrying value. Such circumstances could include but are not limited to: (1) loss of significant contracts, (2) a significant adverse change in legal factors or in the climate of our business, (3) unanticipated competition, (4) an adverse action or assessment by a regulator or (5) a significant decline in our stock price.

As of December 31, 2019, the carrying value of goodwill, intangibles and property and equipment, net was $135.2 million, $19.9 million and $23.2 million, respectively. We continue to monitor the carrying value of these long-lived assets. If future conditions are different from management's estimates at the time of an acquisition or market conditions change subsequently, we may incur future charges for impairment of our goodwill, intangible assets, or property and equipment which could have a material adverse impact on our results of operations and financial position.

Our use of a reinsurance program and insurance programs to cover certain claims for losses suffered and costs or expenses incurred could negatively impact our business.

We reinsured a substantial portion of our automobile, general liability, professional liability and workers' compensation insurance policies through May 15, 2017. Upon renewal of the policies, we made the decision to no longer reinsure these risks, although we continue to resolve claims under the historical policy years. Through February 15, 2011, one of our subsidiaries also insured certain general liability, automobile liability, and automobile physical damage coverage for independent third-party transportation providers. In the event that actual reinsured losses increase unexpectedly and substantially exceed actuarially determined estimated reinsured losses under the program, the aggregate of such losses could materially increase our liability and adversely affect our financial condition, liquidity, cash flows and results of operations.

In addition, under our current insurance policies, we are subject to deductibles, and thus retain exposure within these limits. In the event that actual losses within our deductible limits increase unexpectedly and substantially exceed our expected losses, the aggregate of such losses could materially increase our liability and adversely affect our financial condition, liquidity, cash flows and results of operations.

As the availability to us of certain traditional insurance coverage diminishes or increases in cost, we will continue to evaluate the levels and types of insurance coverage we include in our reinsurance and self-insurance programs, as well as the deductible limits within our traditional insurance programs. Any increase to these reinsurance and self-insurance programs or increases in deductible limits increases our risk exposure and therefore increases the risk of a possible material adverse effect on our financial condition, liquidity, cash flows and results of operations.

Inaccurate, misleading or negative media coverage could damage our reputation and harm our ability to maintain or procure contracts.

There is sometimes media coverage regarding services that we or our competitors provide or contracts that we or our competitors are a party to. Inaccurate, misleading or negative media coverage about us could harm our reputation and, accordingly, our ability to maintain our existing contracts or procure new contracts.

Regulatory Risks

We conduct business in a heavily regulated healthcare industry. Compliance with existing laws is costly, and changes in laws or violations of laws may result in increased costs or sanctions that could reduce our revenue and profitability.

The U.S. healthcare industry is subject to extensive federal and state laws relating to, among other things:

- professional licensure;
- conduct of operations;
- addition of facilities, equipment and services, including certificates of need;
- coding and billing related to our services; and

- payment for services.

Both federal and state government agencies have increased coordinated civil and criminal enforcement efforts related to the healthcare industry. Regulations related to the healthcare industry are extremely complex and, in many instances, the industry does not have the benefit of significant regulatory or judicial interpretation of those laws. The Patient Protection and Affordable Care Act, as well as the attempts to invalidate all or portions of those laws in ongoing legislation, has also introduced some degree of regulatory uncertainty as the industry does not know how the changes it introduced or changes to it will affect many aspects of the industry.

Medicare and Medicaid anti-fraud and abuse laws prohibit certain business practices and relationships related to items and services reimbursable under Medicare, Medicaid and other governmental healthcare programs, including the payment or receipt of remuneration to induce or arrange for referral of patients or recommendation for the provision of items or services covered by Medicare or Medicaid or any other federal or state healthcare program (referred to as “the Anti-Kickback Statute and Civil Monetary Penalty Rules Regarding Beneficiary Inducements”). Federal and state laws also prohibit the submission of false or fraudulent claims, including claims to obtain reimbursement under Medicare and Medicaid (referred to as “the False Claims Act”). We have implemented compliance policies to help assure our compliance with these regulations as they become effective; however, different interpretations or enforcement of these laws and regulations in the future could subject our practices to allegations of impropriety or illegality or could require us to make changes in our facilities, equipment, personnel, services or the manner in which we conduct our business.

Changes in budgetary priorities of the government entities that fund the services we provide could result in the loss of contracts or a decrease in amounts payable to us under our contracts.

Our revenue is largely derived from contracts that are directly or indirectly paid or funded by government agencies. All of these contracts are subject to legislative appropriations and state and/or national budget approval, as well as changes to potential eligibility for services. The availability of funding under our contracts with state governments is dependent in part upon federal funding to states. Changes in Medicaid provider reimbursement and federal matching funds methodologies may further reduce the availability of federal funds to states in which we provide services. CMS has repeatedly invited states to submit requests for waivers to CMS that would allow states to reduce or eliminate the NET benefit for some populations. In response, several states have asked for and received temporary waivers of NET requirements for the Medicaid expansion or non-disabled adult population. In addition, in late 2018, the Office of Management and Budget published in the Unified Agenda DHHS's intention to revise the current regulations under which states are required to provide NET services for all Medicaid beneficiaries. The stated goal of this proposed rule is to provide states with greater flexibility as part of the administration’s reform initiatives. It is possible that revised regulations could be issued in 2020 making it optional for the states to provide NET services to some or all Medicaid beneficiaries. Such changes, individually or in the aggregate, could have a material adverse effect on our operations although the extent of such impact is unknowable and will depend on the decisions of each state and, in some circumstances, each Medicaid managed care organization.

Currently, many of the U.S. states in which our segments operate are facing budgetary shortfalls or changes in budgetary priorities. While many of these states are dealing with budgetary concerns by shifting costs from institutional care to home and community based care such as we provide, there is no assurance that this trend will continue. In addition, because funding under our contracts is dependent in part upon federal funding, such funding changes could have a significant effect upon such segments’ businesses

Consequently, a significant decline in government expenditures or the number of program beneficiaries, a shift of expenditures or funding away from programs that call for the types of services that we provide, or change in government contracting or funding policies could cause payors to terminate their contracts with us or reduce their expenditures under those contracts, either of which could have a negative impact on our financial position and operating results.

We are subject to regulations relating to privacy and security of patient and service user information. Failure to comply with privacy and security regulations could result in a material adverse impact on our segments’ operating results.

There are numerous federal and state regulations addressing patient information privacy and security concerns. In particular, the federal regulations issued under HIPAA contain provisions that:

- protect individual privacy by limiting the uses and disclosures of patient information;
- require the implementation of security safeguards to ensure the confidentiality, integrity and availability of individually identifiable health information in electronic form; and
- prescribe specific transaction formats and data code sets for certain electronic healthcare transactions.

We invest considerable time and resources in ensuring compliance with state and federal privacy laws and regulations. These investments could negatively impact our financial position and results of operations. Further, the HIPAA regulations and state privacy laws expose us to increased regulatory risk, as the penalties associated with a failure to comply or with information security breaches, even if unintentional, could have a material adverse effect on our financial position and results of operations.

We could be subject to actions for false claims or recoupment of funds pursuant to certain audits for non-compliance with government coding and billing rules, which could have a material adverse impact on our operating results.

If we fail to comply with federal and state documentation, coding and billing rules, we could be subject to criminal or civil penalties, loss of licenses and exclusion from the Medicare and Medicaid programs, which could have a material adverse impact on our financial position and operating results. In billing for our services to third-party clients, we must follow complex documentation, coding and billing rules. These rules are based on federal and state laws, rules and regulations, various government pronouncements, including guidance and notices, and industry practice. Failure to follow these rules could result in potential criminal or civil liability under the federal False Claims Act, under which extensive financial penalties can be imposed or under various state statutes which prohibit the submission of false claims for services covered. Compliance failure could further result in criminal liability under various federal and state criminal or civil statutes. We may be subject to audits conducted by our clients or their proxies, including the Unified Program Integrity Contractors, regional federal program integrity contractors for the Medicare and Medicaid programs, that may result in recoupment of funds. In addition, our clients may be subject to certain audits that may result in recoupment of funds from our clients that may, in turn, implicate us. We could be adversely affected in the event such an audit results in negative findings and recoupment from or penalties to our customers.

Our contracts are subject to stringent claims and invoice processing regimes which vary depending on the customer and nature of the payment mechanism. Government entities may take the position that if a transport cannot be matched to a medically necessary healthcare event, or is conducted inconsistently with contractual, regulatory or even policy requirements, payment for such transport may be recouped by such customer.

While we carefully and regularly review documentation, and coding and billing practices, the rules are frequently vague and confusing and they cannot ensure that governmental investigators, private insurers or private whistleblowers will not challenge our practices. Such a challenge could result in a material adverse effect on our financial position and results of operations.

We could be subject to civil penalties and loss of business if we fail to comply with applicable bribery, corruption and other regulations governing business with public organizations.

We are subject to the federal Anti-Kickback Statute, which prohibits the offer, payment, solicitation or receipt of any form of remuneration in return for referring, ordering, leasing, purchasing or arranging for or recommending the ordering, purchasing or leasing of items or services payable by a federally funded healthcare program. Any of our financial relationships with healthcare providers will be potentially implicated by this statute to the extent Medicare or Medicaid referrals are implicated. Violations of the Anti-Kickback Statute could result in substantial civil or criminal penalties, including criminal fines of up to $100,000 per violation, imprisonment of up to ten years, civil penalties under the Civil Monetary Penalties Law of up to $100,000 per violation, plus three times the remuneration involved, civil penalties under the False Claims Act of up to $22,363 for each claim submitted, plus three times the amounts paid for such claims and exclusion from participation in the Medicaid and Medicare programs. Any such penalties could have a significant negative effect on our operations. Furthermore, the exclusion could result in significant reductions in our revenues, which could materially and adversely affect our business, financial position and results of operations. In addition, many states have adopted laws similar to the federal Anti-Kickback Statute with similar penalties. On October 9, 2019, DHHS published a proposed rule to amend the local transportation safe harbor to the Anti-Kickback Statute and Civil Monetary Penalty Rules Regarding Beneficiary Inducements, which, when finalized, may change our compliance requirements. Based on the contents of the proposed rule, our compliance risk will either be reduced or remain unchanged in comparison to current requirements

Changes to the regulatory landscape applicable to Matrix could have a material adverse effect on our results of operations and financial condition.

The CHA services industry is primarily regulated by federal and state healthcare laws and the requirements of participation and reimbursement of the MA Program established by CMS. From time to time, CMS considers changes to regulatory guidelines with respect to prospective CHAs or the risk adjusted payment system applicable to Matrix's MA plan customers. CMS could adopt new requirements or guidelines that may, for example, increase the costs associated with CHAs,

limit the opportunities and settings available to administer CHAs, or otherwise change the risk adjusted payment system in a way that would adversely impact our business. Further, changes in or adoption of new state laws governing the scope of practice of mid-level practitioners, or more restrictive interpretations of such laws, may restrict Matrix's ability to provide services using nurse practitioners. Any such implementation of additional regulations on the CHA industry by CMS or other regulatory bodies or further regulation of mid-level practitioners could have a material adverse impact on Matrix's revenues and margins, which could have a material adverse impact on our consolidated results of operations and financial position.

As government contractors, our segments are subject to an increased risk of litigation and other legal actions and liabilities.

As government contractors, our segments are subject to an increased risk of investigation, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities that are not as frequently experienced by companies that do not provide government sponsored services. Companies providing government sponsored services can also become involved in public inquiries which can lead to negative media speculation or potential cancellation or termination of contracts. Further, government contract awards are frequently challenged by the losing bidders leading to delays in contract start dates, rebids, or even loss of a previously awarded contract.

Our business is subject to licensing regulations and other regulatory provisions, including provisions governing surveys and audits. Changes to, or violations of, these regulations could negatively impact us.

In many of the locations where we operate, we are required by local laws to obtain and maintain licenses. The applicable state and local licensing requirements govern the services we provide, the credentials of staff, record keeping, treatment planning, client monitoring and supervision of staff. The failure to maintain these licenses or the loss of a license could have a material adverse impact on us and could prevent us from providing services to clients in a given jurisdiction. Our contracts are subject to surveys or audit by our payors or clients. We are also subject to regulations that restrict our ability to contract directly with a government agency in certain situations. Such restrictions could affect our ability to contract with certain payors and clients, and could have a material adverse impact on our financial condition and results of operations.

Our contracts are subject to audit and modification by the payors with whom we contract, at their sole discretion.

Our businesses depend on our ability to successfully perform under various government funded contracts. Under the terms of these contracts, payors, government agencies or their proxy contractors can review our compliance or performance, as well as our records and general business practices at any time, and may, in their discretion:

- suspend or prevent us from receiving new contracts or extending existing contracts because of violations or suspected violations of procurement laws or regulations;
- terminate or modify our existing contracts;
- reduce the amount we are paid under our existing contracts; or
- audit and object to our contract related fees.

Any increase in the number or scope of audits could increase our expenses, and the audit process may disrupt the day-to-day operations of our business and distract management. If payors have significant audit findings, or if they make material modifications to our contracts, it could have a material adverse impact on our financial position and results of operations.

Our estimated income taxes could be materially different from income taxes that we ultimately pay.

We are subject to income taxation in both the U.S. and, due to our ownership of international entities prior to the WD Services sale, 10 foreign countries, including specific states or provinces where we operate. Our total income tax provision is a function of applicable local tax rates and the geographic mix of our income from continuing and discontinued operations before taxes, which is itself impacted by currency movements. Consequently, the isolated or combined effects of unfavorable movements in tax rates, geographic mix, or foreign exchange rates could reduce our after-tax income.

Our total income tax provision is based on our income and the tax laws in the various jurisdictions in which we operate. Significant judgment and estimation is required in determining our annual income tax expense and in evaluating our tax positions and related matters. In the ordinary course of our business, there are many transactions and calculations for which the ultimate tax determinations are uncertain or otherwise subject to interpretation. In addition, we make judgments regarding the applicability of tax treaties and the appropriate application of transfer pricing regulations. In the event one taxing jurisdiction disagrees with another taxing jurisdiction with respect to the amount or applicability of a particular type of tax, or the amount or availability of a particular type of tax refund or credit, we could experience temporary or permanent double taxation and increased professional fees to resolve such taxation matters.

Our determination of our income tax liability is always subject to review by applicable tax authorities, and we have been audited by various jurisdictions in prior years. We are currently under examination by the Internal Revenue Service as a result of the large refund received from the loss on the WD Services sale. In addition, we are being examined by various states and by the Saudi Arabian tax authorities. Although we believe our income tax estimates and related determinations are reasonable and appropriate, relevant taxing authorities may disagree. The ultimate outcome of any such audits and reviews could be materially different from the estimates and determinations reflected in our historical income tax provisions and accruals. Any adverse outcome of any such audit or review could have an adverse effect on our financial condition and the results of our operations.

Risks Related to Our Indebtedness

Restrictive covenants in our Credit Agreement may limit our current and future operations, particularly our ability to respond to changes in our business or to pursue our business strategies.

The terms contained in the agreements that govern certain of our indebtedness, including our Amended and Restated Credit and Guaranty Agreement (as amended, supplemented, or modified, the "Credit Agreement"), and the agreements that govern any future indebtedness of ours, may include a number of restrictive covenants that impose significant operating and financial restrictions, including restrictions on our ability to take actions that we believe may be in our best interest. These agreements, among other things, limit our ability to:

- incur additional debt;
- provide guarantees in respect of obligations of other persons;
- issue redeemable stock and preferred stock;
- pay dividends or distributions or redeem or repurchase capital stock;
- make loans, investments and capital expenditures;
- enter into transactions with affiliates;
- create or incur liens;
- make distributions from our subsidiaries;
- sell assets and capital stock of our subsidiaries;
- make acquisitions; and
- consolidate or merge with or into, or sell substantially all of our assets to, another person.

A breach of the covenants or restrictions could result in a default under the applicable agreements that govern our indebtedness. Such default may preclude us from drawing from our senior secured credit facility (the "Credit Facility") or allow the creditors to accelerate the related debt and may result in the acceleration of any other debt that we may incur to which a cross acceleration or cross-default provision applies. In the event our lenders accelerate the repayment of our borrowings, we cannot assure that we and our subsidiaries would have sufficient assets to repay such indebtedness.

Expiration of existing Credit Facility, loss of available financing or an inability to renew, or refinance our debt could have an adverse effect on our financial condition and results of operations.

At December 31, 2019, we had no balance outstanding and our available credit under the Credit Facility was $186.5 million. However, the Credit Facility matures on August 2, 2020 and there can be no assurance that we will be able to extend our current Credit Facility or enter into a new one on terms that are acceptable to us, or at all. If our cash on hand is insufficient, or we are unable to generate sufficient cash flows in the future to cover our cash flow and liquidity needs and service our debt, we may be required to seek additional sources of funds, including extending or replacing our maturing Credit Facility, refinancing all or a portion of our existing or future debt, incurring additional debt to maintain sufficient cash flow to fund our ongoing operating needs and fund anticipated expenditures. There can be no assurance that any new financing or refinancing will be possible or obtained on terms acceptable to us, or at all. If we are unable to obtain needed financing, we may (i) be unable to satisfy our ongoing obligations, (ii) be unable to pursue future business opportunities or fund acquisitions, (iii) find it more difficult to fund future operating costs, tax payments or general corporate expenditures and (iv) become vulnerable to adverse general economic, capital markets and industry conditions. Any of these circumstances could have a material adverse effect on our financial position, liquidity and results of operations.

We may incur substantial additional indebtedness in the future, which could impair our financial condition.

We may incur substantial additional indebtedness in the future to fund activities including but not limited to share repurchases, acquisitions, cash dividends and business expansion. Any existing and future indebtedness increases the risk that

we may be unable to generate cash sufficient to pay amounts due in respect of such indebtedness. Future substantial indebtedness could have other important consequences on our business. For example, it could:

- make it more difficult for us to satisfy our obligations;
- make it more difficult to renew or enter into new contracts with existing and potential future clients;
- limit our ability to borrow additional amounts to fund working capital, capital expenditures, debt service requirements, execution of our business strategy or acquisitions and other purposes;
- require us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on our debt, which would reduce the funds available to us for other purposes;
- restrict our ability to dispose of assets and use the proceeds from any such dispositions;
- restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due;
- make us more vulnerable to adverse changes in general economic, industry and competitive conditions, as well as in government regulation and to our business; and
- expose us to risks inherent in interest rate fluctuations because some of our borrowings are at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

Our ability to satisfy and manage our debt obligations depends on our ability to generate cash flow and on overall financial market conditions. To some extent, this is subject to prevailing economic and competitive conditions and to certain financial, business and other factors, many of which are beyond our control. Our business may not generate sufficient cash flow from operations to permit us to pay principal, premium, if any, or interest on our debt obligations. If we are unable to generate sufficient cash flow from operations to service our debt obligations and meet our other cash needs, we may be forced to reduce or delay capital expenditures, sell or curtail assets or operations, seek additional capital, or seek to restructure or refinance our indebtedness. If we must sell or curtail our assets or operations, it may negatively affect our ability to generate revenue.

Risks Related to Our Capital Stock

Our annual operating results and stock price may be volatile or may decline significantly regardless of our operating performance.

Our annual operating results and the market price for our Common Stock may fluctuate significantly in response to a number of factors, many of which we cannot control, including:

- changes in rates or coverage for services by payors;
- changes in Medicaid, Medicare or other U.S. federal or state rules, regulations or policies;
- market conditions or trends in our industry or the economy as a whole; including, without limitation, increases in the minimum wage in various jurisdictions in which we operate, and fluctuations in the size of the Medicare member population as well as overall health of its members;
- increased competition, including through insourcing of services by our clients and new entrants to the market;
- other events or factors, including those resulting from war, incidents of terrorism, natural disasters or responses to these events;
- changes in tax law; and
- changes in accounting principles.

In addition, the stock markets, and in particular, NASDAQ, have experienced considerable price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we become involved in securities litigation, we could incur substantial costs, and our resources and the attention of management could be diverted from our business.

The Company depends on its subsidiaries for cash to fund all of its operations and expenses, including to make future dividend payments, if any.

Our operations are conducted entirely through our subsidiaries and our ability to generate cash to fund all of our operations and expenses, to pay dividends or to meet any debt service obligations is highly dependent on the earnings and the receipt of funds from our subsidiaries via dividends or intercompany loans. We do not currently expect to declare or pay dividends on our Common Stock for the foreseeable future; however, to the extent that we determine in the future to pay dividends on our Common Stock, none of our subsidiaries will be obligated to make funds available to us for the payment of dividends. Further, the agreement governing our Credit Agreement significantly restricts the ability of our subsidiaries to pay dividends, make loans or otherwise transfer assets to us. In addition, Delaware law may impose requirements that may restrict

our ability to pay dividends to holders of our Common Stock. We do, however, pay cash dividends on redeemable convertible preferred stock quarterly in arrears on January 1, April 1, July 1 and October 1 of each year.

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our Common Stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If one or more analysts downgrade our stock or publish misleading or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price or trading volume to decline.

Future sales of shares by existing stockholders could cause our stock price to decline.

Sales of substantial amounts of our Common Stock in the public market, or the perception that these sales could occur, could cause the market price of our Common Stock to decline. As of February 24, 2020, we had 13,025,727 outstanding shares of Common Stock which are freely transferable without restriction or further registration under the Securities Act, unless held by or purchased by our "affiliates" as that term is defined in Rule 144 under the Securities Act. Shares of our Common Stock held by or purchased by our affiliates are restricted securities within the meaning of Rule 144 under the Securities Act, but will be eligible for resale subject to applicable volume, means of sale, holding period and other limitations of Rule 144 under the Securities Act.

As of December 31, 2019, shares of our Preferred Stock were convertible into 2,002,979 shares of Common Stock. On September 9, 2019, we filed a registration statement under the Securities Act relating to (i) 3,145,102 shares of Common Stock, consisting of 1,224,557 shares of Common Stock and 1,920,545 shares of Common Stock issuable upon the conversion of shares of Preferred Stock and (ii) 765,916 shares of Preferred Stock, for the sale by Coliseum Capital Co-Invest, L.P., Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P. and Blackwell Partners, LLC - Series A (collectively, the "Coliseum Stockholders") of such securities, which was declared effective on September 18, 2019.

In August 2016, we filed a registration statement under the Securities Act to register additional shares of Common Stock to be issued under our equity compensation plans and, as a result, all shares of Common Stock acquired upon exercise of stock options granted under our plans will also be freely tradable under the Securities Act, unless purchased by our affiliates. As of December 31, 2019, there were stock options outstanding to purchase a total of 639,412 shares of our Common Stock and there were 90,189 shares of our Common Stock subject to restricted stock awards. In addition, 1,306,243 shares of our Common Stock are reserved for future issuances under the plan.

The terms of our Preferred Stock contain restrictive covenants that may impair our ability to conduct business and we may not be able to maintain compliance with the obligations under our outstanding Preferred Stock which could have a material adverse effect on our future results of operations, financial position, and our stock price.

On February 11, 2015 and March 12, 2015, we issued $65.5 million and $15.8 million, respectively, of Preferred Stock. The terms of the Preferred Stock require us to pay mandatory quarterly dividends, either in cash or through an increase in the stated principal value of such stock. Our ability to satisfy and manage our obligations under our outstanding Preferred Stock depends, in part, on our ability to generate cash flow and on overall financial market conditions. Additionally, the terms of our Preferred Stock contain operating and financial covenants that limit management's discretion with respect to certain business matters. Among other things, these covenants, subject to certain limitations and exceptions, restrict our ability to incur additional debt, sell or otherwise dispose of our assets, make acquisitions, and merge or consolidate with other entities. As a result of these covenants and restrictions, we may be limited in how we conduct our business, which could have a material adverse effect on our future results of operations, financial position, and our stock price.

Future offerings of debt or equity securities that would rank senior to our Common Stock, may adversely affect the market price of our Common Stock.

If, in the future, we decide to issue debt or equity securities that rank senior to our Common Stock, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our Common Stock and may result in dilution to owners of our Common Stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot

predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our Common Stock will bear the risk of our future offerings reducing the market price of our Common Stock and diluting the value of their stock holdings in us.

Fulfilling our obligations incident to being a public company, including with respect to the requirements of and related rules under the Sarbanes-Oxley Act of 2002, is expensive and time-consuming, and any delays or difficulties in satisfying these obligations could have a material adverse effect on our future results of operations, financial position, and our stock price.

We are subject to the reporting and corporate governance requirements, under the listing standards of NASDAQ and the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), that apply to issuers of listed equity, which impose certain significant compliance costs and obligations upon us. Being a publicly listed company requires a significant commitment of additional resources and management oversight resulting in increased operating costs. These requirements also place additional demands on our finance and accounting staff and on our financial accounting and information systems. Other expenses associated with being a public company include increases in auditing, accounting and legal fees and expenses, investor relations expenses, increased directors' fees and director and officer liability insurance costs, registrar and transfer agent fees and listing fees, as well as other expenses. Additionally, as a public company, we are required, among other things, to define and expand the roles and the duties of our Board of Directors ("Board") and its committees and institute more comprehensive compliance and investor relations functions.

If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected. Preparing our consolidated financial statements involves a number of complex manual and automated processes, which are dependent upon individual data input or review and require significant management judgment. One or more of these elements may result in errors that may not be detected and could result in a material misstatement of our consolidated financial statements. If a material misstatement occurs in the future, we may fail to meet our future reporting obligations. For example, we may fail to file periodic reports in a timely manner or may need to restate our financial results, either of which may cause the price of our Common Stock to decline.

If the accounting estimates we make, and the assumptions on which we rely, in preparing our financial statements prove inaccurate, our actual results may be adversely affected.

Our financial statements have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments about, among other things, taxes, revenue recognition, contingent obligations, transportation expense, recoverability of long-lived assets and doubtful accounts. These estimates and judgments affect the reported amounts of our assets, liabilities, revenue and expenses, the amounts of charges accrued by us, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances and at the time they are made. If our estimates or the assumptions underlying them are not correct, we may need to accrue additional charges or reduce the value of assets that could adversely affect our financial position and results of operations, leading to a loss in investor confidence in our ability to manage our business and our stock price could decline.

Anti-takeover provisions in our second amended and restated certificate of incorporation and amended and restated by-laws could discourage, delay or prevent a change of control of our company and may affect the trading price of our Common Stock.

Our second amended and restated certificate of incorporation and amended and restated bylaws include a number of provisions that may be deemed to have anti-takeover effects, including provisions governing when and by whom special meetings of our stockholders may be called, and provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. In addition, in the event of certain change of control transactions, holders of Preferred Stock may be entitled under the governing certificate of designations to be paid both (i) the liquidation preference per share then in effect plus certain unpaid dividends and (ii) a pro rata portion of the transaction consideration on an as-converted basis. As a result of these provisions, holders of our Common Stock may not receive the full benefit of any premium to the market price of our Common Stock offered by a bidder in a takeover context.

Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our Common Stock if the provisions are viewed as discouraging takeover attempts in the future. Our second amended and restated certificate of incorporation and amended and restated by-laws may also make it difficult for stockholders to replace or remove our management. These provisions may facilitate management entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our stockholders.

We do not expect to pay dividends on our Common Stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our Common Stock.

We currently do not expect to declare and pay dividends on our Common Stock for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth, to develop our business, invest in our technology, for working capital needs and for general corporate purposes. Therefore, you are not likely to receive any dividends on your Common Stock for the foreseeable future and the success of an investment in shares of our Common Stock will depend upon any future appreciation in their value. There is no guarantee that shares of our Common Stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

Our principal executive office is located in Atlanta, Georgia. As of February 20, 2020, we leased space in approximately 38 locations. The lease terms vary and we believe are generally at market rates. We believe that our properties are adequate for our current business needs, and believe that we can obtain adequate space, if needed, to meet our foreseeable business needs.

Item 3. ***Legal Proceedings*****.**

From time-to-time, we may become involved in legal proceedings arising in the ordinary course of our business. We cannot predict with certainty the potential for or outcome of any future litigation. Regardless of the outcome of any particular litigation and the merits of any particular claim, litigation can have a material adverse impact on our company due to, among other reasons, any injunctive relief granted which could inhibit our ability to operate our business, amounts paid as damages or in settlement of any such matter, diversion of management resources and defense costs.

On January 21, 2019, the United States District Court for the Southern District of Ohio unsealed a qui tam complaint, filed in December 2015, against Mobile Care Group, Inc., Mobile Care Group of Ohio, LLC, Mobile Care EMS & Transport, Inc. and LogistiCare Solutions, LLC ("LogistiCare") by Brandee White, Laura Cunningham, and Jeffery Wisier (the "Relators") alleging violations of the federal False Claims Act by presenting claims for payment to government healthcare programs knowing that the prerequisites for such claims to be paid had not been met. The Relators seek to recover damages, fees and costs under the federal False Claims Act including treble damages, civil penalties and attorneys' fees. In addition, the Relators seek reinstatement to their jobs with the Mobile Care entities. None of the Relators were employed by LogistiCare. Prior to January 21, 2019, LogistiCare had no knowledge of the complaint. The federal government has declined to intervene against LogistiCare. The Company filed a motion to dismiss the Complaint on April 22, 2019. Although the outcome of such matter is inherently uncertain and may be materially adverse, based on current information, we do not expect the case to have a material adverse effect on our business, financial condition or results of operations.

On March 1, 2019, Meher Patel filed suit against the Company in the Superior Court of the State of California, Tuolumne County, on behalf of herself and as a class action on behalf of others similarly situated, asserting violations under the California Labor Code relating to the alleged failure by LogistiCare to comply with certain applicable state wage and related employment requirements, as well as claims of breach of contract and breach of the implied covenant of good faith and fair dealing. The plaintiff seeks to recover an unspecified amount of damages and penalties, as well as certification as a class action. On September 6, 2019, Ms. Patel amended her complaint to add Provado Mobile Health, a Company subsidiary, as a party to the suit. The Company and Provado Mobile Health have removed the case to the U.S. District Court, Eastern District of California. No amounts have been accrued for any potential losses under this matter, as management cannot reasonably predict the outcome of the litigation or any potential losses. The Company and its subsidiary intend to defend the litigation vigorously. Although the outcome of such matter is inherently uncertain and may be materially adverse, based on current information, we do not expect the case to have a material adverse effect on our business, financial condition or results of operations.

In Lynch v. Ride Plus *et al*., a putative class action lawsuit pending in the Superior Court for the County of San Diego, California, a former Ride Plus driver (trade name for Provado Mobile Health) has sought to represent all Ride Plus drivers in California on claims identical to the Patel action noted above. Provado Mobile Health has only recently been served on this matter, and it plans to remove the case to federal court and combine it with the Patel action or move to stay the case while the Patel action is pending, as the two actions cover the same subject matter. At this early stage in the litigation, it is impossible to predict with any certainty whether plaintiff will succeed in getting the court to certify a class, whether she and the class will prevail in their claims, or what they might recover.

On April 1, 2019, a purported class action was filed against LogistiCare in Texas alleging that the Company's policy with respect to timekeeping for hourly employees constituted violations of the federal Fair Labor Standards Act ("FLSA"), as well as wage and hour laws in South Carolina and Texas. Plaintiffs filed a motion for conditional certification on a nationwide basis, which LogistiCare contested. The court granted the conditional certification motion on January 22, 2020. The Company filed an appeal of the conditional certification order. The Company also plans to vigorously contest the allegations on the merits as the plaintiffs have mischaracterized the method by which employees clock in to work. At this early stage in the litigation, it is impossible to predict with any certainty whether plaintiffs will prevail on their claims, or what they might recover.

Item 4. *Mine Safety Disclosures.*

Not applicable.

PART II

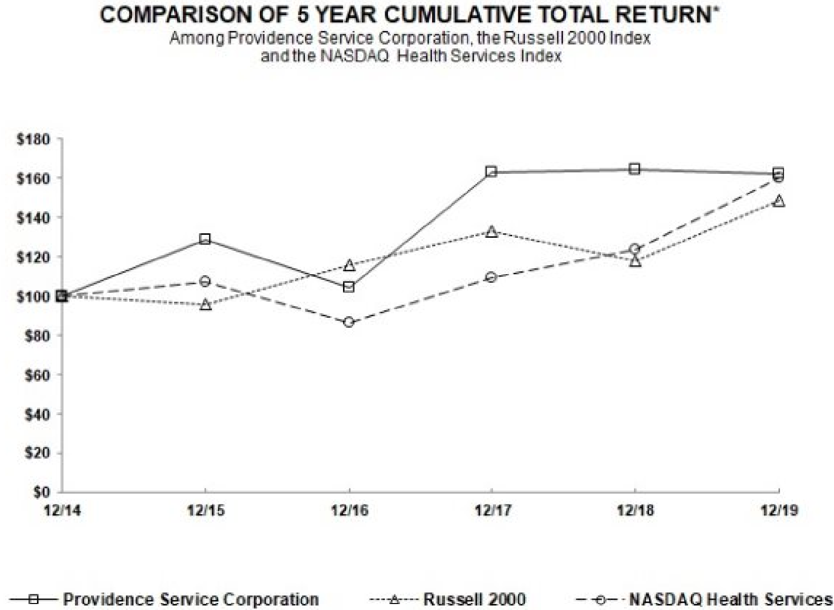
Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Market for our Common Stock

Our Common Stock, our only class of common equity, has been quoted on NASDAQ under the symbol "PRSC" since August 19, 2003. Prior to that time there was no public market for our Common Stock. As of February 24, 2020, there were 20 holders of record of our Common Stock.

Stock Performance Graph

The following graph shows a comparison of the cumulative total return for our Common Stock, NASDAQ Health Services Index and Russell 2000 Index assuming an investment of $100 in each on December 31, 2014.



Dividends

We have not paid any cash dividends on our Common Stock and currently do not expect to pay dividends on our Common Stock. In addition, our ability to pay dividends on our Common Stock is limited by the terms of our Credit Agreement and our Preferred Stock Agreement. The payment of future cash dividends, if any, will be reviewed periodically by the Board and will depend upon, among other things, our financial condition, funds from operations, the level of our capital and development expenditures, any restrictions imposed by present or future debt or equity instruments, and changes in federal tax policies, if any.

Issuer Purchases of Equity Securities

On August 6, 2019, the Board authorized a stock repurchase program under which the Company could repurchase up to $100.0 million in aggregate value of the Company's Common Stock, subject to the consent of the holders of a majority of the Company's Series A convertible preferred stock, through December 31, 2019, at which time it expired. A total of 105,421 shares were repurchased under this program as shown below:

Period	Total Number of Shares (or Units) of Common Stock Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) of Common Stock Purchased as Part of Publicly Announced Plans or Program	Maximum Dollar Value (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Program (000's) (1)
Month 1:				
August 1, 2019				
to				
August 31, 2019	69,113	$ 57.06	69,113	$ 96,043
Month 2:				
September 1, 2019				
to				
September 30, 2019	36,308	$ 55.96	36,308	$ 94,012
Month 3:				
October 1, 2019				
to				
October 31, 2019	—	$ —	—	$ 94,012
Month 4:				
November 1, 2019				
to				
November 30, 2019	—	$ —	—	$ 94,012
Month 5:				
December 1, 2019				
to				
December 31, 2019	—	$ —	—	$ 94,012
Total	105,421		105,421	

Item 6. *Selected Financial Data.*

We have derived the following selected financial data from the consolidated financial statements and related notes. The information set forth below is not necessarily indicative of future results. This information should be read in conjunction with our consolidated financial statements and the related notes, and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations", all of which are included elsewhere in this Annual Report on Form 10-K.

Significant transactions which occurred during the periods presented include the investment in Mission Providence, a joint venture in Australia, which commenced operations in 2014 but was sold on September 29, 2017; our equity interest in Matrix effective October 19, 2016, which was originally acquired on October 23, 2014, comprised our HA Services segment through October 19, 2016; and the acquisition of Circulation effective September 21, 2018, which is included in our NET Services segment. The operations of HA Services which was sold effective October 19, 2016, and Human Services, which was sold effective November 1, 2015, and WD Services, which was sold effective December 21, 2018, have been presented as discontinued operations for all periods presented.

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(11) (12)	(1)(2)(3)(4)(11)(12)	(5)(6)(7)(8)(11)(12)	(7)(9)(11)(12)	(10)(12)
	(dollars and shares in thousands, except per share data)				
Statement of operations data:					
Service revenue, net	$ 1,509,944	$ 1,384,965	$ 1,318,220	$ 1,233,842	$ 1,082,951
Operating expenses:					
Service expense	1,401,152	1,253,608	1,197,211	1,102,625	969,247
General and administrative expense	67,244	77,093	69,907	68,865	58,703
Asset impairment charge	—	14,175	—	1,415	—
Depreciation and amortization	16,816	15,813	13,618	12,780	10,221
Total operating expenses	1,485,212	1,360,689	1,280,736	1,185,685	1,038,171
Operating income	24,732	24,276	37,484	48,157	44,780
Non-operating expense:					
Interest expense, net	850	1,783	1,204	1,515	2,312
Other income	(277)	—	(5,363)	—	—
Equity in net loss (gain) of investees	29,685	6,158	(13,445)	1,789	—
Gain on measurement of cost method investment	—	(6,577)	—	—	—
(Loss) income from continuing operations, before income taxes	(5,526)	22,912	55,088	44,853	42,468
(Benefit) provision for income taxes	(573)	4,684	4,003	17,972	15,718
(Loss) income from continuing operations, net of tax	(4,953)	18,228	51,085	26,881	26,750
Income (loss) from discontinued operations, net of tax	5,919	(37,053)	2,735	62,965	56,444
Net income (loss)	966	(18,825)	53,820	89,846	83,194
Net (loss) gain from discontinued operations attributable to noncontrolling interests	—	(156)	(451)	2,082	502
Net income (loss) attributable to Providence	$ 966	$ (18,981)	$ 53,369	$ 91,928	$ 83,696
Diluted (loss) earnings per common share:					
Continuing operations	$ (0.72)	$ 0.92	$ 2.97	$ 1.34	$ 1.22
Discontinued operations	$ 0.46	(2.86)	0.15	3.87	3.18
Total	$ (0.26)	$ (1.94)	$ 3.12	$ 5.21	$ 4.40
Weighted-average number of common shares outstanding:					
Diluted	12,959	13,033	13,673	14,779	16,116

	As of December 31,				
	2019	2018	2017	2016	2015
		(2)(3)(11)		(9)	
	(dollars in thousands)				
Balance sheet data:					
Cash and cash equivalents	$ 61,365	$ 5,678	$ 52,798	$ 72,262	$ 79,756
Total assets	597,381	569,645	704,090	685,279	1,050,202
Long-term obligations, including current portion	353	1,071	2,984	3,611	300,071
Other liabilities	202,316	180,184	287,543	306,428	382,423
Convertible preferred stock	77,120	77,392	77,546	77,565	77,576
Total stockholders' equity	317,592	310,998	336,017	297,675	290,132

(1) General and administrative expense for the year ended December 31, 2018 includes $1.7 million in acquisition costs related to the acquisition of Circulation and $8.4 million in restructuring and related costs related to the Organizational Consolidation.

(2) In conjunction with the acquisition of Circulation and the Circulation platform, we determined we would not place into service our internally developed NextGen technology and recorded an asset impairment charge of $14.2 million in 2018.

(3) On September 21, 2018, we acquired all of the outstanding equity of Circulation. The purchase price was comprised of cash consideration of $45.1 million paid to Circulation's equity holders (including holders of vested Circulation stock options), other than Providence. Our initial investment in Circulation was $3.0 million. As a result of the transaction, the fair value of this pre-acquisition interest increased to $9.6 million, and thus we recognized a gain of $6.6 million.

(4) On December 21, 2018, we completed the sale of our WD Services segment. Included in (loss) income from discontinued operations, net of tax, for 2018 is a loss, net of tax, on the WD Services sale of $1.1 million. We additionally sold our Ingeus France operations, effective July 17, 2018 and recorded a loss on the sale of $0.7 million. We also incurred an impairment charge of $9.2 million for the adjustment of the carrying value of the assets and liabilities of Ingeus France to its estimated fair value when it was initially recorded as held for sale during 2018, which is included in (loss) income from discontinued operations, net of tax.

(5) Other income for the year ended December 31, 2017 includes the receipt of a litigation settlement with Haverhill Retirement System of $5.4 million.

(6) (Loss) income from discontinued operations, net of tax, for the year ended December 31, 2017 includes a gain on sale of equity investment of $12.4 million related to the sale of the Company's equity interest in Mission Providence. The investment in Mission Providence was part of the WD Services segment.

(7) (Loss) income from discontinued operations, net of tax, for the years ended December 31, 2017 and 2016 include losses of $6.0 million and $5.6 million, respectively, related to potential indemnification claims for our historical Human Services segment.

(8) The year ended December 31, 2017 includes a net tax benefit of $15.9 million related to the enactment of the Tax Reform Act (as defined below) during the fourth quarter of 2017 due to the re-measurement of deferred tax liabilities by Providence as a result of the reduction in the U.S. corporate tax rate. Providence realized a benefit of $19.3 million, partially offset by $3.4 million of increased tax expense resulting from additional equity in net gain of Matrix, due to Matrix's re-measurement of its deferred tax liabilities. In addition, the tax provision was adversely impacted by tax expense of $3.6 million related to the Company's 2015 Holding Company LTI Program (the "HoldCo LTIP"), for which expense was incurred for financial reporting purposes, but no shares were issued due to the market condition of the award not being satisfied and thus no tax deduction was realized.

(9) On October 19, 2016, we completed the Matrix Transaction. Included in income (loss) from discontinued operations, net of tax, for 2016 is a gain on the transaction, net of tax, totaling $109.4 million. In conjunction with the completion of this transaction, we fully repaid the amounts outstanding on our term loans and Credit Facility in 2016.

(10) On November 1, 2015, we completed the sale of our Human Services segment. Included in (loss) income from discontinued operations, net of tax, for 2015 is a gain on the sale of the Human Services segment, net of tax, totaling $100.3 million.

(11) Equity in net (gain) loss of investee relates to Matrix, which became an equity investment upon the completion of the Matrix Transaction. We recorded $29.7 million in equity in net loss of investee, $6.2 million in equity in net loss of investee, and $13.4 million in equity in net gain of investee in 2019, 2018, and 2017 respectively. We recorded $1.8 million in equity in net loss of investee for the period of October 19, 2016 through December 31, 2016. The equity in net gain from Matrix for the year ended December 31, 2017 includes a benefit of $13.6 million related to the re-measurement of deferred tax liabilities arising from a lower U.S. corporate tax rate as a result of the Tax Reform Act. As a result of the increased equity income, Providence incurred higher tax expense of $3.4 million, which is reflected as a component of "Provision for income taxes" in the table above. During the year ended December 31, 2019, Matrix recorded asset impairment charges of $55.1 million. The investment in Matrix at December 31, 2019 of $130.9 million is included in "Equity investments" in our consolidated balance sheet.

(12) In conjunction with the change in the Company's organizational structure as described in Note 24, *Segments*, in the accompanying consolidated financial statements, we reclassified certain costs between "General and administrative expense" and "Service expense" as summarized below (dollars in thousands):

	Year Ended December 31, 2018		
	As Previously Reported (1)	Reclassifications	As Reported
Service expense	$ 1,284,603	$ (30,995)	$ 1,253,608
General and administrative expense	46,098	30,995	77,093

	Year Ended December 31, 2017		
	As Previously Reported (1)	Reclassifications	As Reported
Service expense	$ 1,223,627	$ (26,416)	$ 1,197,211
General and administrative expense	43,491	26,416	69,907

	Year Ended December 31, 2016		
	As Previously Reported (1)	Reclassifications	As Reported
Service expense	1,131,963	$ (29,338)	$ 1,102,625
General and administrative expense	39,527	29,338	68,865

	Year Ended December 31, 2015		
	As Previously Reported (1)	Reclassifications	As Reported
Service expense	987,352	$ (18,105)	$ 969,247
General and administrative expense	40,598	18,105	$ 58,703

(1) Adjusted for discontinued operations, as described in Note 23.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Item 6. "Selected Financial Data" and our consolidated financial statements and related notes included in Item 8. "Financial Statements and Supplementary Data" of this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and other factors that may cause actual results to differ materially from those projected in any forward-looking statements, as discussed in "Disclosure Regarding Forward-Looking Statements". These risks and uncertainties include but are not limited to those set forth in Item 1A. "Risk Factors".

Overview of Our Business

Please refer to *Item 1. "Business"* of this Annual Report on Form 10-K for a discussion of our services and corporate strategy.

We are a Delaware Corporation formed in 1996 that is the largest manager of NET programs for state governments and MCOs in the U.S. which operates under the brand names LogistiCare and Circulation. In addition, our NET Services segment includes our activities related to executive, accounting, finance, internal audit, tax, legal, certain strategic and corporate development functions and the results of our captive insurance company. During 2018, we announced the Organizational Consolidation to integrate substantially all activities and functions performed at the corporate holding company level into our wholly-owned subsidiary, LogistiCare. Effective January 1, 2019, the consolidation was substantially complete. LogistiCare retained its name and continues to be headquartered in Atlanta, GA, and we continue to be named The Providence Service Corporation and be listed on NASDAQ under the ticker symbol "PRSC". See Note 10, *Restructuring and Related Reorganization Costs,* and Note 24*, Segments,* in our accompanying consolidated financial statements for further information on the Organizational Consolidation.

Our Matrix segment consists of a minority investment in CCHN Group Holdings, Inc. and its subsidiaries. Matrix is a nationwide provider of a broad array of assessment and care management services that improve health outcomes for individuals and financial performance for health plans. Matrix's national network of community-based clinicians deliver in-home services while its fleet of mobile health clinics provides community-based care with advance diagnostic capabilities. These solutions combined with Matrix's advanced engagement approach, help health plans manage risks, close care gaps and connect members to care.

Business Outlook and Trends

Our performance is affected by a number of trends that drive the demand for our services. In particular, the markets in which we operate are exposed to various trends such as healthcare industry and demographic dynamics. Over the long term, we believe there are numerous factors that could affect growth within the industries in which we operate, including:

- an aging population, which will increase demand for healthcare services and transportation;
- a movement towards value-based versus fee for service care and budget pressure on governments, both of which may increase the use of private corporations to provide necessary and innovative services;
- increasing demand for in-home care provision, driven by cost pressures on traditional reimbursement models and technological advances enabling remote engagement;
- technological advancements, which may be utilized by us to improve service and lower costs, but also by others which may increase industry competitiveness;
- MCOs that provide MA plans are increasingly offering non-emergency medical transportation services as a supplemental benefit in accordance with current social trends;
- proposals by the President of the United States and Congress to change the Medicaid program, including considering regulatory changes to make the non-emergency medical transportation benefit optional for states, and CMSs' grant of waivers to states relative to the parameters of their Medicaid programs. Enactment of adverse legislation, regulation or agency guidance, or litigation challenges to the Patient Protection and Affordable Care Act, state Medicaid programs, or other governmental programs may reduce the eligibility or demand for our services, our ability to conduct some or all of our business and/or reimbursement rates for services we perform; and
- a trend among MCO Medicaid and Medicare plans to offer value-add transportation benefits in order to promote social determinants of health.

Revenues and Expenses

Service Revenue, net

Service Revenue, net includes contracts predominately with state Medicaid agencies and MCOs for the coordination of their members' non-emergency transportation needs. Most contracts are capitated, which means we are paid on a per-member, per-month basis for each eligible member. For most contracts, we arrange for transportation of members through our network of independent transportation providers, whereby we negotiate rates and remit payment to the transportation providers. However, for certain contracts, we assume no risk for the transportation network, credentialing and/or payments to these providers. For these contracts, we only provide administrative management services to support the customers' efforts to serve its clients.

Classification of Operating Expenses

"Service expense" includes purchased transportation, operational payroll and other operational related costs. Purchased transportation includes the amounts we pay to third-party service providers and is typically dependent upon service volume. Operational payroll predominately includes our contact center operations, customer advocacy and transportation network team. Other operating expenses primarily include operational overhead costs, and operating facilities and related charges.

"General and administrative expense" primarily includes the expenses of our administrative functions, including executive, information technology, finance and accounting, human resources and legal departments.

"Depreciation and amortization expense" includes depreciation of our fixed assets and amortization expense related primarily to our intangible assets.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements and accompanying notes in accordance with GAAP. Preparation of the consolidated financial statements and accompanying notes requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements as well as revenue and expenses during the periods reported. We base our estimates on historical experience, where applicable, and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

There are certain critical estimates that require significant judgment in the preparation of our consolidated financial statements. We consider an accounting estimate to be critical if:

- it requires us to make an assumption because information was not available at the time or it included matters that were highly uncertain at the time the estimate is made; and

- changes in the estimate or different estimates that could have been selected may have had a material impact on our financial condition or results of operations.

For more information on each of these policies, see Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, to our consolidated financial statements. We discuss information about the nature and rationale for our critical accounting estimates below.

Accrued Transportation Costs

We generally pay our transportation providers for completed trips based upon documentation submitted after services have been provided. We accrue transportation costs yet to be adjudicated based on requests for services we have received and the amount we expect to be billed by our transportation providers. The transportation accrual requires significant judgment, as it is based upon contractual rates and mileage estimates, as well as an estimated rate for unknown cancellations, as members may have requested transportation but not notified us of cancellation. Based upon historical experience and contractual terms, we estimate the amount of transportation expense incurred for invoices which have not yet been submitted. Actual expense could be greater or less than the amounts estimated due to member or transportation provider behavior that differ from historical trends.

Business Combinations

We assign the value of the consideration transferred to acquire a business to the tangible assets and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. Any excess purchase price paid over the fair value of the net tangible and intangible assets acquired is allocated to goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer relationships, developed technology and trade names, and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. As a result, actual results may differ significantly from estimates.

Recoverability of Goodwill and Definite-Lived Intangible Assets

Goodwill. In accordance with ASC 350, *Intangibles-Goodwill and Other*, we review goodwill for impairment annually, or more frequently if events and circumstances indicate that an asset may be impaired. Such circumstances could include, but are not limited to: (1) the loss or modification of significant contracts, (2) a significant adverse change in legal factors or in business climate, (3) unanticipated competition, (4) an adverse action or assessment by a regulator, or (5) a significant decline in our stock price. We perform our annual goodwill impairment test as of October 1.

First, we perform qualitative assessments for each reporting unit to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment suggests that it is more likely than not that the fair value of a reporting unit is less than its carrying value amount, we then perform a quantitative assessment and compare the fair value of the reporting unit to its carrying value.

We adopted ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04") effective April 1, 2017. ASU 2017-04 removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test. Instead, if we deem it necessary to perform the quantitative goodwill impairment test in an annual or interim period, we recognize an impairment charge equal to the excess, if any, of the reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill.

Long-Lived Assets Including Intangibles. In accordance with ASC 360, *Property, Plant, and Equipment*, we review the carrying value of long-lived assets or groups of assets to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. Factors that may necessitate an impairment assessment include, but are not limited to, significant adverse changes in the extent or manner in which an asset or group of assets is used, significant adverse changes in legal factors or the business climate that could affect the value of an asset or group of assets or significant declines in the observable market value of an asset or group of assets. The presence or occurrence of those events indicates that an asset or group of assets may be impaired. In those cases, we assess the recoverability of an asset or group of assets by determining whether the carrying value of the asset or group of assets exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the asset or the primary asset in the group of assets. If such testing indicates the carrying value of the asset or group of assets is not recoverable, we estimate the fair value of the asset or group of assets using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. If the fair value of those assets or groups of assets is less than carrying value, we record an impairment loss equal to the excess of the carrying value over the estimated fair value.

The use of different estimates or assumptions in determining the fair value of our goodwill and intangible assets may result in different values for those assets, which could result in an impairment or, in the period in which an impairment is recognized, could result in a materially different impairment charge.

Income Taxes

We record income taxes under the asset and liability method. Deferred tax assets and liabilities reflect our estimation of the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for book and tax purposes. We determine deferred income taxes based on the differences in accounting methods and timing between financial statement and income tax reporting. Accordingly, we determine the deferred tax asset or liability for each temporary difference based on the enacted tax rates expected to be in effect when we realize the underlying items of income and expense. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes, as well as other relevant factors. We may establish a valuation allowance to reduce deferred tax assets to the amount we believe is more likely than not to be realized. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, tax sharing agreements or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

We record liabilities to address uncertain tax positions we have taken in previously filed tax returns or that we expect to take in our current tax returns. The determination for required liabilities is based upon an analysis of each individual tax position, taking into consideration whether it is more likely than not that our tax position, based on technical merits, will be sustained upon examination. For those positions for which we conclude it is more likely than not the position will be sustained, we recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. The difference between the amount recognized and the total tax position is recorded as a liability. The ultimate resolution of these tax positions may be greater or less than the liabilities recorded.

On December 22, 2017, the Tax Reform Act was enacted, which significantly changed U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. The Tax Reform Act permanently reduced the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The Tax Reform Act also provided for a one-time deemed repatriation of post-1986 undistributed foreign subsidiary earnings and profits through the year ended December 31, 2017.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of GAAP in situations when a registrant did not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. We recognized the provisional tax impacts related to deemed repatriated earnings and the benefit for the revaluation of deferred tax assets and liabilities, and included these amounts in our consolidated financial statements for the year ended December 31, 2017. The financial reporting impact of the Tax Reform Act was completed in the fourth quarter of 2018 and an additional benefit of $0.3 million was recorded.

Reinsurance and Self-Insurance Liabilities

We historically reinsured a substantial portion of our automobile, general and professional liability and workers' compensation costs under reinsurance programs through our wholly-owned subsidiary, Social Services Providers Captive Insurance Company ("SPCIC"), a licensed captive insurance company domiciled in the State of Arizona. In conjunction with the policy renewals on May 16, 2017, SPCIC did not renew the expiring policies. However, SPCIC continues to resolve claims under the historical policy years. In addition, under the current policies, we retain liability up to the policy deductibles.

We maintain self-funded health insurance programs for employees with a stop-loss umbrella policy with a third-party insurer to limit the maximum potential liability for individual claims and for a maximum potential claim liability based on member enrollment.

We utilize independent actuarial reports to determine the expected losses and in order to determine the appropriate reserve associated with our reinsurance and self-insurance liabilities. We regularly analyze our reserves for incurred but not reported claims, and for reported but not paid claims related to our reinsurance and self-funded insurance programs. We believe our reserves are adequate. However, significant judgment is involved in assessing these reserves such as evaluating historical paid claims, average lag times between the claims' incurred date, reported dates and paid dates, and the frequency and severity of claims. There may be differences between actual settlement amounts and recorded reserves and any resulting adjustments are recorded once a probable amount is known.

Revenue Recognition

We provide non-emergency transportation services pursuant to contractual commitments over defined service delivery periods. For most contracts, we arrange for transportation of members through our network of independent transportation providers, whereby we invoice our customers and remit payment to our transportation providers. However, for certain contracts, we only provide administrative management services to support the customers' efforts to serve its clients, and the amount of revenue recognized is based upon the management fee earned.

Our contracts typically include single performance obligations under which we stand ready to deliver management, fulfillment and record-keeping related to non-emergency transportation services. Transportation management services include, but are not limited to, fraud, waste, and abuse and utilization review programs as well as compliance controls. Our performance obligations consist of a series of distinct services that are substantially the same and which are transferred to the customer in the same manner. In most cases, we are the principal in our arrangements because we control the services before transferring those services to the customer.

We primarily use the 'as invoiced' practical expedient to recognize revenue because we typically have the right to consideration from customers in an amount that corresponds directly with the value of our performance to date. This is consistent with our historical revenue recognition policy. We recognize revenue for some of our contracts that include variable consideration using a time-elapsed measure when the fees earned relate directly to services performed in the period. Because most contracts include termination for convenience clauses with required notice periods of less than one year, most of our contracts are deemed to be short-term in nature.

Some of our contracts include provisions whereby we must provide certain levels of service or face potential penalties or be required to refund fees paid by the customer. For those contracts, we record a provision to reduce revenue to reflect the amount to which we expect we will ultimately be entitled.

Deferred Revenue

At times we may receive funding for certain services in advance of services being rendered. These amounts are reflected in the consolidated balance sheets as "Deferred revenue" until the services are rendered.

Stock-Based Compensation

Our primary forms of employee stock-based compensation are stock option awards and restricted stock awards, including certain awards which vest based upon performance conditions. We measure the value of stock option awards on the date of grant at fair value using the appropriate valuation techniques, including the Black-Scholes and Monte Carlo option-pricing models. We recognize the fair value as stock-based compensation expense on a straight-line basis over the requisite service period, which is typically the vesting period. The pricing models require various highly judgmental assumptions including volatility and expected option term. If any of the assumptions used in the models change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. We do not record stock-

based compensation expense net of estimated forfeitures and the tax effects of awards are treated as discrete items in the period in which the tax event occurs. See additional discussion included in Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, to our consolidated financial statements.

Our tax rate is subject to quarterly volatility from the effects of stock award exercises and vesting activities, including the adverse impact on our income tax provision for awards which result in a tax deduction less than the amount recorded for financial reporting purposes based upon the fair value of the award at the grant date.

Results of Operations

Segment reporting. Our segments reflect the manner in which our operations are organized and reviewed by management.

We operate in one principal business segment, NET Services. Our investment in Matrix is also a reportable segment referred to as the "Matrix Investment". 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 our principal business segment include revenue and expenses incurred by the segment, as well as, effective January 1, 2019, include our activities related to executive, accounting, finance, internal audit, tax, legal, certain strategic and corporate development functions and the results of our captive insurance company. Results prior to January 1, 2019 were reclassed to conform with our new segment presentation. See Note 24, *Segments*, in our accompanying consolidated financial statements for further information on our change in segments.

Discontinued operations. During the periods presented, we completed the following transactions, which resulted in the presentation of the related operations as Discontinued Operations.

- On November 1, 2015, we completed the sale of our Human Services segment. However, since the completion of the sale, we have recorded additional expenses related to legal proceedings related to an indemnified legal matter.

- On December 21, 2018, we completed the sale of substantially all of the operating subsidiaries of the WD Services segment to APM and APM UK Holdings Limited, an affiliate of APM, except for the segment's employment services operations in Saudi Arabia. Our contractual counterparties in Saudi Arabia, including an entity owned by the Saudi Arabian government, assumed these operations beginning January 1, 2019. Wind down activities of our Saudi Arabian entity are included in our discontinued operations. Additionally, on June 11, 2018, we entered into a Share Purchase Agreement to sell Ingeus France for a de minimis amount. The sale was effective on July 17, 2018.

Year ended December 31, 2019 compared to year ended December 31, 2018

The following table sets forth results of operations and the percentage of consolidated total revenues represented by items in our consolidated statements of operations for 2019 and 2018 (in thousands):

	Year ended December 31,			
	2019		2018	
	$	Percentage of Revenue	$	Percentage of Revenue
Service revenue, net	1,509,944	100.0 %	1,384,965	100.0 %
Operating expenses:				
Service expense	1,401,152	92.8 %	1,253,608	90.5 %
General and administrative expense	67,244	4.5 %	77,093	5.6 %
Asset impairment charge	—	— %	14,175	1.0 %
Depreciation and amortization	16,816	1.1 %	15,813	1.1 %
Total operating expenses	1,485,212	98.4 %	1,360,689	98.2 %
Operating income	24,732	1.6 %	24,276	1.8 %
Non-operating expense:				
Interest expense, net	850	0.1 %	1,783	0.1 %
Other income	(277)	— %	—	— %
Equity in net loss of investee	29,685	2.0 %	6,158	0.4 %
Gain on remeasurement of cost method investment	—	— %	(6,577)	(0.5) %
(Loss) income from continuing operations before income taxes	(5,526)	(0.4) %	22,912	1.7 %
(Benefit) provision for income taxes	(573)	— %	4,684	0.3 %
(Loss) income from continuing operations	(4,953)	(0.3) %	18,228	1.3 %
Income (loss) from discontinued operations, net of tax	5,919	0.4 %	(37,053)	(2.7) %
Net income (loss)	966	0.1 %	(18,825)	(1.4) %
Net loss from discontinued operations attributable to noncontrolling interest	—	— %	(156)	— %
Net income (loss) attributable to Providence	966	0.1 %	(18,981)	(1.4) %

Service revenue, net. Service revenue, net for 2019 increased $125.0 million, or 9.0%, compared to 2018. Service revenue increased by $148.0 million as a result of increased volume within existing contracts as well as rate changes, including retroactive revenue benefits, in addition to $103.1 million in new contracts, including the acquisition of Circulation in the fourth quarter of 2018, MCO contracts in Minnesota and Louisiana and a new state contract in West Virginia. These increases were partially offset by $126.1 million for contracts we no longer serve, including a state contract in Rhode Island and certain MCO contracts in California, Florida, New Mexico, New York and Louisiana.

Service expense. Service expense components are shown below (in thousands):

	Year Ended December 31,			
	2019		2018	
	$	Percentage of Revenue	$	Percentage of Revenue
Purchased services	1,191,062	78.9 %	1,054,788	76.2 %
Payroll and related costs	160,506	10.6 %	152,974	11.0 %
Other operating expenses	49,584	3.3 %	45,846	3.3 %
Total service expense	1,401,152	92.8 %	1,253,608	90.5 %

Service expense for 2019 increased $147.5 million, or 11.8%, compared to 2018 due primarily to higher purchased transportation costs and operational payroll and related costs. Transportation costs increased as a result of both higher utilization across multiple contracts and higher per unit cost. Payroll and related costs increased in our call centers as a result of higher volume as well as the acquisition of Circulation.

General and administrative expense. General and administrative expense for 2019 decreased $9.8 million or 12.8%, compared to 2018. The decrease was primarily a result of net cost savings associated with the Organizational Consolidation.

Asset impairment charge. During 2018, following the acquisition of Circulation, we recorded a $14.2 million asset impairment as a result of the abandonment of our internal software project NextGen. There was no such impairment during 2019.

Depreciation and amortization. Depreciation and amortization for 2019 increased $1.0 million or 6.3% compared to 2018 primarily as a result of increased intangible assets associated with the Circulation acquisition, and net capital expenditures during the comparative periods.

Interest expense, net. Consolidated interest expense, net for 2019 decreased $0.9 million, or 52.3%, compared to 2018, as a result of lesser borrowings on the Credit Facility during 2019 as compared to 2018. Funds were borrowed under the Credit Facility during 2018 to fund the acquisition of Circulation and repaid prior to December 31, 2018.

Equity in net loss of investee. Our equity in net loss of investee for 2019 and 2018 represents our proportional share of the net loss of Matrix. Included in Matrix's 2019 full standalone net loss of $69.4 million was $55.1 million of asset impairment charges. Included in Matrix's 2018 full standalone net loss of $20.0 million were integration related costs of $6.5 million, and merger and acquisition diligence related costs of $2.3 million.

Gain on remeasurement of cost method investment. On September 21, 2018, we acquired all of the outstanding equity of Circulation. The purchase price was comprised of cash consideration of $45.1 million paid to Circulation's equity holders (including holders of vested Circulation stock options), other than Providence. Our initial investment in Circulation was $3.0 million. As a result of the acquisition, the fair value of this pre-acquisition interest increased to $9.6 million, and thus we recognized a gain of $6.6 million during 2018.

Provision for income taxes. Our effective tax rates from continuing operations for 2019 and 2018 were 10.4% and 20.4%, respectively. The effective tax rate for 2019 was substantially lower than the federal statutory rate of 21.0% primarily due to state taxes and certain nondeductible expenses partially offset by the favorable impact of stock option deductions and tax credits. The effective tax rate for 2018 was slightly lower than the U.S. federal statutory rate of 21.0% due to tax credits and no income tax provision on the $6.6 million gain on the remeasurement of cost method investment, offset in part, by state taxes and certain nondeductible expenses.

Income (loss) from discontinued operations, net of tax. Income (loss) from discontinued operations, net of tax, includes the activity related to our former WD Services and Human Services segments. See Note 23, *Discontinued Operations*, to our accompanying consolidated financial statements for additional information.

For 2019, income from discontinued operations, net of tax, for our former Human Services segment was $6.0 million as a result of an insurance settlement related to an indemnification matter, net of costs to obtain the settlement. Loss from discontinued operations, net of tax, for WD Services was $0.1 million for the year ended December 31, 2019. We incurred costs related to the wind-down of the WD Services Saudi Arabian entity, offset by cash distributions from WD Services. The operations in Saudi Arabia, including personnel, leased facilities and certain assets necessary to provide the employment services, were transferred to a third party as of January 1, 2019, and thus we are no longer providing services in Saudi Arabia; however, we continue to incur costs related to the shut down of our remaining Saudi Arabian entity.

For 2018, the loss from discontinued operations, net of tax, includes the loss of our former WD Services segment of $37.0 million and of our former Human Services segment of $0.1 million. Included in the loss was a loss on disposition, net of tax, of $1.8 million as well as an asset impairment charge of $9.2 million related to the sale of WD Services operations in France in the second quarter of 2018.

Net loss attributable to noncontrolling interest. For 2018, net loss attributable to non-controlling interest related to a minority interest held by a third-party operating partner in our company servicing the offender rehabilitation contract within our historical WD Services segment. We held no such interest in 2019.

Year Ended December 31, 2018 compared to year ended December 31, 2017

The following table sets forth results of operations and the percentage of consolidated total revenues represented by items in our consolidated statements of operations for 2018 and 2017 (in thousands):

	Year ended December 31,			
	2018		2017	
	$	Percentage of Revenue	$	Percentage of Revenue
Service revenue, net	1,384,965	100.0 %	1,318,220	100.0 %
Operating expenses:				
Service expense	1,253,608	90.5 %	1,197,211	90.8 %
General and administrative expense	77,093	5.6 %	69,907	5.3 %
Asset impairment charge	14,175	1.0 %	—	— %
Depreciation and amortization	15,813	1.1 %	13,618	1.0 %
Total operating expenses	1,360,689	98.2 %	1,280,736	97.2 %
Operating income	24,276	1.8 %	37,484	2.8 %
Non-operating expense:				
Interest expense, net	1,783	0.1 %	1,204	0.1 %
Other income	—	— %	(5,363)	(0.4) %
Equity in net loss (gain) of investee	6,158	0.4 %	(13,445)	(1.0) %
Gain on remeasurement of cost method investment	(6,577)	(0.5) %	—	— %
Income from continuing operations before income taxes	22,912	1.7 %	55,088	4.2 %
Provision for income taxes	4,684	0.3 %	4,003	0.3 %
Income from continuing operations	18,228	1.3 %	51,085	3.9 %
(Loss) income from discontinued operations, net of tax	(37,053)	(2.7) %	2,735	0.2 %
Net (loss) income	(18,825)	(1.4) %	53,820	4.1 %
Net loss from discontinued operations attributable to noncontrolling interest	(156)	— %	(451)	— %
Net (loss) income attributable to Providence	(18,981)	(1.4) %	53,369	4.0 %

Service revenue, net. Service revenue for our NET Services segment for 2018 increased $66.7 million, or 5.1%, compared to 2017. The increase was primarily related to the impact of new contracts, including MCO contracts in Illinois, Indiana, Oregon and New York and new state contracts in Texas and West Virginia, which contributed $112.8 million of revenue for 2018, as well as net increased revenue from existing contracts of $39.2 million, due to the net impact of membership and rate changes, including the impact of increased rates agreed after 2017 on certain contracts related to increased costs to serve the contracts, which was partially offset by the impact of a retroactive rate adjustment recorded in 2017 related to increased utilization activity under a significant contract. Revenue additionally increased $2.2 million due to the acquisition of Circulation in the fourth quarter of 2018. These increases were partially offset by the impact of contracts we no longer serve, including state contracts in New York and Connecticut, certain MCO contracts in Florida and Louisiana, and decreased membership in Virginia, which resulted in a decrease in revenue of $72.0 million. In addition, the adoption of ASC 606 resulted in a decrease in revenue of $15.5 million in 2018 as compared to revenue under the previous accounting standard, as one contract is now accounted for on a net basis.

Service expense. Service expense for our NET Services segment included the following for 2018 and 2017 (in thousands):

	Year Ended December 31,			
	2018		2017	
	$	Percentage of Revenue	$	Percentage of Revenue
Purchased services	1,054,788	76.2 %	1,005,716	76.3 %
Payroll and related costs	152,974	11.0 %	141,483	10.7 %
Other operating expenses	45,846	3.3 %	50,012	3.8 %
Total service expense	1,253,608	90.5 %	1,197,211	90.8 %

Service expense for 2018 increased $56.4 million, or 4.7%, compared to 2017. The increase in service expense was primarily due to higher purchased services and payroll and related costs. Purchased services expense increased primarily as a result of new contracts, which was partially offset by the impact of terminated contracts. Purchased services as a percentage of revenue decreased from 76.3% in 2017 to 76.2% in 2018. This was due primarily to lower transportation costs on a per trip basis in certain geographies as a result of ongoing initiatives to better align the rates we pay to our transportation provider partners with local market conditions and the fees paid to us by our customers. Transportation costs on a per trip basis fluctuate from period to period. Payroll and related costs as a percentage of revenue increased from 10.7% in 2017 to 11.0% in 2018 due to increased expenses within our call centers associated with higher volume.

*General and administrative expense. G*eneral and administrative expenses in 2018 increased $7.2 million, or 10.3%, as compared to 2017, primarily due to $1.7 million of expenses related to the acquisition of Circulation in 2018, as well as increased software expenses.

Asset impairment charge. Following the acquisition of Circulation and the Circulation platform, we determined to abandon the development of our internally developed software, NextGen, and thus recorded an asset impairment charge of $14.2 million in 2018. There was no such impairment in 2017.

Depreciation and amortization expense. Depreciation and amortization expense increased $2.2 million compared to 2017, primarily due to the addition of long-lived assets relating to information technology projects, as well as amortization expense related to the intangible assets acquired with the Circulation acquisition. As a percentage of revenue, depreciation and amortization increased to 1.1% for 2018 from 1.0% for 2017.

Interest expense, net. Interest expense, net for 2018 increased $0.6 million compared to 2017. The increase was attributable to borrowings on our credit facility during the second half of 2018 used to fund the Circulation acquisition, which we repaid as of December 31, 2018.

Other income. Other income in 2017 of $5.4 million represents the settlement received from our litigation with Haverhill Retirement System. There was no such activity in 2018.

Equity in net loss (gain) of investee. Our equity in net loss of investee for 2018 of $6.2 million represents our proportionate share of the Matrix stand alone $20.0 million net loss for 2018, compared to our $13.4 million net gain in investee for 2017 relating to our proportionate share of the Matrix $26.7 million stand alone net income for 2017.

Gain on remeasurement of cost method investment. On September 21, 2018, we acquired all of the outstanding equity of Circulation. The purchase price was comprised of cash consideration of $45.1 million paid to Circulation's equity holders (including holders of vested Circulation stock options), other than Providence. Our initial investment in Circulation was $3.0 million. As a result of the transaction, the fair value of this pre-acquisition interest increased to $9.6 million, and thus we recognized a gain of $6.6 million.

Provision for income taxes. Our effective tax rate from continuing operations for 2018 was 20.4%. The effective tax rate was relatively consistent with the U.S. federal statutory rate of 21%, reflecting the benefit of stock option exercises and tax credits, partially offset by the impact of state income tax.

Our effective tax rate from continuing operations for 2017 was 7.3%. The effective tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the impact of the Tax Reform Act. The tax provision includes a benefit of $15.9 million related to the enactment of the Tax Reform Act during the fourth quarter of 2017, consisting of a net tax benefit of $19.3 million from the re-measurement of deferred tax liabilities from the lower U.S. corporate tax rate, partially offset by additional tax expense of $3.4 million due to an increase in our equity in net gain of Matrix as a result of Matrix's re-

measurement of deferred tax liabilities. In addition, we incurred tax expense of $3.6 million related to the HoldCo LTIP, for which expense was recorded for financial reporting purposes based upon fair value of the award at the grant date, but no shares were issued due to the market condition of the award not being satisfied. This tax expense was the result of the adoption of Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which subjects our tax rate to quarterly volatility from the effects of stock award exercises and vesting activities, including the adverse impact on our income tax provision for awards which result in a tax deduction less than the amount recorded for financial reporting purposes.

(Loss) income from discontinued operations, net of tax. (Loss) income from discontinued operations, net of tax, includes the activity of our former WD Services segment and our former Human Services segment. For 2018, the loss from discontinued operations, net of tax, for our former WD Services segment was $37.0 million. Included in the loss was a loss on disposition, net of tax, of $1.8 million as well as an asset impairment charge of $9.2 million related to the sale of WD Services operations in France in the second quarter of 2018. For 2017, income from discontinued operations, net of tax for our WD Services segment was $8.7 million, which included a gain on sale of our equity interest in Mission Providence of $12.4 million.

For 2018, the loss from discontinued operations, net of tax for our Human Services segment was $0.1 million, which primarily reflects a reduction of the accrued settlement amount for indemnified legal matters, based on the final settlement agreement, offset by the related income tax impact. For 2017, the loss from discontinued operations, net of tax for our Human Services segment was $6.0 million, which primarily related to the accrual of a contingent liability of $9.0 million related to the settlement of indemnification claims and associated legal costs of $0.7 million, partially offset by a related tax benefit.

Net loss from discontinued operations attributable to noncontrolling interests. Net loss from discontinued operations attributable to noncontrolling interests primarily relates to a minority interest held by a third-party operating partner in our company servicing the offender rehabilitation contract in our historical WD Services segment.

Seasonality

Our quarterly operating income and cash flows normally fluctuate as a result of seasonal variations in our business, principally due to lower transportation demand during the winter season and higher demand during the summer season.

Liquidity and Capital Resources

Short-term capital requirements consist primarily of recurring operating expenses, new revenue contract start-up costs and costs associated with our strategic initiatives. We expect to meet our cash requirements through available cash on hand, cash generated from operations, net of capital expenditures, and borrowing capacity under our Credit Facility (as defined below).

Cash flow from operating activities was $60.9 million in 2019. Our balance of cash, cash equivalents and restricted cash was $61.7 million and $12.4 million at December 31, 2019 and 2018, respectively, which includes cash of discontinued operations. Our restricted cash of $0.2 million and $4.4 million at December 31, 2019 and 2018, respectively, primarily related to contractual obligations and activities of our captive insurance subsidiary. As we wind down our captive insurance subsidiary, our restricted cash balance has declined over time. Restricted cash amounts are not included in our balance of cash and cash equivalents in the condensed consolidated balance sheets, although they are included in the cash, cash equivalents and restricted cash balance on the accompanying condensed consolidated statements of cash flows. At both December 31, 2019 and December 31, 2018, we had no amounts outstanding under our Credit Facility.

We may, from time to time, access capital markets to raise equity or debt financing for various business reasons, including acquisitions. We may also raise debt financing to fund future repurchases of our common stock. 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.

The cash flow statements for all periods presented include both continuing and discontinued operations. Discontinued operations include the activity of our historical WD Services and Human Services segments. The income (loss) from discontinued operations totaled $5.9 million, $(37.1) million and $2.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

2019 cash flows compared to 2018

Operating activities. Cash provided by operating activities was $60.9 million for 2019 compared to $7.9 million in 2018. The increase of $53.0 million was primarily a result of the receipt of $30.8 million in income tax refunds associated with the sale of WD Services during 2018, higher net income during the comparative periods, and changes in accounts payable and accrued expenses, partially offset by the timing of prepaid expenses.

Investing activities. Net cash used in investing activities of $10.9 million in 2019 compared to $45.3 million in 2018. The decrease of $34.4 million was primarily attributable to $30.9 million net cash outflow for the acquisition of Circulation in 2018 and sale of WD Services, as well as a decrease in the purchase of property and equipment of $6.7 million due to discontinued operations.

Financing activities. Net cash used in financing activities of $0.8 million in 2019 decreased $50.8 million as compared to 2018 primarily as a result of lesser Common Stock repurchases.

2018 cash flows compared to 2017

Operating activities. Cash provided by operating activities was $7.9 million for 2018 compared to $55.0 million in 2017. The decrease of $47.1 million was primarily a result of lesser net income, changes in accounts receivable and accounts payable and accrued expenses, specifically related to the settlement of a legal claim, and accrued transportation costs.

Investing activities. Net cash used in investing activities was $45.3 million in 2018 compared to $7.0 million in 2017. The increase was primarily attributable to the purchase of Circulation resulting in cash used for acquisition, net of cash acquired, of $43.7 million, which was partially offset by $12.8 million of proceeds on the sale of WD Services. 2017 also includes the impact of $15.6 million in proceeds from the sale of our equity investment in Mission Providence.

Financing activities. Net cash used in financing activities was $51.6 million in 2018 compared to $33.8 million in 2017. The increase of $17.8 million was primarily a result of greater Common Stock repurchases and an increase in proceeds from Common Stock issued pursuant to stock option exercises of $10.5 million.

Obligations and commitments

Credit Facility. We are a party to the amended and restated credit and guaranty agreement, dated as of August 2, 2013 (as amended, the “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 a $200.0 million revolving credit facility (the “Credit Facility”), including a sub-facility of $25.0 million for letters of credit. As of December 31, 2019, we had no borrowings outstanding; however, we had letters of credit outstanding in the amount of $13.5 million. As of December 31, 2019, our borrowing availability under the Credit Facility was $186.5 million.

On July 12, 2019, we and certain of our subsidiaries entered into an amendment to the Credit Agreement, by and among us, the guarantors from time to time party thereto, the lenders from time to time party thereto and Bank of America, N.A. as administrative agent that extended the maturity date of the Credit Agreement to August 2, 2020.

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

We may prepay any outstanding principal under the Credit Facility in whole or in part, at any time without premium or penalty, subject to reimbursement of the lenders’ breakage and redeployment costs in connection with prepayments of London Interbank Offered Rate ("LIBOR") loans. The unutilized portion of the commitments under the Credit Facility may be irrevocably reduced or terminated by us at any time without penalty.

Interest on the outstanding principal amount of any 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. Interest on any loans is payable quarterly in arrears. In addition, we are obligated to

pay a quarterly commitment fee based on a percentage of the unused portion of each lender's commitment under the 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. As of December 31, 2019, our current commitment fee and letter of credit rates were 0.25% and 2.25%, respectively.

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

Our obligations under the Credit Facility are guaranteed by all of our present and future domestic subsidiaries, excluding certain domestic subsidiaries, such as, our insurance captive. Our obligations under, and each guarantor's obligations under its guaranty of, the Credit Facility are secured by a first priority lien on substantially all of our respective assets, other than our equity investment in Matrix, including a pledge of 100% of the issued and outstanding stock of our domestic subsidiaries, excluding our insurance captive.

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, repurchase shares, sell assets, and merge and consolidate with certain exceptions. We are subject to financial covenants, including consolidated net leverage and consolidated interest coverage covenants. Our consolidated net leverage ratio may not be greater than 3.00:1.00 as of the end of any fiscal quarter and our consolidated interest coverage ratio may not be less than 3.00:1.00 as of the end of any fiscal quarter. We were in compliance with all covenants as of December 31, 2019.

Preferred Stock. Following (i) the completion of a rights offering in February 2015, under which certain holders of our Common Stock exercised subscription rights to purchase Preferred Stock, and (ii) the purchase of Preferred Stock by Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Blackwell Partners, LLC - Series A and Coliseum Capital Co-Invest, L.P. (collectively, the "Coliseum Stockholders"), pursuant to the Standby Purchase Agreement between the Coliseum Stockholders and us, we issued 805,000 shares of Preferred Stock, of which 798,788 shares are outstanding as of December 31, 2019. We may pay a noncumulative cash dividend on each share of Preferred Stock, when, as and if declared by a committee of our Board, at the rate of 5.5% per annum on the liquidation preference then in effect. On or before the third business day immediately preceding each fiscal quarter, we determine our intention whether or not to pay a cash dividend with respect to that ensuing quarter and give notice of our intention to each holder of 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 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, if declared, will begin to accrue on the first day of the applicable dividend period. Payment-in-kind ("PIK") dividends, if applicable, will accrue and accumulate 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 Preferred Stock. Cash dividends were declared each quarter for the years ended December 31, 2019 and 2018 and totaled $4.4 million each year.

Reinsurance and Self-Funded Insurance Programs

Reinsurance

We historically reinsured a substantial portion of our automobile, general and professional liability and workers' compensation costs under reinsurance programs primarily through our wholly-owned captive insurance subsidiary, Social Services Providers Captive Insurance Company, or SPCIC. As of May 16, 2017, SPCIC did not renew the expiring reinsurance policies. SPCIC will continue to resolve claims under the historical policy years.

At December 31, 2019, the cumulative reserve for expected losses since inception of these historical automobile, general and professional liability and workers' compensation reinsurance programs was $0.8 million, $0.5 million and $3.0 million, respectively. Based on an independent actuarial report, our expected losses related to workers' compensation, automobile and general and professional liability, net of expected receivables for losses in excess of SPCIC's historical insurance limits at December 31, 2019 was $4.3 million. We recorded a receivable from third-party insurers and liability at December 31, 2019 for these expected losses, which would be paid by third-party insurers to the extent losses are incurred.

Further, we had restricted cash of $0.2 million and $4.4 million at December 31, 2019 and December 31, 2018, respectively, which was primarily restricted to secure the reinsured claims losses under the historical automobile, general and professional liability and workers' compensation reinsurance programs.

Health Insurance

We offer our employees an option to participate in self-funded health insurance programs. During the year ended December 31, 2019, health claims were self-funded with a stop-loss umbrella policy with a third-party insurer to limit the maximum potential liability for individual claims generally to $300,000 per person, subject to an aggregating stop-loss limit of $400,000. In addition, the program has a total stop-loss limit for total claims, in order to limit our exposure to catastrophic claims.

Health insurance claims are paid as they are submitted to the plan administrator. We maintain accruals for claims that have been incurred but not yet reported to the plan administrator, and therefore, have not been paid. The incurred but not reported reserve is based on an established cap and current payment trends of health insurance claims. The liability for the self-funded health plan of $1.9 million and $2.2 million as of December 31, 2019 and 2018, respectively, was recorded in "Self-funded insurance programs" in our consolidated balance sheets.

We charge our employees a portion of the costs of our self-funded group health insurance programs. We determine this charge at the beginning of each plan year based upon historical and projected medical utilization data. Any difference between our projections and our actual experience is borne by us, up to the stop-loss limit. We estimate potential obligations for liabilities under this program to reserve what we believe to be a sufficient amount to cover liabilities based on our past experience. Any significant increase in the number of claims or costs associated with claims made under this program above what we reserve could have a material adverse effect on our financial results.

Contractual Cash Obligations

The following is a summary of our future contractual cash obligations as of December 31, 2019:

	At December 31, 2019				
Contractual cash obligations (000's)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
Finance leases	$ 353	$ 308	$ 45	$ —	$ —
Interest (1)	458	458	—	—	—
Purchased services commitment (2)	8,321	4,782	3,539	—	—
Guarantees (3)	44,160	44,160	—	—	—
Letters of credit (3)	13,523	13,523	—	—	—
Operating leases (4)	23,350	7,586	13,604	1,330	830
Total	$ 90,165	$ 70,817	$ 17,188	$ 1,330	$ 830

(1) Future interest payments have been calculated at the current rates as of December 31, 2019.

(2) The purchased service commitment includes the maximum penalty we would incur if we do not meet our minimum volume commitment over the remaining term of the agreement under certain contracts.

(3) Letters of credit ("LOCs") are guarantees of potential payments to third parties under certain conditions. Guarantees include surety bonds we provide to certain customers to protect against potential non-delivery of our non-emergency transportation services. Our LOCs are provided by our Credit Facility and reduce our availability under this agreement. The surety bonds and LOC amounts in the above table represent the amount of commitment expiration per period.

(4) The operating leases are for office space and related office equipment. Certain leases contain periodic rent escalation adjustments and renewal options.

We do not have any off-balance sheet arrangements as of December 31, 2019 other than those disclosed above.

Stock repurchase programs

On October 26, 2016, our Board authorized a repurchase program, under which we could repurchase up to $100.0 million in aggregate value of our Common Stock during the twelve-month period following October 26, 2016. On November 2, 2017, our Board approved the extension of our prior stock repurchase program, authorizing us to engage in a repurchase program to repurchase up to $69.6 million (the amount remaining from the $100.0 million repurchase amount authorized in 2016) in aggregate value of our Common Stock through December 31, 2018. Subsequently, on March 29, 2018, our Board authorized an increase in the amount available for stock repurchases under our existing stock repurchase program by $77.8 million, and extended the existing stock repurchase program through June 30, 2019. A total of 1.8 million shares were repurchased under this repurchase program. The share repurchases were made through a combination of open market repurchases (including Rule 10b5-1 plans), privately negotiated transactions, accelerated share repurchase transactions and other derivative transactions. As of June 30, 2019, this repurchase program expired.

On August 6, 2019, the Board authorized a new stock repurchase program under which we could repurchase up to $100.0 million in aggregate value of our Common Stock, subject to the consent of the holders of a majority of the our Series A convertible preferred stock, through December 31, 2019, at which time it expired. A total of 105,421 shares were repurchased under this program.

Off-balance sheet arrangements

As of December 31, 2019 and 2018, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities referred to as structured finance or special purpose entities, which were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

New Accounting Pronouncements

The new accounting pronouncements that impact our business are included in Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements,* to our consolidated financial statements and are incorporated herein by reference.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

Interest rate risk

We have exposure to interest rate risk mainly related to our Credit Facility, which has variable interest rates that may increase. We did not have any amounts outstanding on our Credit Facility at December 31, 2019.

Item 8. ***Financial Statements and Supplementary Data.***

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Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the registrant, as such term is defined in Rule 13a-15(f) of the Exchange Act. We designed our internal control over financial reporting 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. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation. 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 a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

The Company, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, based on the criteria set forth in the Internal Control–Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, the Company concluded that its internal control over financial reporting was effective as of December 31, 2019.

KPMG LLP, an independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K, has issued an audit report on the effectiveness of the Company's internal control over financial reporting which is presented in Part II, Item 8 of this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
The Providence Service Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of The Providence Service Corporation and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes, and financial statement schedule II (collectively, the consolidated financial statements). In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

We did not audit the financial statements of Mercury Parent, LLC (a 43.6 percent owned investee company). The Company's investment in Mercury Parent, LLC was $130.9 and $161.5 million as of December 31, 2019 and 2018, respectively, and its equity in earnings (loss) of Mercury Parent, LLC was $(29.7), $(6.2), and $13.4 million for the years 2019, 2018, and 2017, respectively. The financial statements of Mercury Parent, LLC were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mercury Parent, LLC, is based solely on the report of the other auditors.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenues and related costs in 2018 due to the adoption of Accounting Standard Codification Topic 606, Revenue from Contracts with Customers.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of accrued transportation costs

As discussed in Note 2 to the consolidated financial statements, the Company estimates an accrual for transportation costs that have been incurred but not invoiced by the transportation provider. This accrual is included within accrued transportation costs of $87.1 million as of December 31, 2019.

We identified the evaluation of accrued transportation costs as a critical audit matter. There was especially subjective auditor judgment due to the inherent estimation uncertainty in transportation costs that were incurred but had yet to be invoiced by the transportation provider. Specifically, unknown trip cancellations and actual trip mileage could be greater or less than the amounts estimated.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company’s transportation cost estimate, including controls relating to estimated trip cancellations and mileage. In addition, we compared the Company’s historical accrued transportation costs estimates to actual amounts paid to assess the Company’s ability to estimate accrued transportation costs. We compared a listing of amounts invoiced by transportation providers subsequent to year-end to the Company’s year-end estimate of amounts expected to be invoiced by transportation providers.

/s/ KPMG LLP

We have served as the Company’s auditor since 2008.

Atlanta, Georgia
February 27, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
The Providence Service Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited The Providence Service Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes, and financial statement schedule II (collectively, the consolidated financial statements), and our report dated February 27, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

Atlanta, Georgia
February 27, 2020

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

	December 31,	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 61,365	$ 5,678
Accounts receivable, net of allowance of $5,933 in 2019 and $1,854 in 2018	180,416	147,756
Other receivables	3,396	4,846
Prepaid expenses and other	10,942	44,167
Restricted cash	153	1,482
Current assets of discontinued operations	155	7,051
Total current assets	256,427	210,980
Operating lease right-of-use assets	20,095	—
Property and equipment, net	23,243	22,965
Goodwill	135,216	135,216
Intangible assets, net	19,911	26,146
Equity investment	130,869	161,503
Other assets	11,620	9,949
Restricted cash, less current portion	—	2,886
Total assets	$ 597,381	$ 569,645
Liabilities, redeemable convertible preferred stock and stockholders' equity		
Current liabilities:		
Current portion of long-term obligations	$ 308	$ 718
Accounts payable	9,805	8,828
Current portion of operating lease liabilities	6,730	—
Accrued expenses	38,733	39,191
Accrued transportation costs	87,063	84,889
Deferred revenue	227	562
Self-funded insurance programs	5,890	5,438
Current liabilities of discontinued operations	1,430	3,257
Total current liabilities	150,186	142,883
Long-term debt, less current portion	45	353
Operating lease liabilities, less current portion	14,502	—
Other long-term liabilities	15,029	14,970
Deferred tax liabilities	22,907	23,049
Total liabilities	202,669	181,255
Commitments and contingencies (Note 20)		
Redeemable convertible preferred stock		
Convertible preferred stock, net: Authorized 10,000,000 shares; $0.001 par value; 798,788 and 801,606 issued and outstanding; 5.5%/8.5% dividend rate	77,120	77,392
Stockholders' equity		
Common stock: Authorized 40,000,000 shares; $0.001 par value; 18,073,763 and 17,784,769 issued and outstanding (including treasury shares)	18	18
Additional paid-in capital	351,529	334,744
Retained earnings	183,733	187,127
Treasury shares, at cost, 5,088,782 and 4,970,093 shares, respectively	(217,688)	(210,891)
Total stockholders' equity	317,592	310,998
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 597,381	$ 569,645

See accompanying notes to the consolidated financial statements

The Providence Service Corporation
Consolidated Statements of Operations
(in thousands except share and per share data)

	Year ended December 31,		
	2019	**2018**	**2017**
Service revenue, net	$ 1,509,944	$ 1,384,965	$ 1,318,220
Operating expenses:			
Service expense	1,401,152	1,253,608	1,197,211
General and administrative expense	67,244	77,093	69,907
Asset impairment charge	—	14,175	—
Depreciation and amortization	16,816	15,813	13,618
Total operating expenses	1,485,212	1,360,689	1,280,736
Operating income	24,732	24,276	37,484
Other expenses (income):			
Interest expense, net	850	1,783	1,204
Other income	(277)	—	(5,363)
Equity in net loss (gain) of investee	29,685	6,158	(13,445)
Gain on remeasurement of cost method investment	—	(6,577)	—
(Loss) income from continuing operations before income taxes	(5,526)	22,912	55,088
(Benefit) provision for income taxes	(573)	4,684	4,003
(Loss) income from continuing operations, net of tax	(4,953)	18,228	51,085
Income (loss) from discontinued operations, net of tax	5,919	(37,053)	2,735
Net income (loss)	966	(18,825)	53,820
Net loss from discontinued operations attributable to noncontrolling interest	—	(156)	(451)
Net income (loss) attributable to Providence	$ 966	$ (18,981)	$ 53,369
Net (loss) income available to common stockholders (Note 16)	$ (3,437)	$ (25,257)	$ 42,636
Basic (loss) earnings per common share:			
Continuing operations	$ (0.72)	$ 0.92	$ 2.99
Discontinued operations	0.46	(2.87)	0.15
Basic (loss) earnings per common share	$ (0.26)	$ (1.95)	$ 3.14
Diluted (loss) earnings per common share:			
Continuing operations	$ (0.72)	$ 0.92	$ 2.97
Discontinued operations	0.46	(2.86)	0.15
Diluted (loss) earnings per common share	$ (0.26)	$ (1.94)	$ 3.12
Weighted-average number of common shares outstanding:			
Basic	12,958,713	12,960,837	13,602,140
Diluted	12,958,713	13,033,247	13,673,314

See accompanying notes to the consolidated financial statements

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

	Year ended December 31,		
	2019	**2018**	**2017**
Net income (loss)	$ 966	$ (18,825)	$ 53,820
Net loss from discontinued operations attributable to non-controlling interest	—	(156)	(451)
Net income (loss) attributable to Providence	966	(18,981)	53,369
Other comprehensive (loss) income:			
Foreign currency translation adjustments, net of tax	—	(4,168)	7,117
Reclassification of translation loss realized upon sale of subsidiary and equity investment, respectively	—	29,973	527
Other comprehensive income	—	25,805	7,644
Comprehensive income	966	6,980	61,464
Comprehensive loss attributable to non-controlling interest	—	(2,165)	(255)
Comprehensive income attributable to Providence	$ 966	$ 4,815	$ 61,209

See accompanying notes to the consolidated financial statements

The Providence Service Corporation
Consolidated Statements of Stockholders' Equity
(in thousands except share data)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Loss, Net of	Treasury Stock		Non-Controlling	
	Shares	Amount	Capital	Earnings	Tax	Shares	Amount	Interest	Total
Balance at December 31, 2016	17,315,661	17	302,010	156,718	(33,449)	3,478,676	(125,201)	(2,420)	297,675
Stock-based compensation	—	—	7,619	—	—	—	—	—	7,619
Exercise of employee stock options	91,400	—	2,423	—	—	5,665	(238)	—	2,185
Restricted stock issued	36,623	—	—	—	—	19,556	(878)	—	(878)
Performance restricted stock issued	3,773	—	(96)	—	—	—	—	—	(96)
Shares issued for bonus settlement and director stipends	25,646	—	1,107	—	—	—	—	—	1,107
Stock repurchase plan	—	—	—	—	—	622,235	(28,486)	—	(28,486)
Conversion of convertible preferred stock to common stock	495	—	20	(1)	—	—	—	—	19
Convertible preferred stock dividends	—	—	—	(4,418)	—	—	—	—	(4,418)
Foreign currency translation adjustments, net of tax	—	—	—	—	7,117	—	—	(196)	6,921
Reclassification of translation loss realized upon sale of equity investments	—	—	—	—	527	—	—	—	527
Noncontrolling interests	—	—	—	—	—	—	—	451	451
Other	—	—	22	—	—	—	—	—	22
Net income attributable to Providence	—	—	—	53,369	—	—	—	—	53,369
Cumulative effect adjustment from change in accounting principle	—	—	850	(850)	—	—	—	—	—
Balance at December 31, 2017	17,473,598	17	313,955	204,818	(25,805)	4,126,132	(154,803)	(2,165)	336,017
Stock-based compensation	—	—	9,130	—	—	—	—	—	9,130
Exercise of employee stock options	266,293	1	11,669	—	—	—	—	—	11,670
Restricted stock issued	33,582	—	(320)	—	—	5,242	(335)	—	(655)
Performance restricted stock issued	3,110	—	(109)	—	—	—	—	—	(109)
Shares issued for bonus settlement and director stipends	4,193	—	150	—	—	—	—	—	150
Stock repurchase plan	—	—	—	—	—	838,719	(55,753)	—	(55,753)
Conversion of convertible preferred stock to common stock	3,993	—	161	(7)	—	—	—	—	154
Convertible preferred stock dividends	—	—	—	(4,413)	—	—	—	—	(4,413)
Foreign currency translation adjustments, net of tax	—	—	—	—	(4,168)	—	—	1,839	(2,329)
Reclassification of translation loss realized upon sale of equity investments	—	—	—	—	29,973	—	—	—	29,973
Noncontrolling interest	—	—	—	—	—	—	—	326	326
Other	—	—	108	—	—	—	—	—	108
Net loss attributable to Providence	—	—	—	(18,981)	—	—	—	—	(18,981)
Cumulative effect adjustment from change in accounting principle, net of tax	—	—	—	5,710	—	—	—	—	5,710
Balance at December 31, 2018	17,784,769	18	334,744	187,127	—	4,970,093	(210,891)	—	310,998
Stock-based compensation	—	—	5,260	—	—	—	—	—	5,260
Deferred Stock Units (DSUs)	4,803	—	156	—	—	—	—	—	156
Exercise of employee stock options	219,054	—	10,986	—	—	—	—	—	10,986
Restricted stock issued	55,530	—	(43)	—	—	13,268	(809)	—	(852)
Shares issued for bonus settlement and director stipends	2,542	—	154	—	—	—	—	—	154
Stock repurchase plan	—	—	—	—	—	105,421	(5,988)	—	(5,988)
Conversion of convertible preferred stock to common stock	7,065	—	272	43	—	—	—	—	315
Convertible preferred stock dividends	—	—	—	(4,403)	—	—	—	—	(4,403)
Net income attributable to Providence	—	—	—	966	—	—	—	—	966
Balance at December 31, 2019	18,073,763	$ 18	$ 351,529	$ 183,733	$ —	5,088,782	$ (217,688)	$ —	$ 317,592

See accompanying notes to the consolidated financial statements

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

	Year ended December 31,		
	2019	2018	2017
Operating activities			
Net income (loss)	$ 966	$ (18,825)	$ 53,820
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	10,582	18,769	18,542
Amortization	6,234	8,908	7,927
Provision for doubtful accounts	4,078	6,062	1,372
Stock-based compensation	5,414	8,993	7,543
Deferred income taxes	71	(545)	(22,996)
Amortization of deferred financing costs and debt discount	293	512	682
Asset impairment charge	—	23,378	—
Equity in net loss (gain) of investees	29,685	6,072	(12,054)
Gain on sale of equity investment	—	—	(12,377)
Loss on sale of business	—	53,692	—
Gain on remeasurement of cost method investment	—	(6,577)	—
Deferred income taxes and income taxes receivable on sale of business	—	(51,861)	—
Other non-cash (credits) charges	—	(353)	296
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable and other receivables	(29,928)	(30,997)	5,715
Prepaid expenses and other	631	14,253	15,457
Self-funded insurance programs	809	(2,743)	(5,731)
Accounts payable and accrued expenses	(4,144)	(21,799)	(9,064)
Income taxes on gain from sale of business	30,822	—	—
Accrued transportation costs	2,175	1,301	11,232
Deferred revenue	(1,298)	(1,975)	(4,691)
Other long-term liabilities	4,550	1,634	(629)
Net cash provided by operating activities	60,940	7,899	55,044
Investing activities			
Purchase of property and equipment	(10,858)	(17,521)	(19,923)
Proceeds from sale of equity investment	—	—	15,593
Acquisitions, net of cash acquired	—	(43,711)	—
Dispositions or sale of business, net of cash sold	—	12,780	—
Cost method investments	—	—	(3,000)
Proceeds from note receivable	—	3,130	—
Other investing activities	—	—	310
Net cash used in investing activities	(10,858)	(45,322)	(7,020)
Financing activities			
Preferred stock dividends	(4,403)	(4,413)	(4,418)
Repurchase of common stock, for treasury	(6,797)	(56,088)	(29,364)
Proceeds from common stock issued pursuant to stock option exercise	11,142	12,413	1,921
Proceeds from debt	12,000	42,000	—
Repayment of debt	(12,000)	(42,000)	—
Other financing activities	(718)	(3,467)	(1,927)
Net cash used in financing activities	(776)	(51,555)	(33,788)
Effect of exchange rate changes on cash	—	(261)	978
Net change in cash, cash equivalents and restricted cash	49,306	(89,239)	15,214
Cash, cash equivalents and restricted cash at beginning of period	12,367	101,606	86,392
Cash, cash equivalents and restricted cash at end of period	$ 61,673	$ 12,367	$ 101,606

See accompanying notes to the consolidated financial statements

The Providence Service Corporation
Supplemental Cash Flow Information
(in thousands)

Supplemental cash flow information	Year ended December 31, 2019	2018	2017
Cash included in current assets of discontinued operations held for sale	$ 155	$ 2,321	$ 42,512
Cash paid for interest	$ 1,261	$ 1,162	$ 987
Cash (received) paid for income taxes	$ (30,037)	$ 12,054	$ 18,128
Proceeds receivable from option exercise	$ —	$ —	$ 562
Purchases of equipment in accounts payable and accrued liabilities	$ —	$ —	$ 1,362
Purchase of equipment through capital lease obligation	$ —	$ 724	$ 1,474
Acquisitions:			
Purchase price	$ —	$ 54,700	$ —
Less:			
Cash acquired	—	(1,302)	—
Restricted cash acquired	—	(110)	—
Value of existing ownership in Circulation	—	(9,577)	—
Acquisitions, net of cash acquired	$ —	$ 43,711	$ —

See accompanying notes to the consolidated financial statements

The Providence Service Corporation
Notes to Consolidated Financial Statements
December 31, 2019
(in thousands except share and per share data)

1. Organization and Basis of Presentation

Description of Business

The Providence Service Corporation ("we", the "Company" or "Providence") is the largest manager of non-emergency medical transportation ("NET") programs for state governments and managed care organizations ("MCOs") in the United States ("U.S."). The Company operates under the brands LogistiCare and Circulation. Additionally, the Company owns a minority investment in CCHN Group Holdings, Inc. and its subsidiaries ("Matrix"). Matrix provides a broad array of assessment and care management services that improve health outcomes for individuals and financial performance for health plans. Matrix's national network of community-based clinicians delivers in-home services while its fleet of mobile health clinics provide community-based care with advance diagnostic capabilities. These solutions combined with Matrix's advanced engagement approach, help health plans manage risks, close care gaps and connect members to care.

During 2018, the Company announced an organizational consolidation plan ("Organizational Consolidation") to integrate substantially all activities and functions performed at the corporate holding company level into its NET Services segment. As the Organizational Consolidation was substantially complete beginning January 1, 2019, our former Corporate and Other segment was combined with the NET Services segment. See Note 10, *Restructuring and Related Reorganization Costs,* and Note 24, *Segments,* for further information.

Discontinued Operations

During the periods presented, the Company completed the following transactions, which resulted in the presentation of the related operations as Discontinued Operations.

- On December 21, 2018, the Company completed the sale of substantially all of the operating subsidiaries of its WD Services segment to Advanced Personnel Management Global Pty Ltd of Australia ("APM") and APM UK Holdings Limited, an affiliate of APM, with the exception of the segment's employment services operations in Saudi Arabia (the "WD Services Sale"). The Company's contractual counterparties in Saudi Arabia, including an entity owned by the Saudi Arabian government, assumed these operations beginning January 1, 2019; however, the Company continues to incur expenses to wind down its Saudi Arabian entity. Additionally, on June 11, 2018, the Company entered into a Share Purchase Agreement to sell Ingeus France for a de minimis amount. The sale was effective on July 17, 2018, after court approval.

- On November 1, 2015, the Company completed the sale of its *Human Service*s segment. However, in addition to the results through the sale date, the Company has recorded additional expenses related to legal proceedings as described in Note 20, *Commitment and Contingencies*, related to an indemnified legal matter.

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. References to GAAP issued by the FASB in these footnotes are to the FASB *Accounting Standards Codification* ("ASC"), which serves as the single source of authoritative accounting and applicable reporting standards to be applied for non-governmental entities. All amounts are presented in U.S. dollars, unless otherwise noted.

The Company accounts for its investment in Matrix using the equity method, as the Company does not control the decision-making process or business management practices of Matrix. While the Company has access to certain information and performs certain procedures to review the reasonableness of information, the Company relies on the management of Matrix to provide accurate financial information prepared in accordance with GAAP. The Company receives audit reports relating to such financial information from Matrix's independent auditors on an annual basis. The Company is not aware of any errors in or possible misstatements of the financial information provided by Matrix that would have a material effect on the Company's consolidated financial statements. See Note 5, *Equity Investment*, for further information.

Reclassifications

In conjunction with the change in the Company's organizational structure as described in Note 24, *Segments*, certain costs were reclassified between "General and administrative expense" and "Service expense" on the accompanying condensed consolidated statements of operations as summarized below:

	Year Ended December 31, 2018		
	As Previously Reported (1)	**Reclassifications**	**As Reported**
Service expense	$ 1,284,603	$ (30,995)	$ 1,253,608
General and administrative expense	46,098	30,995	77,093

	Year Ended December 31, 2017		
	As Previously Reported (1)	**Reclassifications**	**As Reported**
Service expense	$ 1,223,627	$ (26,416)	$ 1,197,211
General and administrative expense	43,491	26,416	69,907

(1) Adjusted for discontinued operations, as described in Note 23.

2. Significant Accounting Policies and Recent Accounting Pronouncements

Principles of Consolidation

The accompanying consolidated financial statements include The Providence Service Corporation, its wholly-owned subsidiaries, and entities it controls, or in which it has a variable interest and is the primary beneficiary of expected cash profits or losses. The Company records its investments in entities that it does not control, but over which it has the ability to exercise significant influence, using the equity method. The Company has eliminated significant intercompany transactions and accounts.

Accounting Estimates

The Company uses estimates and assumptions in the preparation of the consolidated financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the Company's consolidated financial statements. These estimates and assumptions also affect the reported amount of net income or loss during any period. The Company's actual financial results could differ significantly from these estimates. The significant estimates underlying the Company's consolidated financial statements include revenue recognition; allowance for doubtful accounts; accrued transportation costs; income taxes; recoverability of current and long-lived assets, including equity method investments; intangible assets and goodwill; loss contingencies; accounting for business combinations, including amounts assigned to definite and indefinite lived intangibles and contingent consideration; loss reserves for reinsurance and self-funded insurance programs; and stock-based compensation.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. Investments in cash equivalents are carried at cost, which approximates fair value. The Company places its temporary cash investments with high credit quality financial institutions. At times, such investments may be in excess of the federally insured limits.

Accounts Receivable and Allowance for Doubtful Accounts

The Company records accounts receivable amounts at the contractual amount, less an allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts at an amount it estimates to be sufficient to cover the risk that an account will not be collected. The Company regularly evaluates its accounts receivables, especially receivables that are past due, and reassesses its allowance for doubtful accounts based on identified customer collection issues. In circumstances where the Company is aware of a customer's inability to meet its financial obligation, the Company records a specific allowance for

doubtful accounts to reduce its net recognized receivable to an amount the Company reasonably expects to collect. Under certain contracts of NET Services, final payment is based on a reconciliation of actual utilization and cost, and the final reconciliation may require a considerable period of time.

The Company's bad debt expense from continuing operations for the years ended December 31, 2019, 2018 and 2017 was $3,220, $338 and $1,347, respectively.

Property and Equipment

Property and equipment are stated at historical cost, net of accumulated depreciation, or at fair value if the assets were initially recorded as the result of a business combination or if the asset was remeasured due to an impairment. Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Maintenance and repairs are expensed as incurred. Gains and losses resulting from the disposition of an asset are reflected in operating expense.

Recoverability of Goodwill

In accordance with ASC 350, *Intangibles-Goodwill and Other*, the Company reviews goodwill for impairment annually, or more frequently if events and circumstances indicate that an asset may be impaired. Such circumstances could include, but are not limited to: (1) the loss or modification of significant contracts, (2) a significant adverse change in legal factors or in business climate, (3) unanticipated competition, (4) an adverse action or assessment by a regulator, or (5) a significant decline in the Company's stock price. We perform our annual goodwill impairment test as of October 1.

First, we perform qualitative assessments for each reporting unit to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment suggests that it is more likely than not that the fair value of a reporting unit is less than its carrying value amount, then we perform a quantitative assessment and compare the fair value of the reporting unit to its carrying value.

We adopted ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04") effective April 1, 2017. ASU 2017-04 removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test. Instead, if we deem it necessary to perform the quantitative goodwill impairment test in an annual or interim period, we recognize an impairment charge equal to the excess, if any, of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

The Company estimates the fair value of the Company's reporting units using either an income approach, a market valuation approach, a transaction valuation approach or a blended approach. The income approach produces an estimated fair value of a reporting unit based on the present value of the cash flows the Company expects the reporting unit to generate in the future. Estimates included in the discounted cash flow model include the discount rate, which the Company determines based on adjusting an industry-wide weighted-average cost of capital for size, geography, and company specific risk factors, long-term rates of growth and profitability of the Company's business, working capital effects and planned capital expenditures. The market approach produces an estimated fair value of a reporting unit based on a comparison of the reporting unit to comparable publicly traded entities in similar lines of business. The transaction valuation approach produces an estimated fair value of a reporting unit based on a comparison of the reporting unit to publicly available transactional data involving both publicly traded and private entities in similar lines of business. The Company's significant estimates in both the market and transaction approach include the selected similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and the multiples the Company applies to revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") to estimate the fair value of the reporting unit.

Recoverability of Intangible Assets Subject to Amortization and Other Long-Lived Assets

Intangible assets subject to amortization and other long-lived assets are carried at cost and are amortized or depreciated on a straight-line basis over their estimated useful lives of 3 to 15 years. In accordance with ASC 360, *Property, Plant, and Equipment*, the Company reviews the carrying value of long-lived assets or groups of assets to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. Factors that may necessitate an impairment assessment include, among others, significant adverse changes in the extent or manner in which an asset or group of assets is used, significant adverse changes in legal factors or the business climate that could affect the value of an asset or group of assets or significant declines in the observable market value of an asset or group of assets. The presence or occurrence of those events indicates that an asset or group of assets may be impaired. In those cases, the Company assesses the recoverability of an asset or group of assets by determining whether the carrying value of the asset or group of assets exceeds

the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the asset or the primary asset in the group of assets. If such testing indicates the carrying value of the asset or group of assets is not recoverable, the Company estimates the fair value of the asset or group of assets using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. If the fair value of those assets or groups of assets is less than carrying value, the Company records an impairment loss equal to the excess of the carrying value over the estimated fair value.

Accrued Transportation Costs

The Company schedules transportation for eligible members of its customers through its central reservation system. The Company generally contracts with third-party providers to provide transportation. The cost of transportation is recorded in the month the services are rendered, based upon contractual rates and mileage estimates. Transportation providers provide invoices once the trip is completed. Any trips that have not been invoiced require an accrual, based upon the expected cost as well as an estimate for cancellations, as the Company is generally only obligated to pay the transportation provider for completed trips. These estimates are based upon the historical trend associated with each contract's population and the transportation provider network servicing the program. There may be differences between actual invoiced amounts and estimated costs, and any resulting adjustments are included in expense. Accrued transportation costs were $87,063 and $84,889 at December 31, 2019 and 2018, respectively.

Deferred Financing Costs and Debt Discounts

The Company capitalizes direct expenses incurred in connection with its credit facilities and other borrowings, and amortizes such expenses over the life of the respective credit facility or other borrowings. Fees charged by lenders on the revolving facility and all fees charged by third parties are recorded as deferred financing costs and fees charged by lenders on term loans are recorded as a debt discount. Deferred financing costs, net of amortization, totaling $33 and $268 as of December 31, 2019 and 2018, respectively, are included in "Prepaid expenses and other" on the consolidated balance sheets.

Revenue Recognition

The Company recognizes revenue as it transfers control of promised services to its customers. The Company generates all of its revenue from contracts with customers. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for these services. The Company satisfies substantially all of its performance obligations and recognizes revenue over time instead of at points in time. See further information in Note 3, *Revenue Recognition.*

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 introduced FASB Accounting Standards Codification Topic 606 ("ASC 606"), which replaced historical revenue recognition guidance and was intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. The core principle of ASC 606 was that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASC 606 also required additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09 allowed for adoption either on a full retrospective basis to each prior reporting period presented or on a modified retrospective basis with the cumulative effect of initially applying the new guidance recognized at the date of initial application. The Company adopted ASU 2014-09 effective January 1, 2018 using the modified retrospective transition method for contracts that were not completed as of January 1, 2018.

The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. These impacts were related to our WD Services segment, which has since met the criteria for classification as discontinued operations. Upon adoption of ASU 2014-09, the cumulative effect of the changes made to the Company's consolidated balance sheet as of January 1, 2018 were as follows:

	Balance at December 31, 2017	Adjustments due to ASU 2014-09	Balance at January 1, 2018
Assets			
Current assets of discontinued operations	104,024	11,182	115,206
Liabilities			
Current liabilities of discontinued operations	61,643	5,442	67,085
Noncurrent liabilities of discontinued operations	7,565	30	7,595
Equity			
Retained earnings, net of tax	204,818	5,710	210,528

The impact of applying the new revenue recognition guidance on the Company's consolidated statement of operations for the year ended December 31, 2018 was as follows:

	Year Ended December 31, 2018	
	As Reported [1]	Pro forma as if the previous accounting guidance was in effect
Service revenue, net	$ 1,384,965	1,400,453
Service expense	1,253,608	1,300,091
Operating income	24,276	24,276

[1] Service expense reflects certain costs reclassified between "General and administrative expense" and "Service expense" in conjunction with the change in the Company's organizational structure as described in Note 24, *Segments.*

There was no impact of applying the new revenue recognition guidance on the Company's consolidated balance sheet at December 31, 2018, as any assets and liabilities impacted by the guidance were sold in the WD Services Sale. The comparative financial statements were not restated and continue to be reported under the accounting standards in effect for those periods.

Stock-Based Compensation

The Company follows the fair value recognition provisions of ASC Topic 718 – *Compensation – Stock Compensation* ("ASC 718"), which requires companies to measure and recognize compensation expense for all share-based payments at fair value.

- The Company calculates the fair value of stock options using the Black-Scholes or Monte Carlo option-pricing formula. The fair value of restricted stock awards or units is determined based on the closing market price of the Company's Common Stock on the date of grant. Forfeitures are recorded as they occur. The expense for stock-based compensation awards is amortized on a straight-line basis over the requisite service period, which is typically the vesting period.

- The Company records restricted stock units ("RSUs") that may be settled by the holder in cash, rather than shares, as a liability and remeasures these liabilities at fair value at the end of each reporting period. Upon settlement of these awards, the cumulative compensation expense recorded over the vesting period of the awards will equal the settlement amount, which is based on the Company's stock price on the settlement date.

- Performance-based RSUs vest upon achievement of certain company specific performance conditions. On the date of grant, the Company determines the fair value of the performance-based award using the fair value of the Company's Common Stock at that time and assesses whether it is probable that the performance targets will be achieved. If assessed as probable, the Company records compensation expense for these awards over the requisite service period. At each reporting period, the Company reassesses the probability of achieving the performance targets and the

performance period required to meet those targets. The estimation of whether the performance targets will be achieved and of the performance period required to achieve the targets requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, the cumulative effect on current and prior periods of those changes will be recorded in the period estimates are revised, or the change in estimate will be applied prospectively depending on whether the change affects the estimate of total compensation cost to be recognized or merely affects the period over which compensation cost is to be recognized. The ultimate number of shares issued and the related compensation expense recognized will be based on a comparison of the final performance metrics to the specified targets.

Income Taxes

Deferred income taxes are determined by the asset and liability method in accordance with ASC Topic 740 - *Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The Company considers many factors when assessing the likelihood of future realization of deferred tax assets, including recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available for tax reporting purposes, as well as other relevant factors. The Company establishes a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. The net amount of deferred tax liabilities and assets, net of the valuation allowance, is presented as noncurrent in the Company's consolidated balance sheets.

Due to inherent complexities arising from the nature of the Company's businesses, future changes in income tax law or variances between the Company's actual and anticipated operating results, the Company makes certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

The Company has recorded a valuation allowance which includes amounts for certain carryforwards and deferred tax assets, as more fully described in Note 19, *Income Taxes,* for which the Company has concluded that it is more likely than not that these carryforwards and deferred tax assets will not be realized in the ordinary course of operations.

The Company recognizes interest and penalties related to income taxes as a component of income tax expense.

The Company accounts for uncertain tax positions based on a two-step process of evaluating recognition and measurement criteria. The first step assesses whether the tax position is more likely than not to be sustained upon examination by the tax authority, including resolution of any appeals or litigation, based on the technical merits of the position. If the tax position meets the more likely than not criteria, the portion of the tax benefit greater than 50% likely to be realized upon settlement with the tax authority is recognized in the consolidated financial statements.

On December 22, 2017, the U.S. bill commonly referred to as the Tax Cuts and Jobs Act ("Tax Reform Act") was enacted as more fully described in Note 19, *Income Taxes*.

Loss Reserves for Certain Reinsurance and Self-Funded Insurance Programs

The Company historically reinsured a substantial portion of its automobile, general and professional liability and workers' compensation costs under reinsurance programs primarily through the Company's wholly-owned subsidiary, Social Services Providers Captive Insurance Company ("SPCIC"), a licensed captive insurance company domiciled in the State of Arizona. As of May 16, 2017, SPCIC did not renew the expiring reinsurance policies. SPCIC will continue to resolve claims under the historical policy years.

The Company utilizes a report prepared by an independent actuary to estimate the gross expected losses related to historical automobile, general and professional and workers' compensation liability reinsurance policies, including the estimated losses in excess of SPCIC's insurance limits, which would be reimbursed to SPCIC to the extent such losses were incurred. As of December 31, 2019 and 2018, the Company had reserves of $4,333 and $3,900, respectively, for the automobile, general and professional liability and workers' compensation reinsurance policies, net of expected receivables for losses in excess of SPCIC's historical insurance limits. The gross reserve as of December 31, 2019 and 2018 of $12,826 and $10,489, respectively, is classified as "Self-funded insurance programs" and "Other long-term liabilities" in the consolidated balance sheets. The estimated amount to be reimbursed to SPCIC as of December 31, 2019 and 2018 was $8,493 and $6,589, respectively, and is classified as "Other receivables" and "Other assets" in the consolidated balance sheets.

The Company also maintains a self-funded health insurance program with a stop-loss umbrella policy with a third-party insurer to limit the maximum potential liability for individual claims generally to $300 per person, subject to an aggregating stop-loss limit of $400. In addition, the program has a total stop-loss limit for total claims, in order to limit the Company's exposure to catastrophic claims. With respect to this program, the Company considers historical and projected medical utilization data when estimating its health insurance program liability and related expense. As of December 31, 2019 and 2018, the Company had $1,864 and $2,201, respectively, in reserves for its self-funded health insurance programs. The reserves are classified as "Self-funded insurance programs" in the consolidated balance sheets.

The Company utilizes analyses prepared by third-party administrators and independent actuaries based on historical claims information with respect to the general and professional liability coverage, workers' compensation coverage, automobile liability, automobile physical damage, and health insurance coverage to determine the amount of required reserves.

The Company regularly analyzes its reserves for incurred but not reported claims, and for reported but not paid claims related to its reinsurance and self-funded insurance programs. The Company believes its reserves are adequate. However, significant judgment is involved in assessing these reserves, such as assessing historical paid claims, average lag times between the claims' incurred date, reported dates and paid dates, and the frequency and severity of claims. There may be differences between actual settlement amounts and recorded reserves and any resulting adjustments are included in expense once a probable amount is known.

Discontinued Operations

In determining whether a group of assets disposed (or to be disposed) of should be presented as a discontinued operation, the Company makes a determination of whether the criteria for held-for-sale classification is met and whether the disposition represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results. If these determinations can be made affirmatively, the results of operations of the group of assets being disposed of (as well as any gain or loss on the disposal transaction) are aggregated for separate presentation apart from continuing operating results of the Company in the consolidated financial statements. See Note 23, *Discontinued Operations,* for a summary of discontinued operations related to prior years.

Earnings (Loss) Per Share

The Company computes basic earnings (loss) per share by taking net income (loss) attributable to the Company available to common stockholders divided by the weighted average number of common shares outstanding during the period, including restricted stock and stock held in escrow if such shares are participating securities. Diluted earnings per share includes the potential dilution that may occur from stock-based awards and other stock-based commitments using the treasury stock or the as-if converted methods, as applicable. For additional information on how the Company computes earnings per share, see Note 16, *(Loss) Earnings Per Share*.

Recent Accounting Pronouncements

The Company adopted the following accounting pronouncements during the year ended December 31, 2019:

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 introduced FASB Accounting Standards Codification Topic 842 ("ASC 842"), which replaced ASC 840, *Leases*. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842 (Leases)* ("ASU 2018-10"), which provides narrow amendments to clarify how to apply certain aspects of the new lease standard. Additionally, in July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements* ("ASU 2018-11"). ASU 2018-11 provides a new transition method and a practical expedient for separating components of a leasing contract.

The Company has not entered into significant lease agreements in which it is the lessor; however, the Company does have lease agreements in which it is the lessee. Under ASC 842, lessees are required to recognize a lease liability and right-of-use ("ROU") asset for all leases (with the exception of short-term leases) at the lease commencement date. Effective January 1, 2019, the Company adopted this guidance, applied the modified retrospective transition method and elected the transition option to use the effective date as the date of initial application. The Company recognized the cumulative effect of the transition adjustment on the condensed consolidated balance sheet as of the effective date and did not provide any new lease disclosures for periods before the effective date. With respect to the practical expedients, the Company elected the package of transitional-related practical expedients and the practical expedient not to separate lease and non-lease components. At January 1, 2019, the Company recorded $23,165 and $24,491 of additional ROU leased assets and liabilities, respectively, on its consolidated

balance sheet. The adoption did not have a material impact on the consolidated statement of operations. See Note 17, *Leases and Service Commitments*, for further information.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. The Company adopted this new rule during the quarter ended March 31, 2019 by including the condensed consolidated statements of stockholders' equity.

Recent accounting pronouncements that the Company had not yet adopted as of December 31, 2019 are as follows:

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)* ("ASU 2016-13"). ASU 2016-13 will supersede or clarify much of the existing guidance for reporting credit losses for assets held at amortized cost basis and available for sale debt securities. ASU 2016-13 affects loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. ASU 2016-13 is effective for financial statements issued for fiscal years beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. The adoption of this guidance on January 1, 2020 did not have an impact on the consolidated financial statements or disclosures and we do not expect the adoption of this guidance will have a material impact in the future.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). ASU 2018-13 removes certain disclosures, modifies certain disclosures and added additional disclosures. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. ASU 2018-13 requires certain disclosures to be applied on a retrospective basis and others on a prospective basis. The adoption of this guidance on January 1, 2020 did not have an impact on the consolidated financial statements or disclosures and we do not expect the adoption of this guidance will have a material impact in the future.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* ("ASU 2018-15"). ASU 2018-15 will align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company has elected to apply a prospective transition approach and will therefore apply the transition requirements to any eligible costs incurred after adoption. The Company adopted ASU 2018-15 on January 1, 2020. As of the reporting date, the Company has not incurred any material implementation costs associated with new projects entered into subsequent to the adoption date of January 1, 2020.

3. Revenue Recognition

Under ASC 606, the Company recognizes revenue as it transfers control of promised services to its customers and generates all of its revenue from contracts with customers. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for these services. The Company satisfies substantially all of its performance obligations and recognizes revenue over time instead of at points in time.

Disaggregation of Revenue

The following table summarizes disaggregated revenue from contracts with customers for the years ended December 31, 2019 and 2018 by contract type:

	Year Ended December 31,	
	2019	2018
State Medicaid agency contracts	$ 736,030	$ 732,261
Managed care organization contracts	773,914	652,704
Total Service revenue, net	$ 1,509,944	$ 1,384,965
Capitated contracts	1,277,241	$ 1,096,822
Non-capitated contracts	232,703	288,143
Total Service revenue, net	$ 1,509,944	$ 1,384,965

During the years ended December 31, 2019 and 2018, the Company recognized $10,849 and $5,685, respectively, from contractual adjustments relating to performance obligations satisfied in previous periods to which the customer agreed.

Related Balance Sheet Accounts

The following table provides information about accounts receivable, net as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Accounts receivable	$ 124,868	$ 101,340
Reconciliation contract receivable	61,481	48,270
Allowance for doubtful accounts	(5,933)	(1,854)
Accounts receivable, net	$ 180,416	$ 147,756

The following table provides information about other accounts included on the accompanying consolidated balance sheets:

	December 31, 2019	December 31, 2018
Accrued contract payments, included in "accrued expenses"	$ 15,706	$ 9,756
Deferred revenue, current	227	562
Deferred revenue, long-term, included in "other long-term liabilities"	758	963

During the years ended December 31, 2019 and 2018, $482 and $3,019 of deferred revenue, respectively, was recognized.

Practical Expedients, Exemptions and Other Matters

We do not incur significant sales commission expenses; however, those expenses that are incurred are expensed as incurred within general and administrative expense in the consolidated statements of operations.

The Company generally expects the period of time from when it transfers a promised service to a customer and when the customer pays for the service to be one year or less, and thus we do not have a significant financing component within our contracts with customers.

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less; (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed; or (iii) contracts for which the variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation, and the terms of the variable consideration relate specifically to our efforts to transfer the distinct service or to a specific outcome from transferring the distinct service.

4. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets to the amounts shown in the consolidated statements of cash flows:

	December 31,	
	2019	2018
Cash and cash equivalents	$ 61,365	$ 5,678
Restricted cash, current	153	1,482
Cash associated with discontinued operations	155	2,321
Restricted cash, less current portion	—	2,886
Cash, cash equivalents and restricted cash	$ 61,673	$ 12,367

Restricted cash primarily relates to amounts held in trusts for reinsurance claims losses under the Company's insurance operation for historical workers' compensation, general and professional liability and auto liability reinsurance programs, as well as amounts restricted for withdrawal under our self-insured medical and benefits plans. Current assets of discontinued operations principally reflects the cash position of WD Services operations in Saudi Arabia, which was not sold as part of the WD Services Sale. Such cash will be used to fund the shut-down costs of this operation as needed. See Note 23, *Discontinued Operations*, for further information on the WD Services sale.

5. Equity Investment

Matrix

As of December 31, 2019 and 2018, the Company owned a 43.6% noncontrolling interest in Matrix. Pursuant to a Shareholder's Agreement, affiliates of Frazier Healthcare Partners hold rights necessary to control the fundamental operations of Matrix. The Company accounts for this investment in Matrix under the equity method of accounting and the Company's share of Matrix's income or losses are recorded as "Equity in net loss (gain) of investee" in the accompanying consolidated statements of operations. During the year ended December 31, 2019, Matrix recorded asset impairment charges of $55,056. As of December 31, 2019, an evaluation under ASC 323, *Investments—Equity Method and Joint Ventures*, was performed to test if the equity method investment was impaired. The Company determined that the carrying value of the investment was not impaired.

The carrying amount of the assets included in the Company's consolidated balance sheets and the maximum loss exposure related to the Company's interest in Matrix as of December 31, 2019 and 2018 totaled $130,869 and $161,503, respectively.

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

	December 31,	
	2019	2018
Current assets	$ 64,221	$ 61,565
Long-term assets	631,007	719,450
Current liabilities	31,256	27,619
Long-term liabilities	351,380	373,159

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Revenue	$ 275,391	$ 282,067	$ 227,872
Operating (loss) income	(61,000)	(1,186)	11,870
Net (loss) income	(69,353)	(19,962)	26,665

6. Prepaid Expenses and Other

Prepaid expenses and other were comprised of the following:

	December 31,	
	2019	2018
Prepaid income taxes	$ 2,942	$ 35,207
Prepaid insurance	1,317	1,308
Prepaid rent	868	828
Other	5,815	6,824
Total prepaid expenses and other	$ 10,942	$ 44,167

7. Property and Equipment

Property and equipment consisted of the following:

	Estimated Useful Life (years)	December 31, 2019	December 31, 2018
Computer and telecom equipment	3 — 5	$ 30,313	$ 29,883
Software	3 — 10	27,339	24,318
Leasehold improvements	Shorter of 7 years or lease term	8,290	8,078
Furniture and fixtures	5 — 10	1,711	1,942
Automobiles	5	3,931	3,666
Construction and development in progress	N/A	3,104	299
		74,688	68,186
Less accumulated depreciation		(51,445)	(45,221)
Total property and equipment, net		$ 23,243	$ 22,965

Depreciation expense from continuing operations was $10,582, $12,058 and $10,717 for the years ended December 31, 2019, 2018 and 2017, respectively.

Following the acquisition of Circulation, the Company determined it would not continue the development of the LCAD NextGen technology (“NextGen”). As a result, the Company recorded an asset impairment charge of $14,175 in the consolidated statement of operations for the year ended December 31, 2018.

8. Goodwill and Intangibles

Impairment

The Company did not record any goodwill or intangible asset impairment charges for continuing operations for the years ended December 31, 2019, 2018 and 2017.

Goodwill

There were no changes in goodwill from December 31, 2018 to December 31, 2019. Changes in goodwill were as follows for the period from December 31, 2017 to December 31, 2018:

	NET Services
Balances at December 31, 2017	
Goodwill	$ 191,215
Accumulated impairment losses	(96,000)
	95,215
Acquisition of Circulation	40,001
Balances at December 31, 2018	
Goodwill	231,216
Accumulated impairment losses	(96,000)
	$ 135,216

The total amount of goodwill from continuing operations that was deductible for income tax purposes related to acquisitions as of December 31, 2019 and 2018 was $29 for each year.

Intangible Assets

Intangible assets are comprised of acquired customer relationships, trademarks and trade names, and developed technology. Intangible assets consisted of the following:

		December 31,			
		2019		2018	
	Estimated Useful Life (Yrs)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	3 - 15	$ 45,200	$ (35,980)	$ 45,200	$ (32,632)
Developed technology	5	14,100	(3,525)	14,100	(705)
Trademarks and trade names	3	200	(83)	200	(17)
Total		$ 59,500	$ (39,588)	$ 59,500	$ (33,354)

The weighted-average amortization period at December 31, 2019 for intangibles was 12.3 years. No significant residual value is estimated for these intangible assets. Amortization expense from continuing operations was $6,234, $3,755 and $2,901 for the years ended December 31, 2019, 2018 and 2017, respectively.

The total amortization expense is estimated to be as follows for the next five years as of December 31, 2019:

Year		Amount
2020	$	6,234
2021		6,101
2022		5,461
2023		2,116
2024		—
Total	$	19,912

9. Accrued Expenses

Accrued expenses consisted of the following:

	December 31,			
	2019		2018	
Accrued compensation and related liabilities	$	8,941	$	11,050
Accrued contract payments		15,706		9,756
Accrued cash settled stock-based compensation		3,282		3,719
Other		10,804		14,666
Total accrued expenses	$	38,733	$	39,191

10. Restructuring and Related Reorganization Costs

Corporate and Other

On April 11, 2018, the Company announced the Organizational Consolidation to transfer all job responsibilities previously performed by employees of the holding company to LogistiCare and to close the corporate offices in Stamford, Connecticut and Tucson, Arizona. The Company adopted an employee retention plan designed to retain the holding company level employees during the transition. The employee retention plan became effective on April 9, 2018 and provided for certain payments and benefits to those employees if they remained employed with the Company through a retention date established for each individual, subject to a fully executed retention letter. The Organizational Consolidation was completed during the second quarter of 2019.

A total of $4,263 in restructuring and related costs was incurred during the year ended December 31, 2019, related to the Organizational Consolidation. These costs include $2,418 of retention and personnel costs, $304 of stock-based compensation expense, $237 of depreciation and $1,304 of other costs, primarily related to recruiting and legal costs. These costs are recorded as “General and administrative expense” and “Depreciation and amortization” in the accompanying consolidated statements of operations.

A total of $13,060 in restructuring and related costs was incurred on a cumulative basis through December 31, 2019 related to the Organizational Consolidation. These costs include $7,516 of retention and personnel costs, $2,035 of stock-based compensation expense, $673 of depreciation and $2,836 of other costs, primarily related to recruiting and legal costs.

Summary of Liability for Corporate and Other Restructuring and Related Charges

	January 1, 2019	Costs Incurred	Cash Payments	December 31, 2019
Retention and personnel liability	$ 1,956	$ 2,418	$ (4,374)	$ —
Other liability	398	1,308	(1,706)	—
Total	$ 2,354	$ 3,726	$ (6,080)	$ —

	January 1, 2018	Costs Incurred	Cash Payments	December 31, 2018
Retention and personnel liability	$ —	$ 5,098	$ (3,142)	$ 1,956
Other liability	—	1,532	(1,134)	398
Total	$ —	$ 6,630	$ (4,276)	$ 2,354

There was no restructuring liability as of December 31, 2019. The total restructuring liability at December 31, 2018 includes $2,124 classified as “Accrued expenses” and $230 classified as “Accounts payable” in the consolidated balance sheet.

11. Debt

At December 31, 2019, the Company's total finance lease obligations was $353. As of December 31, 2018, the Company had total capital lease obligations of $1,071. The Company has financial leases for information technology hardware and software with termination dates ranging from January 2019 through October 2020. The terms of the leases are between 12 and 36 months, with interest recorded at an incremental borrowing rate of 3.28%. At December 31, 2018, $1,894 represented the hardware and software under capital leases and $673 represented the related accumulated depreciation. Due to the adoption of ASC 842 on January 1, 2019, the Company recognizes capital lease and obligations as finance lease assets and liabilities. For more information on the adoption of ASC 842 and accounting for capital leases and obligations, see Note 17, *Leases and Service Commitments.*

The Company is a party to the amended and restated credit and guaranty agreement, dated as of August 2, 2013 (as amended, the “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 the Company with a $200,000 revolving credit facility (the “Credit Facility”), including a sub-facility of $25,000 for letters of credit. The Credit Facility currently expires on August 2, 2020.

As of December 31, 2019, the Company had no borrowings; however, had letters of credit outstanding in the amount of $13,523 under the Credit Facility. As a result, as of December 31, 2019, the Company’s available credit under the Credit Facility was $186,477. Under the Credit Agreement, the Company has an option to request an increase in the amount of the revolving credit facility from time to time (on substantially the same terms as apply to the existing facilities) in an aggregate amount of up to $75,000 with either additional commitments from lenders under the Credit Agreement at such time or new commitments from financial institutions acceptable to the administrative agent in its reasonable discretion, so long as no default or event of default exists at the time of any such increase. The Company may not be able to access additional funds under this increase option as no lender is obligated to participate in any such increase under the Credit Facility.

Interest on the outstanding principal amount of loans accrues, at the Company’s election, at a per annum rate equal to London Interbank Offered Rate ("LIBOR"), plus an applicable margin, or the base rate as defined in the agreement 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 the Company’s consolidated leverage ratio as defined in the Credit Agreement. Interest on the loans is payable quarterly in arrears. In addition, the Company is obligated to pay a quarterly commitment fee based on a percentage of the unused portion of each lender’s commitment under the 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 the Company’s consolidated leverage ratio.

The Company's obligations under the Credit Facility are guaranteed by all of the Company's present and future domestic subsidiaries, excluding certain domestic subsidiaries which include the Company's insurance captive and the Company's investment in Matrix. The Company's obligations under, and each guarantor's obligations under its guaranty of, the Credit Facility are secured by a first priority lien on substantially all of the Company's respective assets, including a pledge of 100% of the issued and outstanding stock of the Company's domestic subsidiaries, excluding the Company's insurance captive.

The Credit Agreement contains customary affirmative and negative covenants and events of default. The negative covenants include restrictions on the Company's ability to, among other things, incur additional indebtedness, create liens, make investments, give guarantees, pay dividends, sell assets, and merge and consolidate. The Company is subject to financial covenants, including consolidated net leverage and consolidated interest coverage covenants.

12. 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 stockholders 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 ("Preferred Stock"). The Preferred Stock is convertible into shares of Providence's common stock, $0.001 par value per share ("Common Stock") at a conversion price equal to $39.88 per share, which was the closing price of the Company's Common Stock on NASDAQ on October 22, 2014.

Stockholders exercised subscription rights to purchase 130,884 shares of the Company's 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., Blackwell Partners, LLC - Series A and Coliseum Capital Co-Invest, L.P. (collectively, the "Coliseum Stockholders") and the Company, the remaining 524,116 shares of the Company's Preferred Stock were purchased by the Coliseum Stockholders at the $100.00 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 Coliseum Stockholders exercised their right to purchase an additional 150,000 shares of the Company's 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 Preferred Stock sold in the Rights Offering.

The Company may pay a noncumulative cash dividend on each share of Preferred Stock, if and when declared by a committee of its Board of Directors ("Board"), 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 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 payment-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 Preferred Stock are able to convert their Preferred Stock into shares of Common Stock at a rate of approximately 2.51 shares of Common Stock for each share of Preferred Stock. As of December 31, 2019, a total of 6,212 shares of Preferred Stock were converted into 15,568 shares of Common Stock.

Cash dividends are payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, and commenced on April 1, 2015, and, if declared, begin to accrue on the first day of the applicable dividend period. PIK dividends, if applicable, accrue cumulatively on the same schedule as set forth above for cash dividends and are also compounded at the applicable annual rate on each applicable subsequent dividend date. Cash dividends on redeemable convertible preferred stock totaling $4,403, or $5.50 per share, $4,413, or $5.50 per share, and $4,418, or $5.50 per share, were distributed to convertible preferred stockholders for the years ended December 31, 2019, 2018 and 2017, respectively.

At the written election by holders of a majority in voting power of the outstanding shares of Preferred Stock, taken together and voting as a separate class but not as a separate series, upon the occurrence of a change of control that would, subject to certain exceptions, result in any person (other than the Coliseum Stockholders or any of their respective affiliates or a person acting as a group with Coliseum Stockholders or any of their respective affiliates) beneficially owning, directly or indirectly shares of the Company's capital stock entitling such person to exercise 50% or more of the total voting power of all classes of voting stock of the Company (but solely in connection with a transaction that is a third-party tender offer that is publicly disclosed and approved (or recommended to the stockholders of the Company), all outstanding shares of Preferred

Stock automatically will be converted into a number of shares of Common Stock equal to the product obtained by multiplying the conversion rate then in effect by the number of shares of convertible preferred stock being converted, plus cash in lieu of fractional shares. Prior to the conversion of shares of convertible preferred stock in the event of a change of control as described in the preceding sentence, the Board will declare and the Company will pay a special cash dividend on each share of Preferred Stock in the amount of the liquidation preference per share then in effect.

The 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. Certain other provisions apply in certain change in control events.

The following table summarizes the Preferred Stock activity for the years ended December 31, 2019 and 2018:

	Dollar Value	Share Count
Balance at December 31, 2017	$ 77,546	803,200
Conversion to common stock	(161)	(1,594)
Allocation of issuance costs	7	—
Balance at December 31, 2018	$ 77,392	801,606
Conversion to common stock	(284)	(2,818)
Allocation of issuance costs	12	—
Balance at December 31, 2019	$ 77,120	798,788

As of December 31, 2019 and 2018, the outstanding shares of Preferred Stock were convertible into 2,002,979 and 2,010,045 shares of Common Stock, respectively.

13. Stockholders' Equity

At December 31, 2019 and 2018 there were 18,073,763 and 17,784,769 shares of the Company's Common Stock issued, respectively, including 5,088,782 and 4,970,093 treasury shares at December 31, 2019 and 2018, respectively.

Subject to the rights specifically granted to holders of any then outstanding shares of the Company's Preferred Stock, the Company's common stockholders are entitled to vote together as a class on all matters submitted to a vote of the Company's common stockholders, and are entitled to any dividends that may be declared by the Board. The Company's common stockholders do not have cumulative voting rights. Upon the Company's dissolution, liquidation or winding up, holders of the Company's Common Stock are entitled to share ratably in the Company's net assets after payment or provision for all liabilities and any preferential liquidation rights of the Company's Preferred Stock then outstanding. The Company's common stockholders do not have preemptive rights to purchase shares of the Company's stock. The issued and outstanding shares of the Company's Common Stock are not subject to any redemption provisions and are not convertible into any other shares of the Company's capital stock. The rights, preferences and privileges of holders of the Company's Common Stock will be subject to those of the holders of any shares of the Company's Preferred Stock the Company may issue in the future.

The following table reflects the total number of shares of the Company's Common Stock reserved for future issuance as of December 31, 2019:

Shares of common stock reserved for:	
Exercise of stock options and restricted stock awards	729,601
Conversion of preferred stock to common stock	2,002,979
Total shares of common stock reserved for future issuance	2,732,580

Issuer Purchases of Equity Securities

On August 6, 2019, the Board authorized a new stock repurchase program under which the Company may repurchase up to $100,000 in aggregate value of the Company's Common Stock, subject to the consent of the holders of a majority of the Company's Series A convertible preferred stock, through December 31, 2019, at which time it expired. A total of 105,421 shares were repurchased under this program at approximately $5,988 during the year ended December 31, 2019.

Equity Award Withholding

During the years ended December 31, 2019, 2018 and 2017, the Company withheld 13,268, 5,242 and 19,556 shares, respectively, from employees to cover the settlement of income tax and related benefit withholding obligations arising from vesting of restricted stock awards and units. In addition, during the year ended December 31, 2018, the Company withheld 12,676 shares from employees to cover the settlement of income tax and related benefit withholding obligations and the exercise price upon the exercise of stock options. No shares were withheld during year ended December 31, 2019 for the exercise of stock options.

14. Stock-Based Compensation and Similar Arrangements

The Company provides stock-based compensation to employees, non-employee directors, consultants and advisors under the Company's 2006 Long-Term Incentive Plan ("2006 Plan"). The 2006 Plan allows the flexibility to grant or award stock options, stock appreciation rights, restricted stock, unrestricted stock, stock units including restricted stock units and performance awards to eligible persons.

The following table summarizes the activity under the 2006 Plan as of December 31, 2019:

	Number of shares of the Company's Common Stock authorized for issuance	Number of shares of the Company's Common Stock remaining for future grants	Number of shares of the Company's Common Stock subject to	
			Stock Options	Stock Grants
2006 Plan	5,400,000	1,306,243	639,412	90,189

The following table reflects the amount of stock-based compensation for continuing operations, for share settled awards, recorded in each financial statement line item for the years ended December 31, 2019, 2018 and 2017:

	Year Ended December 31,		
	2019	2018	2017
Service expense	$ 572	$ 200	$ —
General and administrative expense	4,842	$ 8,787	$ 7,486
Equity in net loss (gain) of investees	—	137	76
(Loss) income from discontinued operations, net of tax	—	6	57
Total stock-based compensation	$ 5,414	$ 9,130	$ 7,619

Stock-based compensation included in General and administrative expense is related to the NET Services segment, except a select group of employees that are included within Service expense. The amount included in equity in net loss (gain) of investee is related to the Matrix Investment segment, as a member of Matrix management held Providence equity awards.

The amounts above exclude tax benefits of $1,402, $1,888 and $2,885 for the years ended December 31, 2019, 2018 and 2017, respectively.

Stock Options

The fair value of each stock option awarded to employees is estimated on the date of grant using the Black-Scholes or Monte Carlo option-pricing formula based on the following assumptions for the years ended December 31, 2019, 2018, and 2017:

	Year Ended December 31,								
	2019			2018			2017		
Expected dividend yield		0.0%			0.0%			0.0%	
Expected stock price volatility	27.5%	—	33.0%	26.5%	—	39.8%	19.5%	—	43.0%
Risk-free interest rate	1.6%	—	2.5%	2.3%	—	2.9%	1.0%	—	2.2%
Expected life of options (years)	1.8	—	5.3	1.3	—	6.5	0.3	—	6.5

The risk-free interest rate was based on the U.S. Treasury security rate in effect as of the date of grant which corresponds to the expected life of the award. The expected stock price volatility was based on the Company's historical data. The expected lives of options were based on the Company's historical data, a simplified method for plain vanilla options, or a lattice model for more exotic options. The simplified method was used for plain vanilla options for which the Company did not have sufficient historical data to use in determining the expected life.

On December 2, 2019, the Board of the Company announced that on November 29, 2019, the Board appointed Daniel E. Greenleaf, as President and Chief Executive Officer of the Company and its subsidiary, effective December 11, 2019 ("Commencement Date"). In connection with his appointment, Mr. Greenleaf entered into an employment agreement ("Employment Agreement") with the Company that included equity awards effective as of the Commencement Date. The agreement provided for an award of stock options to acquire 67,090 shares of Company common stock at a price of $59.25, which was the closing price of the Company's common stock on the grant date. Further, Mr. Greenleaf was granted additional awards of stock options to acquire 40,432 shares of Company common stock ("Premium Priced Options"), with the exercise price of each Premium Priced Option equal to one hundred fifteen percent (115%) of the closing price on the grant date, or an exercise price of $68.14. The options will vest ratably in equal installments on each of the first, second, third and fourth anniversaries of the Commencement Date.

On November 29, 2019, R. Carter Pate tendered his resignation as Interim Chief Executive Officer of the Company effective December 11, 2019. Following resignation, Mr. Pate continued to serve the Company as a Special Advisor to the President and Chief Executive Officer until the end of his contract term, December 31, 2019. As of December 31, 2019, Mr. Pate has 258,563 vested options at an average exercise price of $71.67, which will remain exercisable until April 8, 2021.

On September 20, 2019, the Company granted 88,264 stock options to executive management and key employees of the Company at an exercise price of $58.84, which was the closing price of the Company's common stock on the grant date. The options will vest over 3.5 years with (i) 33.3% of the options vesting on March 15, 2021, (ii) 33.3% of the options vesting on March 15, 2022, and (iii) 33.4% of the options vesting on March 15, 2023. For certain employees, the options are subject to vesting over the period designated in the respective employee's agreements. The options have an expiration date of September 20, 2024.

During the year ended December 31, 2019, the Company issued 219,054 shares of its Common Stock in connection with the exercise of employee stock options under the Company's 2006 Plan.

The following table summarizes the stock option activity for the year ended December 31, 2019:

	Year ended December 31, 2019			
	Number of Shares Under Option	**Weighted-average Exercise Price**	**Weighted-average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Balance at beginning of period, January 1	908,588	$ 61.44		
Granted	203,586	61.25		
Exercised	(219,054)	51.24		
Forfeited/Canceled	(247,708)	63.35		
Expired	(6,000)	11.72		
Outstanding at end of period, December 31	639,412	$ 64.72	2.79	$ 1,151
Vested or expected to vest at end of period, December 31	639,412	$ 64.72	2.79	$ 1,151
Exercisable at end of period, December 31	321,694	$ 67.39	1.33	$ 758

The weighted-average grant date fair value for options granted, total intrinsic value and cash received by the Company related to options exercised during the years ended December 31, 2019, 2018 and 2017 were as follows:

	Year ended December 31,		
	2019	2018	2017
Weighted-average grant date fair value per share	$ 16.30	$ 15.08	$ 9.05
Options exercised:			
Total intrinsic value	$ 3,204	$ 6,805	$ 2,010
Cash received	$ 11,142	$ 12,413	$ 1,921

Restricted Stock Awards

In connection with Daniel Greenleaf's Employment Agreement and in addition to the stock options discussed above, Mr. Greenleaf was provided restricted stock awards ("RSAs") covering 20,104 shares of Company common stock at a price of $59.25, which was the closing price of the Company's Common Stock on the grant date. The restricted shares will vest ratably in equal installments on each of the first, second, third and fourth anniversaries of the Commencement Date.

On September 20, 2019, the Company granted 46,865 RSAs to executive management and key employees of the Company at a price of $58.84, which was the closing price of the Company's common stock on the grant date. The RSAs will vest over 3.5 years with (i) 33.3% of the options vesting on March 15, 2021, (ii) 33.3% of the options vesting on March 15, 2022, and (iii) 33.4% of the options vesting on March 15, 2023. For certain employees, the RSAs are subject to vesting over the period designated in the respective employee's agreements.

On February 1, 2019, the Company granted R. Carter Pate 23,317 shares of restricted stock representing a value of $1,500 based on the closing price per share of the Company's stock on the grant date which vested on December 31, 2019.

During the year ended December 31, 2019, the Company issued 57,838 shares of its Common Stock to non-employee directors, executive officers and key employees upon the vesting of certain RSAs granted in 2018, 2017 and 2016 under the Company's 2006 Plan.

The following table summarizes the activity of the shares and weighted-average grant date fair value of the Company's unvested restricted Common Stock during the year ended December 31, 2019:

	Shares	Weighted-average grant date fair value
Non-vested at beginning of period, January 1	47,328	$ 52.56
Granted	102,113	$ 61.49
Vested	(57,838)	$ 57.00
Forfeited or cancelled	(1,414)	$ 52.00
Non-vested at end of period, December 31	90,189	$ 59.84

As of December 31, 2019, there was $8,633 of unrecognized compensation cost related to unvested share settled stock options and RSAs granted under the 2006 Plan. The cost is expected to be recognized over a weighted-average period of 1.76 years. The total fair value of stock options and RSAs vested was $6,913, $4,428 and $3,550 for the years ended December 31, 2019, 2018 and 2017, respectively.

Cash Settled Awards

During the years ended December 31, 2019, 2018 and 2017, respectively, the Company issued 1,857, 2,017 and 3,097 stock equivalent units ("SEUs"), which settle in cash upon vesting, to Coliseum Capital Partners, L.P., in lieu of a grant to Christopher Shackelton, Chairman of the Board, for his service on the Board, which vest one-third upon each anniversary of the vesting date. The fair value of the SEUs is based on the closing stock price on the last day of the period and the completed

requisite service period. The Company recorded a benefit of $24 for SEUs during the year ended December 31, 2019 and $209 and $235 of expense for SEUs during the years ended December 31, 2018 and 2017, respectively.

During the year ended December 31, 2014, the Company issued 200,000 stock option equivalent units ("SOEUs"), with an exercise price of $43.81 per share, which settle in cash, to Coliseum Capital Partners, L.P in lieu of a grant to Christopher Shackelton, for other services rendered. All 200,000 SOEUs were outstanding and exercisable at December 31, 2019. No additional SOEUs were granted during the years ended December 31, 2019, 2018 and 2017. The Company recorded a benefit of $413 and $191 for SOEUs during the years ended December 31, 2019 and 2018, respectively, and an expense of $2,146 during the year ended December 31, 2017. The benefits and expense are included in "General and administrative expense" in the consolidated statements of operations. The fair value of the SOEUs was estimated as of December 31, 2019, 2018 and 2017 using the intrinsic value and the Black-Scholes option-pricing formula and amortized over the option's graded vesting periods with the following assumptions:

	Year ended December 31,						
	2019	2018			2017		
Expected dividend yield	0.0%	0.0%			0.0%		
Expected stock price volatility	30.8%	27.8%	—	30.6%	23.4%	—	32.1%
Risk-free interest rate	1.6%	2.5%	—	2.6%	1.8%	—	2.0%
Expected life of options (in years)	0.8	0.8	—	1.8	0.8	—	2.8

As of December 31, 2019 and 2018, the Company had a short-term liability of $3,282 and $3,719, respectively, in "Accrued expenses" in the consolidated balance sheets related to unexercised vested and unvested cash settled share-based payment awards. The cash settled share-based compensation expense in total excluded a tax benefit of $908 for the year ended December 31, 2017 and a tax benefit of $113 for year ended December 31, 2019. The cash settled share-based compensation expense in total excluded a tax expense of $4 for the year ended December 31, 2018. The unrecognized compensation cost for SEUs is expected to be recognized over a weighted average period of 0.8 years; however, the total expense for both SEUs and SOEUs will continue to be adjusted until the awards are settled.

Holdco Long-Term Incentive Plan

On August 6, 2015 (the "Award Date"), the Compensation Committee of the Board adopted the 2015 Holding Company LTI Program ("HoldCo LTIP") under the 2006 Plan. Under the program, executives would receive shares of Common Stock based on the shareholder value created in excess of an 8.0% compounded annual return between the Award Date and December 31, 2017 (the "Extraordinary Shareholder Value"). The Award Date value was calculated on the basis of the Providence stock price equal to the volume weighted average of the common share price over the 90-day trading period ending on the Award Date. The Extraordinary Shareholder Value was calculated on the basis of the Company's stock price equal to the volume weighted average of the Common Stock price over the 90-day trading period ending on December 31, 2017. A pool for use in the allocation of awards was created equal to 8.0% of the Extraordinary Shareholder Value.

It was determined that no shares would be distributed under the Holdco LTIP as the calculation of the pool amount was zero. $4,738 of expense is included in "General and administrative expense" in the consolidated statements of operations for the year ended December 31, 2017.These awards were classified as equity and the fair value of the awards was calculated using a Monte-Carlo simulation valuation model. For employees that joined the Company in 2016, the fair value of the awards granted in 2016 were estimated using the following assumptions:

	Year ended December 31, 2016		
Forward interest rate	0.24%	—	2.71%
Expected Volatility		40.0%	
Dividend Yield		—%	
Fair Value of Total Pool		$12,870	

15. Long-Term Incentive Plans

The Company established Long-Term Incentive Plans ("LTIPs") for the Company's operating segments during the fourth quarter of 2015. The awards pay in cash, however up to 50% of the award may be paid in unrestricted stock if the

recipient elects this option when the LTIP offer letter is received. In addition, at the discretion of the Company, the recipients may be able to elect unrestricted stock in lieu of cash compensation at a later date. The LTIPs reward participants based on certain measures of free cash flow and EBITDA results adjusted as specified in the plan document. The awards vest in three installments: 60% of the award will pay out immediately following December 31, 2017, 25% one year following the performance period (i.e. December 31, 2018) and 15% two years following the performance period (i.e. December 31, 2019). Payout is subject to the participant remaining employed by the Company.

During 2017, the Company revised the structure of the NET Services long-term incentive plan. As a result, the Company finalized the amount payable under the plan at $2,956. The total value will be paid to the awarded participants per the terms of the original agreement and thus the remaining unamortized expense relating to this plan continues to be recognized over the remaining service period. For the years ended December 31, 2019, 2018, and 2017, an expense of $23, $253 and $816, respectively, is included in “General and administrative expense” in the consolidated statements of operations related to this plan. At December 31, 2019 and 2018, the liability for long-term incentive plans of the Company’s operating segments of $245 and $630, respectively, is reflected in “Accrued expenses” and “Other long-term liabilities” in the consolidated balance sheets.

The Board approved the LogistiCare 2017 Senior Executive LTI Plan (the “LogistiCare LTIP”) for executive management and key employees of NET Services during the three months ending March 31, 2018. The LogistiCare LTIP pays in cash, however up to 50% of the award may be paid in unrestricted stock if the recipient elects this option prior to the award payment date. The LogistiCare LTIP rewards participants based on certain measures of free cash flow and EBITDA results adjusted as specified in the plan document. The awards have a performance period of January 1, 2017 through December 31, 2019, with a payout date within two and a half months of the performance period end date. Payout is subject to the participant remaining employed by the Company on the payment date. The maximum amount that can be earned through the LogistiCare LTIP is $7,000. No expense has been incurred for this plan during the year ended December 31, 2019 and no amounts have been accrued, as the defined measures were not met.

In connection with the acquisition of Circulation, the Company established a management incentive plan (“MIP”). During the three months ended March 31, 2019, the MIP was amended to remove the previously included performance requirements and to provide for a total fixed payment of $12,000 to the group of MIP participants. During the year ended December 31, 2019, the MIP was further amended to a total fixed payment of $2,720. The payout date is within 30 days following the finalization of the Company’s audited financial statements for the fiscal year ending December 31, 2021 and the payout is subject to the participant remaining employed by the Company through December 31, 2021, except for certain termination scenarios. As of December 31, 2019 and December 31, 2018, the Company has accrued $1,108 and $1,441, respectively, related to the MIP and reflected in “Other long-term liabilities” in the condensed consolidated balance sheets.

16. (Loss) Earnings Per Share

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

	Year ended December 31,		
	2019	2018	2017
Numerator:			
Net income (loss) attributable to Providence	$ 966	$ (18,981)	$ 53,369
Less dividends on convertible preferred stock	(4,403)	(4,413)	(4,418)
Less income allocated to participating securities	—	(1,863)	(6,315)
Net (loss) income available to common stockholders	$ (3,437)	$ (25,257)	$ 42,636
Continuing operations	$ (9,356)	$ 11,953	$ 40,647
Discontinued operations	5,919	(37,210)	1,989
Net (loss) income available to common stockholders	$ (3,437)	$ (25,257)	$ 42,636
Denominator:			
Denominator for basic earnings per share -- weighted-average shares	12,958,713	12,960,837	13,602,140
Effect of dilutive securities:			
Common stock options	—	72,410	66,314
Performance-based restricted stock units	—	—	4,860
Denominator for diluted earnings per share -- adjusted weighted-average shares assumed conversion	12,958,713	13,033,247	13,673,314
Basic (loss) earnings per share:			
Continuing operations	$ (0.72)	$ 0.92	$ 2.99
Discontinued operations	0.46	(2.87)	0.15
Basic (loss) earnings per share	$ (0.26)	$ (1.95)	$ 3.14
Diluted (loss) earnings per share:			
Continuing operations	$ (0.72)	$ 0.92	$ 2.97
Discontinued operations	0.46	(2.86)	0.15
Diluted (loss) earnings per share	$ (0.26)	$ (1.94)	$ 3.12

Income allocated to participating securities is calculated by allocating a portion of net income attributable to Providence, less dividends on convertible stock, to the convertible preferred stockholders on a pro-rata as converted basis; however, the convertible preferred stockholders are not allocated losses.

The following weighted-average shares were not included in the computation of diluted earnings per share as the effect of their inclusion would have been anti-dilutive:

	Year ended December 31,		
	2019	2018	2017
Stock options to purchase common stock	583,469	560,547	362,392
Convertible preferred stock	800,460	802,489	803,323

17. Leases and Service Commitments

Subsequent to adoption of ASC 842:

Effective January 1, 2019, the Company adopted ASC 842 and recognized lease obligations and associated ROU assets for its existing non-cancelable operating leases. The Company has non-cancelable operating leases primarily associated with office space, related office equipment and other facilities.

The leases expire in various years and generally provide for renewal options. In the normal course of business, management expects that these leases will be renewed or replaced by leases on other properties.

Certain operating leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Several of these lease agreements contain provisions for periods in which rent payments are reduced. The total amount of rental payments due over the lease term is recorded as rent expense on a straight-line basis over the term of the lease.

To determine whether a contract contained a lease, the Company evaluated its contracts and verified that there was an identified asset and that the Company, or the tenant, had the right to obtain substantially all the economic benefits from the use of the asset throughout the contract term. If a contract was determined to contain a lease and the Company was a lessee, the lease was evaluated to determine whether it was an operating or financing lease.

The discount rate used for each lease was determined by estimating an appropriate incremental borrowing rate. In estimating an incremental borrowing rate, the Company considered the debt information, credit rating, and interest rate on the revolving credit facility, which is collateralized by the Company's assets. Accordingly, the Company continued discounting its remaining operating lease payments for calculating its lease liability using a rate of 5.25%. The Company applied this rate to its entire portfolio of leases on the basis that any adjustments to the rate for lease term or asset classification would not affect the interest rate charged under the debt or have a material effect on the discounted lease liability.

A summary of all lease classifications in our condensed consolidated balance sheet is as follows:

Leases	Classification		December 31, 2019
Assets			
Operating lease assets	Operating lease ROU assets	$	20,095
Finance lease assets	Property and equipment, net [(1)]		555
Total leased assets		$	20,650
Liabilities			
Current:			
Operating	Current portion of operating lease liabilities	$	6,730
Finance	Current portion of long-term obligations		308
Long-term:			
Operating	Operating lease liabilities, less current portion		14,502
Finance	Long-term obligations, less current portion		45
Total lease liabilities		$	21,585

[(1)] Finance leased assets have an accumulated amortization of $385.

As of December 31, 2019, maturities of lease liabilities are as follows:

	Operating Leases		Finance Leases		Total	
2020	$	7,586		308	$	7,894
2021		5,845		45		5,890
2022		4,869		—		4,869
2023		2,890		—		2,890
2024		1,330		—		1,330
Thereafter		830		—		830
Total lease payments	$	23,350	$	353	$	23,703
Less: interest and accretion		(2,118)		—		(2,118)
Present value of minimum lease payments	$	21,232	$	353	$	21,585
Less: current portion		(6,730)		(308)		(7,038)
Long-term portion	$	14,502	$	45	$	14,547

As of December 31, 2018, maturities of lease liabilities were as follows:

	Operating Leases		Finance Leases		Total	
2019	$	8,825	$	718	$	9,543
2020		6,452		308		6,760
2021		4,594		45		4,639
2022		3,801		—		3,801
2023		1,767		—		1,767
Thereafter		1,600		—		1,600
Total lease payments	$	27,039	$	1,071	$	28,110

Lease terms and discount rates are as follows:

	December 31, 2019	
Weighted-average remaining lease term (years):		
Operating lease costs	3.68	
Finance lease cost	1.34	
Weighted-average discount rate:		
Operating lease costs	5.25	%
Finance lease cost	3.28	%

For the year ended December 31, 2019, our operating lease cost was $10,560 and is primarily included in "Service expense” on our accompanying consolidated statements of operations. A summary of other lease information is as follows:

	Year Ended December 31, 2019	
Financing cash flows from finance leases	$	(718)
Operating cash flows from operating leases		(10,919)
Amortization of operating leased ROU assets to the operating lease liability		10,133
ROU assets obtained through operating lease liabilities		6,787

Prior to adoption of ASC 842:

In 2018, the Company had non-cancelable contractual obligations in the form of operating leases for office space, related office equipment and other facilities. The leases expired in various years and generally provided for renewal options. In the normal course of business, it was expected that these leases would be renewed or replaced by leases on other properties.

Certain operating leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Several of these lease agreements contained provisions for periods in which rent payments were reduced. The total amount of rental payments due over the lease term was being charged to rent expense on a straight-line basis over the term of the lease. The cumulative difference between rent expense recorded and the amount paid, for continuing operations, as of December 31, 2018 and 2017 was $2,115 and $2,209, respectively, and was included in “Accrued expenses” for the short-term obligations and “Other long-term liabilities” for the long-term obligations in the consolidated balance sheets.

Prior to the adoption of ASC 842, future minimum payments under non-cancelable operating leases for equipment and property with initial terms of one year or more consisted of the following at December 31, 2018:

	Operating Leases
2019	$ 8,825
2020	6,452
2021	4,594
2022	3,801
2023	1,767
Thereafter	1,600
Total future minimum lease payments	$ 27,039

Rent expense for continuing operations related to operating leases was $10,960 and $10,250 for the years ended December 31, 2018 and 2017, respectively. Also, the lease agreements generally required the Company to pay executory costs such as real estate taxes, insurance, and repairs, which were recorded to expense as incurred.

Service Commitments

The Company entered into a contract related to transportation services that includes a minimum volume requirement. If the Company does not utilize the minimum level of services specified in the agreement, a penalty provision applies. Future minimum payments under the service commitments consisted of the following at December 31, 2019:

	Service Commitment
2020	4,782
2021 - 2022	3,539
Total future minimum payments	$ 8,321

18. Retirement Plan

The Company maintains a qualified defined contribution plan under Section 401(k) of the Internal Revenue Code of 1986, as amended, for all employees of its NET Services’ operating segment and corporate personnel. The Company, at its discretion, may make a matching contribution to the plan. Any matching contributions vest over 5 years. Unvested matching contributions are forfeitable upon employee termination. Employee contributions are fully vested and non-forfeitable. The Company’s contributions to the plan for continuing operations were $342, $340 and $304, for the years ended December 31, 2019, 2018 and 2017, respectively.

The Company also maintains a Deferred Compensation Rabbi Trust Plan for highly compensated employees. This plan was put in place to compensate for the inability of highly compensated employees to take full advantage of the Company’s 401(k) plan. Additional information is included in Note 20, *Commitments and Contingencies*.

19. Income Taxes

The federal and state tax provision is summarized as follows:

	Year Ended December 31,		
	2019	2018	2017
Federal income tax (benefit) expense:			
Current	$ (371)	$ 3,462	$ 19,011
Deferred	(1,166)	(1,157)	(19,762)
Total federal income tax (benefit) expense	(1,537)	2,305	(751)
State income tax expense (benefit):			
Current	2,562	2,113	4,048
Deferred	(1,598)	266	706
Total state income tax expense	964	2,379	4,754
Total (benefit) provision for income taxes	$ (573)	$ 4,684	$ 4,003

A reconciliation of the provision for income taxes with amounts determined by applying the statutory U.S. federal income tax rate to income from continuing operations before income taxes is as follows:

	Year Ended December 31,		
	2019	2018	2017
Federal statutory rates	21.0 %	21.0 %	35.0 %
Federal income tax at statutory rates	$ (1,160)	$ 4,812	$ 19,281
Revaluation of net deferred tax liabilities due to U.S. tax reform	—	(286)	(19,304)
U.S. tax reform impact on equity income of investees	—	—	(1,646)
Change in valuation allowance	10	36	177
Change in uncertain tax positions	181	108	7
State income taxes, net of federal benefit	721	1,843	3,157
Non-taxable income	(93)	—	—
Compensation expense	606	235	—
Stock-based compensation	(101)	76	3,400
Meals and entertainment	81	74	99
Transaction costs	—	263	159
Gain on remeasurement of cost method investment	—	(1,381)	—
Tax credits	(858)	(1,208)	(354)
Legal expense	—	—	(805)
Other	40	112	(168)
(Benefit) provision for income taxes	$ (573)	$ 4,684	$ 4,003
Effective income tax rate	10.4 %	20.4 %	7.3 %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities of continuing operations are as follows:

	December 31,	
	2019	2018
Deferred tax assets:		
Net operating loss carryforwards	$ 14,357	$ 19,485
Capital loss carryforward	1,406	1,072
Tax credit carryforwards	792	840
Accounts receivable allowance	1,497	227
Accrued items and reserves	2,854	6,817
Stock-based compensation	1,276	1,480
Deferred rent	476	543
Deferred revenue	207	272
Other	68	773
Total deferred tax assets	22,933	31,509
Deferred tax liabilities:		
Deferred financing costs	—	12
Prepaids	1,766	900
Property and equipment depreciation	3,404	3,492
Goodwill and intangibles amortization	5,312	6,944
Equity investment	32,774	40,577
Total deferred tax liabilities	43,256	51,925
Deferred tax liabilities, net of deferred tax assets	(20,323)	(20,416)
Less valuation allowance	(2,584)	(2,633)
Net deferred tax liabilities	$ (22,907)	$ (23,049)

At December 31, 2019, the Company had approximately $63,055 of federal net operating loss carryforwards which can be carried forward indefinitely. In addition, at December 31, 2019, the Company had approximately $20,453 of state net operating loss carryforwards which expire as follows:

2023	$ 2,141
2028 and thereafter	18,312
Total state net operating loss carryforwards	$ 20,453

Approximately $10,500 of the U.S. and state net operating loss carryforwards relate to Circulation, Inc. pre-acquisition tax periods and are subject to change of ownership limitations on their use. These limitations are not expected to restrict the ultimate use of these loss carryforwards.

Realization of the Company’s net operating loss carryforwards is dependent on generating sufficient taxable income. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized, to the extent they are not covered by a valuation allowance. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The net change in the total valuation allowance for the year ended December 31, 2019 was a decrease of $49, of which $10 related to an increase from current operations and $59 related to a decrease from discontinued operations. The valuation allowance of $2,584 includes amounts for state net operating loss, capital loss and tax credit carryforwards for which the Company has concluded that it is more likely than not that these carryforwards will not be realized in the ordinary course of operations. The Company will continue to assess the valuation allowance, and to the extent it is determined that the valuation allowance should be changed, an appropriate adjustment will be recorded.

U.S. Tax Reform

On December 22, 2017, the Tax Reform Act was enacted which institutes fundamental changes to the taxation of multinational corporations. The Tax Reform Act includes changes to the taxation of foreign earnings by implementing a dividend exemption system, expansion of the current anti-deferral rules, a minimum tax on low-taxed foreign earnings and new measures to deter base erosion. The Tax Reform Act also includes a permanent reduction in the corporate tax rate to 21%, repeal of the corporate alternative minimum tax, expensing of capital investment, and limitation of the deduction for interest expense. Furthermore, as part of the transition to the new tax system, a one-time transition tax is imposed on a U.S. shareholder's historical undistributed earnings and profits ("E&P") of foreign affiliates. Although the Tax Reform Act is generally effective January 1, 2018, GAAP requires recognition of the tax effects of new legislation during the reporting period that includes the enactment date, which was December 22, 2017.

As a result of the reduction in the U.S. corporate income tax rate, the Company revalued its ending net deferred tax liabilities as of December 31, 2017 and recognized a provisional tax benefit of $20,950. The Company projected net accumulated deficits in foreign E&P; therefore, no provisional tax expense for deemed repatriation was recognized.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. In accordance with the SAB 118 guidance, the Company has recognized the provisional tax impacts related to the benefit for the revaluation of deferred tax assets and liabilities in its consolidated financial statements for the year ended December 31, 2017. The financial reporting impact of the Tax Reform Act was completed in the fourth quarter of 2018 and an additional benefit of $286 was recorded.

Unrecognized Tax Benefits

The Internal Revenue Service is currently auditing our consolidated U.S. income tax returns for 2015-2018 due to the large refunds (total of $30,570) received from the loss on the WD Services sale. In addition, we are being examined by various states and by the Saudi Arabian tax authorities. All known adjustments have been fully reserved.

The Company recognizes interest and penalties as a component of income tax expense. During the years ended December 31, 2019, 2018 and 2017, the Company recognized approximately $60, $47 and $65, respectively, in interest and penalties from continuing operations. The Company had approximately $163 and $109, for the payment of penalties and interest of continuing operations accrued as of December 31, 2019, and 2018, respectively.

A reconciliation of the liability for unrecognized income tax benefits for continuing operations is as follows:

	December 31,		
	2019	2018	2017
Unrecognized tax benefits, beginning of year	$ 1,222	$ 1,115	$ 1,108
Increase related to prior year tax positions	133	104	22
Increase related to current year tax positions	128	160	101
Statute of limitations expiration	(80)	(157)	(116)
Unrecognized tax benefits, end of year	$ 1,403	$ 1,222	$ 1,115

The entire ending balance in unrecognized tax benefits of $1,403 as of December 31, 2019 would reduce tax expense and our effective tax rate. The Company expects no material amount of the unrecognized tax benefits to be recognized during the next twelve months.

The Company is subject to taxation in the U.S. and various state jurisdictions. The statute of limitations is generally three years for the U.S. and between three and four years for the various states in which the Company operates. The tax years that remain open for examination by the U.S. and states principally include the years 2015 to 2018.

20. Commitments and Contingencies

Legal proceedings

In the ordinary course of business, the Company is 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 the Company.

On January 21, 2019, the United States District Court for the Southern District of Ohio unsealed a qui tam complaint, filed in December 2015, against Mobile Care Group, Inc., Mobile Care Group of Ohio, LLC, Mobile Care EMS & Transport, Inc. and LogistiCare Solutions, LLC ("LogistiCare") by Brandee White, Laura Cunningham, and Jeffery Wisier (the "Relators") alleging violations of the federal False Claims Act by presenting claims for payment to government healthcare programs knowing that the prerequisites for such claims to be paid had not been met. The Relators seek to recover damages, fees and costs under the federal False Claims Act including treble damages, civil penalties and attorneys' fees. In addition, the Relators seek reinstatement to their jobs with the Mobile Care entities. None of the Relators were employed by LogistiCare. Prior to January 21, 2019, LogistiCare had no knowledge of the complaint. The federal government has declined to intervene against LogistiCare. The Company filed a motion to dismiss the Complaint on April 22, 2019, and believes that the case will not have a material adverse effect on its business, financial condition or results of operations.

On March 1, 2019, Meher Patel filed suit against the Company in the Superior Court of the State of California, Tuolumne County, on behalf of herself and as a class action on behalf of others similarly situated, asserting violations under the California Labor Code relating to the alleged failure by LogistiCare to comply with certain applicable state wage and related employment requirements, as well as claims of breach of contract and breach of the implied covenant of good faith and fair dealing. The plaintiff seeks to recover an unspecified amount of damages and penalties, as well as certification as a class action. On September 6, 2019, Ms. Patel amended her complaint to add Provado Mobile Health, a Company subsidiary, as a party to the suit. The Company and Provado Mobile Health have removed the case to the U.S. District Court, Eastern District of California. No amounts have been accrued for any potential losses under this matter, as management cannot reasonably predict the outcome of the litigation or any potential losses. The Company and its subsidiary intend to defend the litigation vigorously. Although the outcome of such matter is inherently uncertain and may be materially adverse, based on current information, the Company does not expect the case to have a material adverse effect on the Company's business, financial condition or results of operations.

In Lynch v. Ride Plus et al., a putative class action lawsuit pending in the Superior Court for the County of San Diego, California, a former Ride Plus driver (trade name for Provado Mobile Health, a Company subsidiary) has sought to represent all Ride Plus drivers in California on claims identical to the Patel action. This suit has only recently been served on Provado Mobile Health. Provado Mobile Health plans to remove the case to federal court and combine it with the Patel action or move to stay it while the Patel action is pending, since the two actions cover the same subject matter. At this early stage in the litigation, it is impossible to predict with any certainty whether plaintiff will succeed in getting the court to certify a class, whether the plaintiff and the class, if certified, will prevail on their claims, or what they may recover.

On April 1, 2019, a purported class action was filed against LogistiCare in Texas alleging that the Company's policy with respect to timekeeping for hourly employees constituted violations of the federal Fair Labor Standards Act ("FLSA"), as well as wage and hour laws in South Carolina and Texas. Plaintiffs filed a motion for conditional certification on a nationwide basis, which LogistiCare contested. The court granted the conditional certification motion on January 22, 2020. The Company filed an appeal of the conditional certification order. The Company also plans to vigorously contest the allegations on the merits as the plaintiffs have mischaracterized the method by which employees clock in to work. At this early stage in the litigation, it is impossible to predict with any certainty whether plaintiffs will prevail on their claims, or what they might recover.

Indemnifications

The Company provided certain standard indemnifications in connection with the sale of the Human Services segment to Molina Healthcare Inc. ("Molina") effective November 1, 2015. Certain representations made by the Company in the related Membership Interest Purchase Agreement (the "Purchase Agreement") including tax representations, survive until the expiration of applicable statutes of limitation. Molina and the Company entered into a settlement agreement regarding indemnification claims by Molina with respect to Rodriguez v. Providence Community Corrections (the "Rodriguez Litigation"), a complaint filed in the District Court for the Middle District of Tennessee, Nashville Division, against Providence Community Corrections, Inc. ("PCC"), an entity sold under the Purchase Agreement. In 2019, the Company has recovered a portion of the settlement through insurance coverage.

The Company has provided certain standard indemnifications in connection with its Matrix stock subscription transaction whereby Mercury Fortuna Buyer, LLC (“Subscriber”), Providence and Matrix entered into a stock subscription agreement (the “Subscription Agreement”), dated August 28, 2016. The representations and warranties made by the Company in the Subscription Agreement ended January 19, 2018; however, certain fundamental representations survive through the 36th month following the closing date. The covenants and agreements of the parties to be performed prior to the closing ended January 19, 2018, and all other covenants and agreements survive until the expiration of the applicable statute of limitations in the event of a breach, or for such lesser periods specified therein. The Company is not aware of any indemnification liabilities with respect to Matrix that require accrual at December 31, 2019.

The Company has provided certain standard indemnifications in connection with the sale of substantially all of its WD Services segment to Advanced Personnel Management Global Pty Ltd of Australia (“APM”), which closed on December 21, 2018. The non-title warranties made by the Company in the related Share Purchase Agreement survive for 18 months following the closing date, and the title-related warranties and tax warranties survive five years from the closing date. The Company is not aware of any indemnification liabilities with respect to the former WD Services segment that require accrual at December 31, 2019.

On May 9, 2018, the Company entered into a registration indemnification agreement with Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Blackwell Partners, LLC - Series A and Coliseum Capital Co-Invest, L.P. (collectively, the “Coliseum Stockholders”), who as of December 31, 2019 collectively held approximately 6.7% of the Company’s outstanding common stock and approximately 95.9% of the Company’s outstanding Preferred Stock, pursuant to which the Company has agreed to indemnify the Coliseum Stockholders, and the Coliseum Stockholders have agreed to indemnify the Company, against certain matters relating to the registration of the selling stockholders’ securities for resale under the Securities Act of 1933, as amended (the “Securities Act”).

Deferred Compensation Plan

The Company has one deferred compensation plan for management and highly compensated employees of NET Services as of December 31, 2019. 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 balance sheets, was $2,323 and $1,982 at December 31, 2019 and 2018, respectively.

21. Transactions with Related Parties

Convertible preferred stock dividends earned by the Coliseum Stockholders during the years ended December 31, 2019, 2018, and 2017 totaled $4,213 each year.

22. Acquisitions

During 2017, the Company made an equity investment in Circulation, which was accounted for as a cost method investment. On September 21, 2018, the Company’s subsidiary, LogistiCare, acquired all of the outstanding equity of Circulation, which offers a full suite of logistics solutions to manage non-emergency transportation across all areas of healthcare, powered by its HIPAA-compliant digital platform. Circulation enables administration of transportation benefits, proactively monitors for fraud, waste and abuse, and integrates all transportation capabilities (e.g. outsourced transportation, owned fleets, and other medical logistics services), while emphasizing patient convenience and satisfaction. Circulation’s proprietary platform simplifies ordering, improves reliability and efficiency, and reduces transportation spend. The Company believes the acquisition advances the Company's central mission of reducing transportation as a barrier to healthcare and will help deliver a differentiated user experience and provide a core technology and analytics platform that better positions the Company for growth.

The purchase price was comprised of cash consideration of $45,123 paid to Circulation’s equity holders (including holders of vested Circulation stock options), other than Providence. Per the terms of the Agreement and Plan of Merger (the “merger agreement”), dated as of September 14, 2018, by and among LogistiCare, the Company, Catapult Merger Sub, a wholly-owned subsidiary of LogistiCare (“Merger Sub”), Circulation and Fortis Advisors LLC, as the representative of Circulation’s equity holders, Providence assumed certain unvested Circulation stock options under similar terms and conditions to the existing option awards previously issued by Circulation. The merger agreement also required $1,000 to be paid three years after the closing date of the transaction to each of the two co-founders of Circulation subject to their continued employment or provision of consulting services to the Company. This requirement was reduced in 2019 to one co-founder of

Circulation as the other co-founder is no longer with the Company. The value of the options assumed and co-founder hold back is accounted for as compensation, over the relevant vesting period, as such amounts are tied to future service conditions.

The Company's initial investment in Circulation was $3,000 in July 2017 to acquire a minority interest. As a result of the transactions pursuant to the merger agreement, the fair value of this pre-acquisition interest increased to $9,577, and thus the Company recognized a gain of $6,577. This gain was recorded as "Gain on remeasurement of cost method investment" on the Company's consolidated statement of operations for the year ended December 31, 2018. The Company determined the fair value of its pre-acquisition equity interest by multiplying the number of shares it held in Circulation pre-acquisition by the per-share consideration validated by reference to the total merger consideration agreed to with other unrelated equity holders in Circulation.

The Company incurred acquisition and related costs for this acquisition of $1,729 during the year ended December 31, 2018. These expenses were primarily included in general and administrative expenses in the consolidated statements of operations.

The purchase price of Circulation was calculated as follows:

Cash purchase of common stock	$	45,123
Providence's acquisition date fair value equity interest in Circulation		9,577
Total consideration	$	54,700

The table below presents Circulation's net assets at the date of acquisition based upon the final estimate of respective fair values:

Cash	$	1,302
Accounts receivable		996
Other assets		216
Property and equipment		49
Intangibles		15,700
Goodwill		40,001
Deferred taxes, net		(2,199)
Accounts payable and accrued liabilities		(1,244)
Deferred revenue		(69)
Other non-current liabilities		(52)
Total of assets acquired and liabilities assumed	$	54,700

None of the acquired goodwill is deductible for tax purposes.

The fair value of intangible assets was as follows:

	Type	Life		Value
Customer relationships	Amortizable	3 years	$	1,400
Trademarks and trade names	Amortizable	3 years		200
Developed technology	Amortizable	5 years		14,100
			$	15,700

The amounts of Circulation's revenue and net income included in the Company's consolidated statement of operations for the year ended December 31, 2018, and the unaudited pro forma revenue and net (loss) income attributable to Providence of the combined entity had the acquisition date been January 1, 2017, were:

	Year Ended December 31, 2018
Actual Circulation:	
Revenue	$ 2,205
Net loss	(2,108)

	Year Ended December 31,	
	2018	2017
Pro forma:		
Revenue	$ 1,388,203	$ 1,319,195
Net (loss) income attributable to Providence	(21,541)	49,097
Diluted (loss) earnings per share	$ (2.11)	$ 2.85

The pro forma information above for the year ended December 31, 2018 included the elimination of acquisition related costs. Adjustments for all periods included expensing the incentive for two co-founders to be paid upon continuing employment, amortization expense based on the estimated fair value and useful lives of intangible assets and related tax effects. The pro forma financial information was not necessarily indicative of the results of operations that would have occurred had the transaction been affected on January 1, 2017.

23. Discontinued Operations

WD Services Segment

On December 21, 2018, the Company completed the sale of substantially all of the operating subsidiaries of its WD Services segment to APM and APM UK Holdings Limited, an affiliate of APM, except for the segment's employment services operations in Saudi Arabia. The Company's contractual counterparties in Saudi Arabia, including an entity owned by the Saudi Arabian government, assumed these operations beginning January 1, 2019.

The total cash consideration of the sale was $46,450, with the buyer retaining existing WD Services cash of $20,993. In addition to the purchase consideration, the Company expects to realize cash tax benefits of approximately $52,877 from the transaction, of which $37,433 ($30,822 of refunds and $6,611 of avoided payments) have been realized as of December 31, 2019. The remaining cash tax benefit of $15,444 is expected to be realized as an offset to tax payments over the following two years, based upon the Company's current estimate of taxable income. In addition, $867 of benefits related to capital loss carryforwards is available, which amount was reserved as of December 31, 2019.

On June 11, 2018, the Company entered into a Share Purchase Agreement to sell the shares of Ingeus France, its WD Services operation in France, for a de minimis amount. The sale was effective on July 17, 2018, after court approval.

On September 29, 2017, the Company and Mission Australia completed the sale of 100% of the stock of Mission Providence, a joint venture in the WD Services segment, pursuant to a share sale agreement. Upon the sale of Mission Providence, the Company received AUD 20,184, or $15,823 of proceeds, for its equity interest, net of transaction fees. Subsequently, a working capital adjustment was finalized in December 2017 resulting in the return of $229 of the proceeds. The related gain on sale of Mission Providence totaling $12,377 is recorded as "(Loss) income from discontinued operations, net of tax" in the accompanying consolidated statements of operations for the year ended December 31, 2017. Summary financial information for Mission Providence on a standalone basis for the nine months ended September 30, 2017 were as follows:

	Nine months ended September 30, 2017
Revenue	$ 30,125
Operating loss	(1,765)
Net loss	(1,934)

In accordance with ASC 205-20, *Presentation of Financial Statements-Discontinued Operations*, ("ASC 205-20") a component of an entity is reported in discontinued operations after meeting the criteria for held-for-sale classification if the disposition represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results. The Company analyzed the quantitative and qualitative factors relevant to the disposition of the WD Services segment and determined that those held for sale conditions for discontinued operations presentation were met during the fourth quarter of 2018. As such, the historical financial results of the Company's historical WD Services segment, and the related income tax effects have been presented as discontinued operations for all periods presented in the accompanying consolidated financial statements.

HA Services Segment

Effective October 19, 2016, the Company completed the Matrix Transaction. At the closing, (i) cash consideration of $180,614 was paid by the Subscriber to Matrix based upon an enterprise value of $537,500 and (ii) Matrix borrowed approximately $198,000 pursuant to a credit and guaranty agreement providing for term loans in an aggregate principal amount of $198,000 and revolving loan commitments in an aggregate principal amount not to exceed $10,000, which was not drawn at the closing. At the closing, Matrix distributed $381,163 to Providence, in full satisfaction of a promissory note and accumulated interest between Matrix and Providence. At the closing, Providence made a $5,663 capital contribution to Matrix, as described in the Subscription Agreement, as amended, based upon its pro-rata ownership of Matrix, to fund the near-term cash needs of Matrix. On the day that was fifteen days following the closing date, Providence was, to the extent payable pursuant to the terms of the Subscription Agreement, as amended, entitled to receive from Matrix, or required to pay to Matrix, subsequent working capital adjustment payments. Providence received an initial payment of $5,172 from Matrix in November 2016 which is net of the capital contribution of $5,663 described above, based upon the initial working capital calculation as described in the Subscription Agreement. Additionally, in February 2017, the Company received a $75 payment from Matrix representing the final working capital adjustment payment.

The Company has continuing involvement with Matrix through its ownership of 43.6% of the equity interests in Matrix as of December 31, 2019, as well as through a management consulting agreement, not to exceed ten years. Prior to the Matrix Transaction, the Company owned 100% of the equity interest in Matrix. Subsequent to the Matrix Transaction, the Company accounts for its investment in Matrix under the equity method of accounting. The Company's share of Matrix's gains and losses subsequent to the Matrix Transaction, which totaled a loss of $29,685, a loss of $6,158 and a gain of $13,445, are recorded as "Equity in net loss (gain) of investee" in its consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017, respectively. Matrix's pretax loss for the years ended December 31, 2019, 2018 and 2017 totaled $85,902, $27,128 and $2,948, respectively. There have been no cash inflows or outflows from or to Matrix subsequent to the closing of the Matrix Transaction, other than the working capital adjustments discussed above and management and advisory fees associated with its ongoing relationship with Matrix, of which $1,033 and $2,271 were received during the years ended December 31, 2019 and 2018, respectively. Management fees receivable of $175 and $259 are included in "Other receivables" in the consolidated balance sheets at December 31, 2019 and 2018, respectively.

Human Services Segment

On September 3, 2015, the Company entered into a Purchase Agreement, pursuant to which the Company agreed to sell all of the membership interests in Providence Human Services, LLC and Providence Community Services, LLC, comprising the Company's Human Services segment. On November 1, 2015, the Company completed the sale of its Human Services segment. During the years ended December 31, 2019, 2018 and 2017, the Company recorded additional expenses related to the Human Services segment, principally related to previously disclosed legal proceedings.

Results of Operations

The following table summarizes the results of operations classified as income (loss) from discontinued operations, net of tax, for the years ended December 31, 2019, 2018 and 2017.

	Year ended December 31, 2019		
	Human Services Segment	WD Services Segment	Total Discontinued Operations
Operating expenses:			
General and administrative (income)	$ (6,941)	$ (2,652)	$ (9,593)
Total operating income	(6,941)	(2,652)	(9,593)
Operating income	6,941	2,652	9,593
Other expenses:			
Income from discontinued operations before income taxes	6,941	2,652	9,593
Provision for income taxes	(940)	(2,734)	(3,674)
Income (loss) from discontinued operations, net of tax	$ 6,001	$ (82)	$ 5,919

	Year ended December 31, 2018		
	Human Services Segment	WD Services Segment	Total Discontinued Operations
Service revenue, net	$ —	$ 264,553	$ 264,553
Operating expenses:			
Service expense	—	248,824	248,824
General and administrative (income) expense	(495)	26,895	26,400
Asset impairment charge	—	9,203	9,203
Depreciation and amortization	—	11,864	11,864
Total operating (benefit) expenses	(495)	296,786	296,291
Operating income (loss)	495	(32,233)	(31,738)
Other expenses:			
Interest expense, net	—	35	35
Gain on foreign currency transactions	—	(388)	(388)
Other gain	—	(87)	(87)
Income (loss) from discontinued operations before gain on disposition and income taxes	495	(31,793)	(31,298)
Loss on disposition	—	(53,692)	(53,692)
(Provision) benefit for income taxes	(545)	48,482	47,937
Loss from discontinued operations, net of tax	$ (50)	$ (37,003)	$ (37,053)

The loss on disposition in the table above includes the reclassification of translation loss realized upon sale of subsidiaries of $29,973. The benefit for income taxes in the table above for the WD Services segment includes tax benefits on the WD Services Sale of $51,861 and income tax expense on WD Services operations of $3,379.

Asset impairment charges

In connection with classifying the assets and liabilities of Ingeus France as held for sale during the year ended December 31, 2018, the carrying value of the assets and liabilities was reduced to its estimated fair value less selling costs. As a result, an impairment charge of $9,203 was recorded during the year ended December 31, 2018 and is included in “Asset impairment charge” in the table above.

Loss on disposition, net of tax

The total loss on disposition, net of tax, related to the sale of WD Services subsidiaries during the year ended December 31, 2018 is calculated as follows:

Total cash received, net of transaction costs and cash sold	$ 12,780
Total WD Services net asset value as of transaction date, net of cash sold	(36,499)
Income tax benefit	51,861
Gain on sale before reclassification of currency translation, net of tax	28,142
Adjustment for reclassification of currency translation	(29,973)
Loss on disposition, net of tax	$ (1,831)

	Year ended December 31, 2017		
	Human Services Segment	WD Services Segment	Total Discontinued Operations
Service revenue, net	$ —	$ 305,662	$ 305,662
Operating expenses:			
Service expense	—	265,417	265,417
General and administrative expense	9,674	28,845	38,519
Depreciation and amortization	—	12,851	12,851
Total operating expenses	9,674	307,113	316,787
Operating loss	(9,674)	(1,451)	(11,125)
Other expenses:			
Interest expense, net	—	74	74
Equity in net loss of investees	—	1,391	1,391
Gain on sale of equity investment	—	(12,377)	(12,377)
Loss on foreign currency transactions	—	345	345
(Loss) income from discontinued operations before income taxes	(9,674)	9,116	(558)
Benefit for income taxes	3,691	(398)	3,293
(Loss) income from discontinued operations, net of tax	$ (5,983)	$ 8,718	$ 2,735

Assets and liabilities

The following table summarizes the carrying amounts of the major classes of assets and liabilities of discontinued operations in the consolidated balance sheets as of December 31, 2019 and 2018. Amounts as of December 31, 2019 and 2018 represent the accounts of WD Services operations in Saudi Arabia, which were not sold as part of the WD Services Sale.

	December 31,	
	2019	2018
Cash and cash equivalents	$ 155	$ 2,321
Accounts receivable, net of allowance of $0 in 2019 and $3,460 in 2018	—	4,316
Prepaid expenses and other	—	414
Current assets of discontinued operations	$ 155	$ 7,051
Accounts payable	$ 17	$ 486
Accrued expenses	1,414	2,771
Current liabilities of discontinued operations	$ 1,431	$ 3,257

Cash Flow Information

The following table presents depreciation, amortization, capital expenditures and significant operating noncash items of the discontinued operations for the years ended December 31, 2019, 2018 and 2017:

	For the year ended December 31, 2019		
	Human Services Segment	WD Services Segment	Total Discontinued Operations
Cash flows from discontinued operating activities:			
Deferred income taxes	$ 3,165	$ (330)	$ 2,835

	For the year ended December 31, 2018		
	Human Services Segment	WD Services Segment	Total Discontinued Operations
Cash flows from discontinued operating activities:			
Depreciation	$ —	$ 6,711	$ 6,711
Amortization	—	5,153	5,153
Stock-based compensation	—	6	6
Deferred income taxes	419	(74)	345
Cash flows from discontinued investing activities:			
Purchase of property and equipment	$ —	$ 6,725	$ 6,725

	For the year ended December 31, 2017		
	HA Services Segment	WD Services Segment	Total Discontinued Operations
Cash flows from discontinued operating activities:			
Depreciation	$ —	$ 7,825	$ 7,825
Amortization	—	5,026	5,026
Stock-based compensation	—	57	57
Deferred income taxes	(3,433)	(507)	(3,940)
Cash flows from discontinued investing activities:			
Purchase of property and equipment	$ —	$ 4,527	$ 4,527

24. Segments

Effective January 1, 2019, the Company substantially completed its Organizational Consolidation changing from a holding company that previously owned a portfolio of companies to an operating company structure that provides NET services and has an investment in Matrix. As a result, beginning January 1, 2019, the Company's chief operating decision maker reviews financial performance and allocates resources based on two segments as follows:

- NET Services - which operates primarily under the brands LogistiCare and Circulation, is the largest manager of NET programs for state governments and MCOs in the U.S and includes the Company's activities for executive, accounting, finance, internal audit, tax, legal, certain strategic and development functions and the Company's captive insurance company.
- Matrix Investment - which consists of a minority investment in Matrix, provides a broad array of assessment and care management services that improve health outcomes for individuals and financial performance for health plans. Matrix's national network of community-based clinicians deliver in-home services while its fleet of mobile health clinics provide community-based care with advance diagnostic capabilities.

We have reclassified prior period segment amounts to conform to the current presentation, which are summarized as follows:

	Year Ended December 31, 2018			
	As Previously Reported	Segment Reclassification	Other Reclassification (Note 1)	As Reported
Service expense:				
NET Services	$ 1,285,029	$ (426)	$ (30,995)	$ 1,253,608
Corporate and Other	(426)	426	—	—
General and administrative:				
NET Services	14,247	31,851	30,995	77,093
Corporate and Other	31,851	(31,851)	—	—
Depreciation and amortization:				
NET Services	15,026	787	—	15,813
Corporate and Other	787	(787)	—	—
Operating income (loss):				
NET Services	56,488	(32,212)	—	24,276
Corporate and Other	(32,212)	32,212	—	—

	Year Ended December 31, 2017			
	As Previously Reported	Segment Reclassification	Other Reclassification (Note 1)	As Reported
Service expense:				
NET Services	$ 1,227,426	$ (3,799)	$ (26,416)	$ 1,197,211
Corporate and Other	(3,799)	3,799		—
General and administrative:				
NET Services	11,779	31,712	26,416	69,907
Corporate and Other	31,712	(31,712)	—	—
Depreciation and amortization:				
NET Services	13,275	343	—	13,618
Corporate and Other	343	(343)	—	—
Operating income (loss):				
NET Services	65,740	(28,256)	—	37,484
Corporate and Other	(28,256)	28,256	—	—

The following table sets forth certain financial information from continuing operations attributable to the Company’s business segments for the years ended December 31, 2019, 2018 and 2017.

	Year Ended December 31, 2019		
	NET Services	**Matrix Investment**	**Total**
Service revenue, net	$ 1,509,944	$ —	$ 1,509,944
Service expense	1,401,152	—	1,401,152
General and administrative expense	67,244	—	67,244
Depreciation and amortization	16,816	—	16,816
Operating income	$ 24,732	$ —	$ 24,732
Equity in net loss of investee	$ —	$ 29,685	$ 29,685
Investment in equity method investee	$ —	$ 130,869	$ 130,869
Total assets	$ 466,357	$ 130,869	$ 597,226

	Year Ended December 31, 2018		
	NET Services	Matrix Investment	Total
Service revenue, net	$ 1,384,965	$ —	$ 1,384,965
Service expense	1,253,608	—	1,253,608
General and administrative expense	77,093	—	77,093
Asset impairment charge	14,175	—	14,175
Depreciation and amortization	15,813	—	15,813
Operating income	$ 24,276	$ —	$ 24,276
Equity in net loss of investee	$ —	$ 6,158	$ 6,158
Investment in equity method investee	$ —	$ 161,503	$ 161,503
Total assets	$ 401,091	$ 161,503	$ 562,594

	Year Ended December 31, 2017		
	NET Services	Matrix Investment	Total
Service revenue, net	$ 1,318,220	$ —	$ 1,318,220
Service expense	1,197,211	—	1,197,211
General and administrative expense	69,907	—	69,907
Depreciation and amortization	13,618	—	13,618
Operating income	$ 37,484	$ —	$ 37,484
Equity in net gain of investee	$ —	$ (13,445)	$ (13,445)
Investment in equity method investee	$ —	$ 169,699	$ 169,699
Total assets	$ 356,539	$ 169,699	$ 526,238

Customer Information

Of the Company’s consolidated revenue, 12.7%, 12.6% and 13.8% was derived from one U.S. state Medicaid program for the years ended December 31, 2019, 2018 and 2017, respectively. In addition, substantially all of the Company’s revenues are generated from domestic governmental agencies or entities that contract with governmental agencies.

25. Quarterly Results (Unaudited)

The quarterly consolidated financial statements presented below reflect WD Services and Human Services as discontinued operations for all periods presented:

	Quarter ended			
	March 31, 2019	**June 30, 2019**	**September 30, 2019 (1)**	**December 31, 2019 (2)**
Service revenue, net	$ 367,815	$ 363,911	$ 393,385	$ 384,833
Operating income (loss)	3,441	(3,250)	16,987	7,554
Income (loss) from continuing operations, net of tax	1,314	(3,409)	8,580	(11,438)
(Loss) income from discontinued operations, net of tax	(732)	1,697	(426)	5,380
Net income (loss) attributable to Providence	582	(1,712)	8,154	(6,058)
Earnings (loss) per common share (Note 16):				
Basic	$ (0.04)	$ (0.22)	$ 0.47	$ (0.55)
Diluted	$ (0.04)	$ (0.22)	$ 0.47	$ (0.55)

(1) Operating income was positively impacted by retroactive rate changes.

(2) Loss from continuing operations, net of tax was negatively impacted by the Company's investment in Matrix. Matrix recorded asset impairment of $55,056 for which the Company recorded its proportional share.

	Quarter ended			
	March 31, 2018	**June 30, 2018 (1)(2)**	**September 30, 2018 (3)**	**December 31, 2018 (4)**
Service revenue, net	$ 336,696	$ 343,736	$ 343,771	$ 360,762
Operating income (loss)	12,103	3,431	9,435	(693)
Income (loss) from continuing operations, net of tax	7,423	1,964	10,295	(1,454)
Loss from discontinued operations, net of tax	(1,697)	(13,366)	(2,964)	(19,026)
Net income (loss) attributable to Providence	5,430	(11,215)	7,154	(20,350)
Earnings (loss) per common share (10):				
Basic	$ 0.27	$ (0.95)	$ 0.41	$ (1.67)
Diluted	$ 0.27	$ (0.94)	$ 0.40	$ (1.67)

(1) Operating income in the quarter ending June 30, 2018 was negatively impacted by higher transportation costs on a per trip basis as NET Services saw a shift in service mix to higher cost modes of transportation and higher average mileage per trip.

(2) Due to the disposition of Ingeus France in July 2018, the carrying value of its assets and liabilities were reduced to their estimated fair value less selling costs during the quarter ending June 30, 2018. As a result, an impairment charge of $9,203 was recorded during the quarter ending June 30, 2018, which is included in (loss) income from discontinued operations, net of tax.

(3) During the quarter ending September 30, 2018, the Company acquired all of the outstanding equity of Circulation. The Company’s initial investment in Circulation was $3,000. As a result of the transaction, the fair value of this pre-acquisition interest increased to $9,577, and thus the Company recognized a gain of $6,577.

(4) (Loss) income from discontinued operations, net of tax in the quarter ending December 31, 2018, includes a loss on the disposition of substantially all of the WD Services segment of $1,056, net of tax. This sale was completed on December 21, 2018.

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

None.

Item 9A. ***Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management (including its principal executive officer and principal financial officer), evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act as of the end of the period covered by this Annual Report on Form 10-K (December 31, 2019). Based upon this evaluation, the Company's principal executive and financial officers have concluded that such disclosure controls and procedures were effective to provide reasonable assurance that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management's report on internal control over financial reporting is presented in Part II, Item 8, of this Annual Report and is hereby incorporated by reference.

Report of Independent Registered Public Accounting Firm

The attestation report of the registered public accounting firm on the Company's internal control over financial reporting is presented in Part II, Item 8, of this Annual Report and is hereby incorporated by reference.

Changes in Internal Control Over Financial Reporting

The principal executive and financial officers also conducted an evaluation of whether any changes in the Company's internal control over financial reporting occurred during the quarter ended December 31, 2019 that have materially affected or which are reasonably likely to materially affect such control. Such officers have concluded that no such changes have occurred.

Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance*.**

The information required by Item 10 is incorporated by reference from our definitive proxy statement on Schedule 14A to be filed with the SEC and delivered to stockholders in connection with our 2020 Annual Meeting of Stockholders (the "2020 Proxy Statement") under the captions "*Election of Directors*," "*Corporate Governance*" and "*Delinquent Section 16(a) Reports"*; provided that if our 2020 Proxy Statement is not filed on or before April 30, 2020, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

Code of Ethics

We have adopted a code of ethics that applies to our senior management, including our chief executive officer, chief financial officer, controller and persons performing similar functions, as well as our directors, officers and employees. This code of ethics is part of our broader Compliance and Ethics Plan and Code of Conduct, which is available free of charge in the Investor Relations section of our website at www.prscholdings.com. We intend to disclose any amendment to, or waiver from, a provision of the code of ethics that applies to our principal executive officer, principal financial officer or principal accounting officer on our website. The information contained on our website is not part of, and is not incorporated in, this Annual Report on Form 10-K or any other report we file with or furnish to the SEC.

Item 11. ***Executive Compensation.***

The information required by Item 11 is incorporated by reference from our 2020 Proxy Statement under the captions "*Executive Compensation*" and "*Corporate Governance*"; provided that if our 2020 Proxy Statement is not filed on or before April 30, 2020, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

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

The information required by Item 12 is incorporated by reference from our 2020 Proxy Statement under the captions "*Corporate Governance*" and "*Voting Securities of Certain Beneficial Owners and Management*"; provided that if our 2020 Proxy Statement is not filed on or before April 30, 2020, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

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

The information required by Item 13 is incorporated by reference from our 2020 Proxy Statement under the sub-captions "*Certain Relationships and Related Party Transactions*" and "*Independence of the Board*" under the caption "*Corporate Governance*"; provided that if our 2020 Proxy Statement is not filed on or before April 30, 2020, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

Item 14. ***Principal Accounting Fees and Services*.**

The information required by Item 14 is incorporated by reference from our 2020 Proxy Statement under the caption "*Independent Registered Public Accountants*"; provided that if our 2020 Proxy Statement is not filed on or before April 30, 2020, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules.***

(a)(1) Financial Statements

The following consolidated financial statements including footnotes are included in Item 8.

- Consolidated Balance Sheets at December 31, 2019 and 2018;
- Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017;
- Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017;
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017; and
- Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017.

(2) Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts

		Additions			
	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of period
Year Ended December 31, 2019:					
Allowance for doubtful accounts	$ 1,854	$ 3,220	$ 1,090	$ 231 (1)	$ 5,933
Year Ended December 31, 2018:					
Allowance for doubtful accounts	$ 5,262	$ 338	$ (523)	$ 3,223 (1)	$ 1,854
Year Ended December 31, 2017:					
Allowance for doubtful accounts	$ 5,164	$ 765	$ (537)	$ 130 (1)	$ 5,262

Notes:

Schedule above has been recast from prior year to exclude activity related to discontinued operations.

(1) Write-offs, net of recoveries.

All other schedules are omitted because they are not applicable or the required information is shown in our financial statements or the related notes thereto.

(3) Exhibits

Exhibit Number	Description
2.1	Share Sale Agreement, dated as of March 31, 2014, by and among The Providence Service Corporation, Pinnacle Australia Holdco Pty Ltd, Thérèse Virginia Rein, Gregory Kenneth Ashmead and GK Ashmead Holdings Pty Limited (as trustee of the GK Ashmead Nominees Trust) (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on April 1, 2014).
2.2	Australian Share Sale Agreement Side Deed, dated as of March 31, 2014, by and among The Providence Service Corporation, Pinnacle Australia Holdco Pty Ltd, Thérèse Virginia Rein, Gregory Kenneth Ashmead, GK Ashmead Holdings Pty Limited (as trustee of the GK Ashmead Nominees Trust) and Deloitte LLP (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on April 1, 2014).
2.3	Stock Subscription Agreement, dated as of August 28, 2016, by and among The Providence Service Corporation, CCHN Group Holdings, Inc. and Mercury Fortuna Buyer, LLC (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 31, 2016).
2.4	Amendment No. 1, dated as of October 19, 2016, to the Stock Subscription Agreement, dated August 28, 2016, by and among The Providence Service Corporation, CCHN Group Holdings, Inc. and Mercury Fortuna Buyer, LLC (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on October 25, 2016).
2.5	Agreement and Plan of Merger, dated as of September 14, 2018, among The Providence Service Corporation, LogistiCare Solutions, LLC, Catapult Merger Sub, Circulation, Inc. and Fortis Advisors LLC (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on September 17, 2018).
2.6	Share Purchase Agreement, dated November 7, 2018, among The Providence Service Corporation, Ingeus UK Holdings Limited, Advanced Personnel Management Group Pty Ltd, APM UK Holdings Limited and International APM Group Pty Limited (Incorporated by reference from an exhibit to the registrant's quarterly report on Form 10-Q for the quarter ended September 30, 2018 filed with the SEC on November 8, 2018).
3.1	Second Amended and Restated Certificate of Incorporation of The Providence Service Corporation, including Certificate of Designation of Series A Junior Participating Preferred Stock, as filed with the Secretary of State of Delaware on December 9, 2011 (Incorporated by reference from an exhibit to the registrant's annual report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 15, 2012).
3.2	Certificate of Amendment of the Certificate of Incorporation of The Providence Service Corporation, dated as of May 6, 2015 (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on May 7, 2015).
3.3	Amended and Restated Bylaws of The Providence Service Corporation, effective March 10, 2010 (Incorporated by reference from an exhibit to the registrant's annual report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 12, 2010).
4.1	Certificate of Designations of Series A Convertible Preferred Stock of The Providence Service Corporation, dated as of February 6, 2015 (Incorporated by reference from an exhibit to Amendment No. 1 to the registrant's annual report on Form 10-K/A for the year ended December 31, 2014 filed with the SEC on April 30, 2015).
4.2*	Description of the registrant's securities registered pursuant to Section 12 of the Exchange Act.
10.1	Amended and Restated Credit and Guaranty Agreement, dated as of August 2, 2013, by and among The Providence Service Corporation and certain of its subsidiaries party thereto, Bank of America, N.A., SunTrust Bank, BMO Harris Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated and SunTrust Robinson Humphrey, Inc. and the lenders party thereto (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 5, 2013).
10.2	Amended and Restated Pledge Agreement, dated as of August 2, 2013, by and among The Providence Service Corporation, certain of its subsidiaries party thereto, and Bank of America, N.A., as administrative agent (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 5, 2013).
10.3	Amended and Restated Security Agreement, dated as of August 2, 2013, by and among The Providence Service Corporation, certain of its subsidiaries party thereto, and Bank of America, N.A., as administrative agent (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 5, 2013).

10.4	First Amendment to Amended and Restated Credit and Guaranty Agreement and Consent, dated as of May 28, 2014, by and among The Providence Service Corporation, the Guarantors named therein, the New Subsidiaries named therein, the Lenders and New Lender named therein and Bank of America, N.A., as administrative agent (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on June 3, 2014).
10.5	Second Amendment to the Amended and Restated Credit and Guaranty Agreement and Consent, dated as of October 23, 2014, by and among The Providence Service Corporation, certain of its subsidiaries party thereto, Bank of America, N.A., SunTrust Bank, Royal Bank of Canada, BMO Harris Bank, N.A., HSBC Bank USA, National Association, the other Lenders party thereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated, SunTrust Robinson Humphrey, Inc., and RBC Capital Markets (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on October 24, 2014).
10.6	Third Amendment and Consent to the Amended and Restated Credit and Guaranty Agreement, dated as of September 3, 2015, by and among The Providence Service Corporation, certain of its subsidiaries party thereto, Bank of America, N.A., Sun Trust Bank, Royal Bank of Canada, BMO Harris Bank, N.A., HSBC Bank USA, National Association, the other lenders party thereto, Merrill Lynch Pierce, Fenner & Smith Incorporated, Sun Trust Robinson Humphrey, Inc. and RBC Capital Markets (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on September 8, 2015).
10.7	Fourth Amendment and Consent to the Amended and Restated Credit and Guaranty Agreement, dated as of August 28, 2016, by and among The Providence Service Corporation, the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as Administrative Agent (Incorporated by reference to an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 31, 2016).
10.8	Fifth Amendment to the Amended and Restated Credit and Guaranty Agreement, dated as of June 7, 2018, among The Providence Service Corporation, the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as Administrative Agent (Incorporated by reference to an exhibit to the registrant's current report on Form 8-K filed with the SEC on June 7, 2018).
10.9	Sixth Amendment to the Amended and Restated Credit and Guaranty Agreement, dated as of July 12, 2019, among The Providence Service Corporation, the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as Administrative Agent. (Incorporated by reference to an exhibit to the registrant's current report on Form 8-K filed with the SEC on July 17, 2019).
10.10+	Employment Agreement, dated November 15, 2017, between The Providence Service Corporation and R. Carter Pate (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on November 15, 2017).
10.11+	The Providence Service Corporation Non-Qualified Stock Option Agreement, dated April 9, 2018, between The Providence Service Corporation and R. Carter Pate (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on April 11, 2018).
10.12+	Amendment No. 1 to The Providence Service Corporation Non-Qualified Stock Option Agreement, dated May 1, 2018, between The Providence Service Corporation and R. Carter Pate (Incorporated by reference from an exhibit to the registrant's Registration Statement on Form S-1 filed with the SEC on May 9, 2018).
10.13+	Employment Agreement, dated August 18, 2018, by and among The Providence Service Corporation, LogistiCare Solutions, LLC and Kevin M. Dotts (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 22, 2018).
10.14	Employment Agreement, dated August 8, 2019, by and among The Providence Service Corporation, Logisticare Solutions, LLC and Kathryn Stalmack (Incorporated by reference from an exhibit to the registrant's quarterly report on Form 10-Q for the quarter ended September 30, 2019, filed with the SEC on November 7, 2019).
10.15+	Employment Agreement dated November 29, 2019,by and among the Company, LogistiCare and Daniel E. Greenleaf (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on December 2, 2019).
10.16+	Employment Agreement dated December 28, 2017 by and among LogistiCare and Suzanne Smith (Incorporated by reference from an exhibit to the registrant's quarterly report on Form 10-Q for the quarter ended March 31, 2019 filed with the SEC on May 9, 2019).
10.17+	The Providence Service Corporation 2006 Long-Term Incentive Plan, as amended and restated effective July 27, 2016 (Incorporated by reference from an appendix to the registrant's definitive proxy statement on Schedule 14A filed with the SEC on June 14, 2016).

10.18+	Form of Restricted Stock Agreements (Incorporated by reference from an exhibit to the registrant’s quarterly report on Form 10-Q for the quarter ended March 31, 2011 filed with the SEC on May 6, 2011).
10.19+	Form of Stock Option Agreements (Incorporated by reference from an exhibit to the registrant’s quarterly report on Form 10-Q for the quarter ended March 31, 2011 filed with the SEC on May 6, 2011).
10.20+	Form of Special Incentive Stock Option Award Agreement (Incorporated by reference from an exhibit to the registrant’s current report on Form 8-K filed with the SEC on August 11, 2015).
10.21+	Form of Matching Incentive Stock Option Award Agreement (Incorporated by reference from an exhibit to the registrant’s current report on Form 8-K filed with the SEC on August 11, 2015).
10.22	Amended and Restated Limited Liability Company Agreement of Mercury Parent, LLC, by and between Prometheus Holdco, LLC and Mercury Fortuna Buyer, LLC, dated as of October 19, 2016 (Incorporated by reference from an exhibit to the registrant’s current report on Form 8-K filed with the SEC on October 25, 2016).
10.23	Second Amended and Restated Limited Liability Company Agreement of Mercury Parent, LLC, by and between Prometheus Holdco, LLC and Mercury Fortuna Buyer, LLC, dated February 16, 2018 (Incorporated by reference from an exhibit to the registrant’s annual report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 9, 2018).
10.24+	Form of Matching Stock Option Agreement (Incorporated by reference from an exhibit to the registrant’s quarterly report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on May 10, 2017).
10.25+	Form of Stock Option Agreement (Incorporated by reference from an exhibit to the registrant’s annual report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 9, 2018).
10.26+	The Providence Service Corporation Employee Retention Plan (Incorporated by reference from an exhibit to the registrant’s current report on Form 8-K filed with the SEC on April 11, 2018).
10.27	Registration Indemnification Agreement, dated May 9, 2018, between The Providence Service Corporation, Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Coliseum Capital Co-Invest, L.P. and Blackwell Partners, LLC - Series A (Incorporated by reference from an exhibit to the registrant’s Registration Statement on Form S-1 filed with the SEC on May 9, 2018).
10.28+	Form of Deferred Share Unit Agreement (Incorporated by reference from an exhibit to the registrant’s quarterly report on Form 10-Q for the quarter ended June 30, 2018 filed with the SEC on August 8, 2018).
10.29+	Form of Amendment to Retention Letter under The Providence Service Corporation Employee Retention Plan (Incorporated by reference from an exhibit to the registrant’s quarterly report on Form 10-Q for the quarter ended September 30, 2018 filed with the SEC on November 8, 2018).
10.30+	Form of Restricted Stock Agreements (Incorporated by reference from an exhibit to the registrant's quarterly report on Form 10-Q for the quarter ended September 30, 2019 filed with the SEC on November 7, 2019).
10.31+	Form of Stock Option Agreements (Incorporated by reference from an exhibit to the registrant's quarterly report on Form 10-Q for the quarter ended September 30, 2019 filed with the SEC on November 7, 2019).
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of KPMG LLP.
23.2*	Consent of Deloitte & Touche LLP (Mercury Parent, LLC financial statements).
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.
99.1*	Financial Statements of Mercury Parent, LLC.
101. INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Schema Document

101.CAL*	Inline XBRL Calculation Linkbase Document
101.LAB*	Inline XBRL Label Linkbase Document
101.PRE*	Inline XBRL Presentation Linkbase Document
101.DEF*	Inline XBRL Definition Linkbase Document
104	Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

+ Management contract or compensatory plan or arrangement.

* Filed herewith.

Item 16. Form 10-K Summary.

None.

SIGNATURES

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

THE PROVIDENCE SERVICE CORPORATION

By: /s/ Daniel E. Greenleaf
Daniel E. Greenleaf
Chief Executive Officer

Dated: February 27, 2020

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

Signature	Title	Date
/S/ DANIEL E. GREENLEAF	Chief Executive Officer and Director	February 27, 2020
Daniel E. Greenleaf	(Principal Executive Officer)	
/S/ KEVIN DOTTS	Chief Financial Officer	February 27, 2020
Kevin Dotts	(Principal Financial Officer)	
/S/ SUZANNE G. SMITH	Chief Accounting Officer	February 27, 2020
Suzanne G. Smith	(Principal Accounting Officer)	
/S/ CHRISTOPHER S. SHACKELTON	Chairman of the Board	February 27, 2020
Christopher S. Shackelton		
/S/ TODD J. CARTER	Director	February 27, 2020
Todd J. Carter		
/S/ DAVID A. COULTER	Director	February 27, 2020
David A. Coulter		
/S/ RICHARD A. KERLEY	Director	February 27, 2020
Richard A. Kerley		
/S/ LESLIE V. NORWALK	Director	February 27, 2020
Leslie V. Norwalk		
/S/ FRANK J. WRIGHT	Director	February 27, 2020
Frank J. Wright		

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES
EXCHANGE ACT OF 1934**

DESCRIPTION OF CAPITAL STOCK

The following summary of the terms of The Providence Service Corporation (the "Company") capital stock is based upon the Company's Second Amended and Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation") and the Company's Amended and Restated Bylaws (the "Bylaws"). The summary is not complete, and is qualified by reference to the Certificate of Incorporation and the s Bylaws, which are filed as exhibits to this Annual Report on Form 10-K and are incorporated by reference herein. We encourage you to read the Company's Certificate of Incorporation, Bylaws and the applicable provisions of the General Corporation Law of Delaware for additional information.

Unless otherwise indicated or the context otherwise requires, in this Exhibit, references to "Providence," the "Company," "we," "us" and "our" mean The Providence Service Corporation and its consolidated subsidiaries.

Authorized Shares of Capital Stock

The aggregate number of shares which the Company has authority to issue is 50,000,000 shares of capital stock, comprised of 40,000,000 shares of common stock of a par value of $0.001 per share ("Common Stock"), and 10,000,000 shares of preferred stock of a par value of $0.001 per share (of which the Company has designated 805,000 shares as Series A Convertible Preferred Stock of a par value of $0.001 ("Series A Preferred Stock")).
Our Common Stock is listed on The NASDAQ Global Select Market ("NASDAQ"), under the symbol "PRSC".

Common Stock

Voting Rights: Pursuant to the Certificate of Incorporation, each holder of record of Common Stock shall have the right to one vote for each share of Common Stock registered in their name on the books of the Corporation on all matters submitted to a vote of stockholders except as the right to exercise such vote may be limited by the provisions of the Certificate of Incorporation or of any class or series of preferred stock established thereunder. The holders of Common Stock do not have cumulative voting rights.

Dividends: Pursuant to the Certificate of Incorporation, the holders of Common Stock will be entitled to such dividends as may be declared by the Board of Directors from time to time, provided that required dividends, if any, on the Series A Preferred Stock have been paid or provided for.

Liquidation or Dissolution: Upon our dissolution, liquidation or winding up, holders of our Common Stock are entitled to share ratably in our net assets after payment or provision for all liabilities and any preferential liquidation rights of our preferred stock then outstanding.

Rights and Preferences: Our holders of Common Stock have no preemptive rights to purchase shares of our stock. The issued and outstanding shares of our Common Stock are not subject to any redemption provisions and are not convertible into any other shares of our capital stock. All outstanding shares of our Common Stock are, and the shares of Common Stock to be issued upon conversion of the Series A Preferred Stock will be, upon payment therefor, fully paid and non-assessable. The rights, preferences and privileges of holders of our Common Stock will be subject to those of the holders of any shares of our preferred stock outstanding at any time.

Anti-takeover considerations and special provisions of Delaware law, our certificate of incorporation and our bylaws

Preferred stock

Our board of directors may from time to time authorize the issuance of up to an additional 9,195,000 shares of preferred stock in one or more classes or series without stockholder approval. Subject to the provisions of our certificate of incorporation and limitations prescribed by law, our board of directors is authorized to adopt resolutions to, among other things, issue shares, establish the number of shares, change the number of shares constituting any series, and provide or change the voting powers, designations, preferences and relative rights, qualifications, limitations or restrictions on shares of our preferred stock, including dividend rights, terms of redemption, conversion rights and liquidation preferences, in each case without any action or vote by our stockholders. One of the effects of undesignated preferred stock may be to enable our board of directors to discourage an attempt to obtain control of our company by means of a tender offer, proxy contest, merger or otherwise

Delaware anti-takeover law

We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. This section prevents Delaware corporations, under certain circumstances, from engaging in a "business combination" with:

- a stockholder who owns 15.0% or more of our outstanding voting stock or any of our affiliates or associates who owned 15.0% or more of our outstanding voting stock at any time within the past three years (either otherwise known as an interested stockholder);
- an affiliate of an interested stockholder; or
- an associate of an interested stockholder;

for three years following the date that the stockholder became an interested stockholder. A "business combination" includes a merger or sale of more than 10.0% of our assets.

However, the above provisions of Section 203 do not apply if:

- prior to the date of the business combination with the interested stockholder, our board of directors approved the transaction that made the stockholder an interested stockholder;
- upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, that stockholder owned at least 85.0% of our voting stock outstanding at the time the transaction commenced, excluding shares owned by our officers and directors and those owned under certain employee stock plans; or
- on or subsequent to the date of the transaction, the business combination is approved by our board of directors and authorized at a meeting of our stockholders by an affirmative vote of at least two-thirds of the outstanding voting stock not owned by the interested stockholder.

This statute could prohibit or delay mergers or other change in control attempts, and thus may discourage attempts to acquire us.

Certificate of incorporation and bylaws

A number of provisions of our certificate of incorporation and bylaws concern matters of corporate governance and the rights of our stockholders. Provisions that grant our board of directors the ability to issue shares of preferred stock and to set the voting rights, preferences and other terms thereof may discourage takeover attempts that are not first approved by our board of directors, including takeovers which may be considered by some stockholders to be in their best interests. Certain provisions could delay or impede the removal of incumbent directors or the assumption of control by stockholders, even if such removal or assumption would be beneficial to our stockholders. These provisions also could discourage or make more difficult a merger, tender offer or proxy contest, even if they could be favorable to the interests of stockholders, and could potentially depress the market price of our common stock. Our board of directors believes that these provisions are appropriate to protect our interests and the interests of our stockholders.

Classified board of directors. Our certificate of incorporation divides our board of directors into three classes. Moreover, no director may be removed prior to the expiration of his or her term except for cause. These provisions in our certificate of incorporation may tend to discourage a third party from making a tender offer or otherwise

attempting to obtain control of our company and may maintain the incumbency of our board of directors, because this structure generally increases the difficulty of, or may delay, replacing a majority of the directors.

Meetings of stockholders. Our bylaws provide that annual meetings of our stockholders will take place at the time and place established by our board of directors. A special meeting of our stockholders may be called at any time by the chairman of the board, the board of directors or our president, and shall be called by the chairman of the board, our president or our secretary upon written request of stockholders holding at least 50.0% of our outstanding shares entitled to vote at such meeting.

Filling of board vacancies. Vacancies on the board of directors and newly created directorships resulting from any increase in the authorized number of directors may be filled by the affirmative vote of a majority of our directors then in office. Each person so appointed will hold office until his or her successor has been duly elected or qualified, or until his or her earlier resignation, removal or disqualification.

Amendment of the bylaws. Our bylaws may be amended or repealed by a majority of our board of directors. Any amendment or repeal of our bylaws which has not previously received the approval of our board shall require for adoption the affirmative vote of the holders of at least a majority of the voting power of our then outstanding shares of capital stock entitled to vote at any duly convened annual or special meeting of the stockholders, in addition to any other approval which is required by law, the certificate of incorporation, bylaws or otherwise.

Limitations on liability and indemnification of officers and directors

Our certificate of incorporation includes a provision that eliminates the personal liability of our directors for monetary damages for breach of fiduciary duty as a director, to the fullest extent permitted by Delaware General Corporation Law. Our certificate of incorporation also provides that we must indemnify our directors and officers to the fullest extent permitted by Delaware law and advance expenses to our directors and officers in connection with a legal proceeding to the fullest extent permitted by Delaware law, subject to certain exceptions. We maintain directors' and officers' insurance for our directors, officers and some employees for specified liabilities.

The limitation of liability and indemnification provisions in our certificate of incorporation may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. They may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though an action of this kind, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholders' investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. However, we believe that these indemnification provisions are necessary to attract and retain qualified directors and officers.

Transfer agent and registrar

Computershare Investor Services, LLC is the transfer agent and registrar for our common stock.

Series A Convertible Preferred Stock

Designation. 805,000 shares of our 10,000,000 authorized preferred stock have been designated as Series A Convertible Preferred Stock. Our Series A Preferred Stock has not been registered under Section 12 of the Exchange Act.

Exhibit 21.1

Name of Subsidiary	**State/Country of Incorporation**
Social Services Providers Captive Insurance Co.	Arizona
Ingeus Australasia Pty Ltd	Australia
Circulation, Inc.	Delaware
Health Trans, Inc.	Delaware
LogistiCare Solutions, LLC	Delaware
Prometheus Holdco, LLC	Delaware
Ride Plus LLC	Delaware
Provado Technologies, LLC	Florida
Red Top Transportation, Inc.	Florida
LogistiCare Solutions Independent Practice Association, LLC	New York
Ingeus LLC (Saudi Arabia)	Saudi Arabia
Ingeus Investments Limited	United Kingdom
Ingeus UK Holdings Limited (formerly Pinnacle UK Bidco Limited)	United Kingdom

Consent of Independent Registered Public Accounting Firm

The Board of Directors

The Providence Service Corporation:

We consent to the incorporation by reference in the registration statement (No. 333-212888, 333-183339, 333-166978, 333-151079, 333-135126, and 333-145843) on Form S-8, and the registration statement (No. 333-233676) on Form S-3 of The Providence Service Corporation (the "Company") of our reports dated February 27, 2020, with respect to the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement schedule II (collectively, the "consolidated financial statements"), and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the December 31, 2019 annual report on Form 10-K of the Company.

Our report on the consolidated financial statements refers to a change in the method of accounting for revenue and related costs in 2018 due to the adoption of Accounting Standard Codification Topic 606, *Revenue from Contracts with Customers*.

/s/ KPMG LLP

Atlanta, Georgia
February 27, 2020

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Number 333-233676 on Form S-3 and Registration Statement Numbers 333-212888, 333-183339, 333-166978, 333-151079, 333-135126, and 333-145843 on Form S-8 of our report dated February 27, 2020, relating to the consolidated financial statements of Mercury Parent, LLC as of December 31, 2019 and for each of the three years in the period ended December 31, 2019 included as Exhibit 99.1 to the Annual Report on Form 10-K of The Providence Service Corporation for the year ended December 31, 2019.

/s/ Deloitte & Touche LLP

Phoenix, Arizona
February 27, 2020

Exhibit 31.1

CERTIFICATIONS

I, Daniel E. Greenleaf, certify that:

1. I have reviewed this annual report on Form 10-K 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 officers 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 fourth 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 officers 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: February 27, 2020

/s/ Daniel E. Greenleaf

Daniel E. Greenleaf
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Kevin Dotts, certify that:

1. I have reviewed this annual report on Form 10-K 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 officers 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 fourth 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 officers 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: February 27, 2020

/s/ Kevin Dotts

Kevin Dotts
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

THE PROVIDENCE SERVICE CORPORATION
CERTIFICATION OF THE CHIEF 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 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Daniel E. Greenleaf, the Chief Executive Officer of The Providence Service Corporation (the "Company"), does hereby certify, that, to my knowledge:

1) The Annual Report on Form 10-K for the year ended December 31, 2019 (the “Report”) of the Company fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2020

/s/ Daniel E. Greenleaf

Daniel E. Greenleaf
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

THE PROVIDENCE SERVICE CORPORATION
CERTIFICATION OF THE CHIEF 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 18 U.S.C., as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Kevin Dotts, the Chief Financial Officer of The Providence Service Corporation (the "Company"), does hereby certify, that, to my knowledge:

1) The Annual Report on Form 10-K for the year ended December 31, 2019 (the “Report”) of the Company fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2020

/s/ Kevin Dotts

Kevin Dotts
Chief Financial Officer
(Principal Financial Officer)

Mercury Parent, LLC

Consolidated Financial Statements as of December 31, 2019 and 2018, and for the Years Ended December 31, 2019, 2018, and 2017, and Report of Independent Registered Public Accounting Firm

MERCURY PARENT, LLC

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members and the Board of Directors of
Mercury Parent, LLC

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Mercury Parent, LLC and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, changes in members' equity, and cash flows, for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Phoenix, Arizona
February 27, 2020

We have served as the Company's auditor since 2017.

MERCURY PARENT, LLC

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND 2018
(Amounts in thousands, except unit and per unit amounts)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 30,883	$ 23,925
Clinical assessment and other accounts receivable—net of allowance of $1,552 and $2,310, respectively	29,722	32,051
Income taxes receivable	-	1,533
Prepaid expenses and other current assets	3,616	4,056
Total current assets	64,221	61,565
PROPERTY AND EQUIPMENT—Net	18,291	21,282
GOODWILL	434,480	448,516
INTANGIBLE ASSETS—Net	177,572	248,429
OTHER LONG-TERM ASSETS	664	1,223
TOTAL ASSETS	$695,228	$781,015
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 4,753	$ 6,334
Accrued liabilities—including related party of $452 and $594, respectively	21,808	18,059
Income taxes payable	159	-
Other short-term liabilities	2,667	1,367
Current portion of long-term debt	1,869	1,859
Total current liabilities	31,256	27,619
DEFERRED TAX LIABILITY—Net	31,222	52,391
OTHER LONG-TERM LIABILITIES	4,145	2,886
LONG-TERM DEBT—Net of current portion	316,013	317,882
Total liabilities	382,636	400,778
COMMITMENTS AND CONTINGENCIES (Note 11)		
MEMBERS' EQUITY:		
Common A units—353,450,000 and 352,950,000 units authorized, issued, and outstanding, liquidity preference of $1 per unit	286,909	349,628
Common B units—24,158,682 and 24,158,682 units authorized, issued, and outstanding, liquidity preference of $1.267 per unit	25,683	30,609
Series A units—39,066,667 units authorized, 16,846,088 and 14,239,870 units issued and outstanding, participate in dividends and distributions excess of $1 per common unit	-	-
Series B units—18,170,543 units authorized, 8,238,188 and 6,643,152 units issued and outstanding, participate in dividends and distributions in excess of $2 per common unit	-	-
Series C units—14,777,249 units authorized, 6,699,732 and 5,402,563 units issued and outstanding, participate in dividends and distributions in excess of $3 per common unit	-	-
Series D units—15,885,542 units authorized, 7,201,176 and 5,723,950 units issued and outstanding, participate in dividends and distributions in excess of $4 per common unit	-	-
Total members' equity	312,592	380,237
TOTAL LIABILITIES AND MEMBERS' EQUITY	$695,228	$781,015

See accompanying notes to consolidated financial statements.

MERCURY PARENT, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
(Amounts in thousands)

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
NET REVENUES	$ 275,391	$ 282,067	$ 227,872
OPERATING EXPENSES:			
Service expense	228,320	228,326	176,582
General and administrative	4,615	6,807	2,742
Depreciation and amortization	43,666	43,119	33,512
Asset impairment charges	55,056	-	-
Loss (gain) on disposition of assets	665	(34)	23
Loss contingency	1,872	-	-
Management fees	2,196	5,035	3,143
Total operating expenses	336,390	283,253	216,002
(LOSS) INCOME FROM OPERATIONS	(60,999)	(1,186)	11,870
INTEREST EXPENSE—Net and other expense:			
Interest expense—net and other expense	(24,903)	(23,417)	(14,818)
Finance restructuring	-	(2,525)	-
Total interest expense—net and other expense	(24,903)	(25,942)	(14,818)
LOSS BEFORE TAXES	(85,902)	(27,128)	(2,948)
INCOME TAX BENEFIT	16,549	7,166	29,613
NET (LOSS) INCOME FROM OPERATIONS	$ (69,353)	$ (19,962)	$ 26,665

See accompanying notes to consolidated financial statements.

MERCURY PARENT, LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017 (Amounts in thousands)

	Common A Units	Common B Units	Series A Units	Series B Units	Series C Units	Series D Units	Total Members' Equity
BALANCE—December 31, 2016	$336,291	$ -	$ -	$ -	$ -	$ -	$336,291
Capital contributions	1,350	-	-	-	-	-	1,350
Net income	26,665	-	-	-	-	-	26,665
Equity-based compensation	2,639	-	-	-	-	-	2,639
BALANCE—December 31, 2017	366,945	-	-	-	-	-	366,945
Acquisition rollover capital contribution	-	30,609	-	-	-	-	30,609
Units repurchased	(53)	-	-	-	-	-	(53)
Net loss	(19,962)	-	-	-	-	-	(19,962)
Equity-based compensation	2,698	-	-	-	-	-	2,698
BALANCE—December 31, 2018	349,628	30,609	-	-	-	-	380,237
Capital contributions	500	-	-	-	-	-	500
Units repurchased	(371)	(29)	-	-	-	-	(400)
Net loss	(64,340)	(5,013)	-	-	-	-	(69,353)
Equity-based compensation	1,492	116	-	-	-	-	1,608
BALANCE—December 31, 2019	$286,909	$25,683	$ -	$ -	$ -	$ -	$312,592

See accompanying notes to consolidated financial statements.

MERCURY PARENT, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
(Amounts in thousands)

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	$(69,353)	$ (19,962)	$ 26,665
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	43,666	43,119	33,512
Amortization of debt issuance costs	1,441	1,471	1,535
Restructuring finance fees	-	1,131	-
Change in deferred income taxes	(21,169)	(8,189)	(34,512)
Equity-based compensation	1,608	2,698	2,639
Provision for bad debts	1,304	1,097	(407)
Loss (gain) on disposal of property and equipment	357	(34)	23
Loss on asset impairment	55,056	-	-
Loss on termination of leases	308	-	-
Loss contingency	1,872	-	-
Changes in operating assets and liabilities:			
Clinical assessment and other accounts receivable	1,003	(8,235)	(419)
Prepaid expenses and other current assets	440	766	3,672
Other long-term assets	559	(990)	81
Accounts payable and accrued liabilities	(312)	3,836	(4,702)
Other liabilities	1,355	301	606
Income taxes receivable	1,533	87	(809)
Income taxes payable	159	-	-
Net cash provided by operating activities	19,827	17,096	27,884
CASH FLOWS FROM INVESTING ACTIVITIES:			
Business acquisition—net of cash acquired	-	(156,799)	(3,455)
Proceeds from sale of assets	459	54	-
Purchases of property and equipment	(9,477)	(10,375)	(11,042)
Net cash used in investing activities	(9,018)	(167,120)	(14,497)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital contributions	500	30,609	1,350
Payment of financing fees	-	(6,825)	-
Proceeds from term loan	-	330,000	-
Payments on term loan	(3,300)	(194,700)	(4,950)
Payments on capital leases	(651)	(102)	-
Repurchase of members' units	(400)	(53)	-
Return of capital to Providence	-	-	(75)
Net cash (used in) provided by financing activities	(3,851)	158,929	(3,675)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,958	8,905	9,712
CASH AND CASH EQUIVALENTS—Beginning of the period	23,925	15,020	5,308
CASH AND CASH EQUIVALENTS—End of the period	$ 30,883	$ 23,925	$ 15,020
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 23,284	$ 21,784	$ 13,147
Cash paid for income taxes	$ 3,179	$ 3,688	$ 5,520
NONCASH INVESTING AND FINANCING TRANSACTIONS:			
Additions to property and equipment financed through capital leases, accounts payable, and accrued expenses	$ 80	$ 1,671	$ 828
Property acquired under capital lease obligations	$ 1,855	$ -	$ -

See accompanying notes to consolidated financial statements.

MERCURY PARENT, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2019 AND 2018 AND FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017

1. ORGANIZATION AND NATURE OF OPERATIONS

Nature of Operations—Mercury Parent, LLC ("Mercury Parent" and collectively with its subsidiaries and affiliates, the "Company") is a Delaware limited liability company formed on October 19, 2016, as a holding company for CCHN Group Holdings, Inc. (the "Group"), CCHN Holdings, LLC ("Holdings"), and Community Care Health Network, LLC and its subsidiaries (CCHN) (collectively, "Matrix"). All financial activity is recorded at the operating company, CCHN consolidated level. Matrix is a national provider of in-home care optimization and care management solutions, including comprehensive health assessments (CHAs), to members of managed care organizations. Matrix also operates a fleet of mobile health clinics, which provides community-based services with advanced diagnostic capabilities and enhanced care options.

Through a national network of more than 3,000 clinical practitioners and 36 mobile clinics, Matrix primarily generates revenue from CHAs, which gather health plan members' information related to health status, social, environmental, and medication risks to help health plans improve the accuracy of such data and optimize care for the health plan member.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of Mercury Parent, its consolidated and wholly owned subsidiaries, and its affiliates.

Affiliated entities operate in states that have statutory requirements regarding legal ownership of operating entities by a licensed medical practitioner. Accordingly, each affiliate entity has a contractual relationship with the Company whereby the Company provides management and other services for these affiliates. The Company has entered into license, service, and redemption agreements with the affiliates and the members of the affiliates. The Company may terminate the license, service, or employment agreement with or without cause upon written notice to the affiliated entity and/or member subject to certain time requirements, generally less than 90 days. Upon termination, the member shall surrender the stock and the status of the physician as a member shall be deemed to have terminated and shall have no further ownership in the Company. The surrender of the stock by the member will be exchanged for a nominal amount as specified in the redemption agreement. As such and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810-10-05, *Consolidation of Entities Controlled by Contract*, the affiliated entities are being presented on a consolidated basis as the Company meets the requirements to consolidate, specifically the controlling financial interest provisions.

All intercompany accounts and transactions, including those between the Company and its subsidiaries and the affiliated entities, are eliminated in consolidation.

Revenue Recognition—For the year ended December 31, 2017, the Company recognized revenue in accordance with ASC 605. For CHAs, revenue was recognized using the proportional performance method in the period in which the services were rendered. For care management services, revenue was recognized in the period in which the services were rendered. All costs associated with the acquisition of new customers or contracts were expensed as incurred.

On January 1, 2018, the Company adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method. The adoption did not result in any change to revenue recognition for any of its revenue streams. To conform to Topic 606, the Company modified its revenue recognition policy as described below.

The Company's revenue is generated primarily from the performance of CHAs (see Note 1) and, to a lesser extent, other services related to gathering, monitoring, and assessing information related to health plan members' health and health care activities. All revenue activities other than the conduct of CHAs are deemed to be immaterial.

CHAs are performed subject to customer contracts and are conducted either at a health plan members' home, a skilled nursing facility, or at a mobile clinic. These three delivery mechanisms are subject to different economic factors (e.g., the efficiency associated with conducting CHAs for multiple health plan members) and different average revenues and fulfillment costs.

Revenues are recognized over time and are disaggregated as follows (in millions):

	Years Ended December 31,	
	2019	**2018**
Visit revenue (home assessments, mobile assessments, home quality visits, and mobile quality visits)	$272.9	$277.0
Care management revenue	0.4	1.0
Other revenue	2.1	4.0
	$275.4	$282.0

The performance obligation identified in the CHA-related customer contracts is the performance of a completed assessment as part of a series. The Company recognizes revenues for the completion of CHAs over time using cost-based input methods, in which significant judgment is required to evaluate assumptions including the amount of net contract revenues and the total estimated costs to determine the Company's progress toward contract completion and to calculate the corresponding amount of revenue to recognize. The Company believes that this method provides a realistic depiction of the transfer of services to the customer.

Payment is typically due from the customer upon delivery of the CHA results. As billing occurs after performance obligations have been satisfied, there are no contract liability balances, and contract asset balances arise from accounts receivable and revenue recognized in advance of billing. Such amounts are reflected as clinical assessment and other accounts receivable—net in the accompanying consolidated balance sheet.

Some customer contracts provide for variable service-level agreement bonuses and/or rebates that are tied to certain performance criteria and are settled at the end of the contract period. Because such amounts are immaterial and are not estimable, such amounts are constrained at the onset of the contract until such time that payment becomes probable. Probability of payment is based on, among other factors, the Company's historical experience.

The aggregate amount of the transaction price allocated to performance obligations that are partially unsatisfied at December 31, 2019, relates to CHAs that are in process at year-end. The aggregate amount of revenue yet to be billed for in-process CHAs was immaterial at December 31, 2019 and 2018 and is expected to be billed within one to two months after year-end.

Costs to obtain a contract consist of commissions and are recognized as the related revenues are recognized over the term of the related contract. Such amounts are immaterial.

Prior to the adoption of ASU No. 2014-09, revenue was recognized using the proportional performance method in the period in which the services are rendered. All costs associated with the acquisition of new customers or contracts were expensed as incurred.

Concentration of Credit Risk—For the years ended December 31, 2019, 2018, and 2017, two health plans made up approximately 57%, 53%, and 58% of net revenues, respectively. Accounts receivable from these two health plans at December 31, 2019 and 2018, were approximately 39% and 13%, respectively, of total accounts receivable.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could materially differ from those assumptions and estimates. The most significant assumptions and estimates underlying these consolidated financial statements and the accompanying notes involve the recognition of revenues and receivables, allowances for contractual discounts and uncollectible accounts, impairment of long-lived assets, accounting for income taxes, insurance reserves, fair value estimates, and share-based payments.

Cash and Cash Equivalents—The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are maintained at financial institutions, and at times, balances may exceed federally insured limits. At December 31, 2019 and 2018, the Company has $30.1 million and $23.2 million, respectively, of interest-bearing and non-interest-bearing cash balances with three financial institutions that exceed federally insured limits.

Accounts Receivable and Sales Allowance—The Company records accounts receivable amounts at the contractual amount, less an allowance for unbillable assessments. The Company maintains an allowance at an amount it estimates to be sufficient to cover the risk that an assessment will not be able to be billed and collected. The Company regularly evaluates its accounts receivable and reassesses its sales allowance based on updated information.

Sales allowance consists of the following (in millions):

Balance at January 1, 2017	$ 953
Provisions	173
Write-offs	(389)
Balance at December 31, 2017	$ 737
Balance at January 1, 2018	$ 737
Provisions	2,017
Write-offs	(444)
Balance at December 31, 2018	$ 2,310
Balance at January 1, 2019	$ 2,310
Provisions	1,304
Write-offs	(2,062)
Balance at December 31, 2019	$ 1,552

Property and Equipment—Property and equipment are recorded at cost, less accumulated depreciation, and are depreciated using the straight-line method over the following estimated useful lives of the related assets:

Computer applications	3 years
Computer equipment	3 years
Office equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	Shorter of lease term or 5 years
Vehicles and accessories	Shorter of lease term or 6 years
Medical equipment	5 years

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized. For items that are disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the consolidated statements of operations.

In accordance with ASC 360-10-35, *Impairment or Disposal of Long-Lived Assets*, the Company evaluates the carrying amount of its long-lived assets whenever changes in circumstances or events indicate that the value of such assets may not be fully recoverable. Long-lived assets include, for example, property and equipment and identifiable intangible assets. An impairment loss is recorded when the sum of the undiscounted future cash flows is less than the carrying amount of the asset and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

As a result of the process described above, the Company recorded a fixed asset impairment charge of $2.4 million for the year ended December 31, 2019. This amount is included in "Asset impairment charges" in the consolidated statements of operations. See Note 4. No fixed asset impairment charges were recorded for the years ended December 31, 2018 and 2017.

Software Development Costs—The Company capitalizes certain development costs incurred in connection with its internal-use software in accordance with ASC 350-40, *Internal-Use Software*. The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. Internal-use software is included as a component of property and equipment, and amortization begins when the computer software is ready for its intended use. Internal-use software is amortized on a straight-line basis over the estimated useful lives of the related software applications, which are generally three years.

For the years ended December 31, 2019 and 2018, $7.2 million, and $9.0 million, respectively, were capitalized as internally developed software, which is a component of computer software included in property and equipment.

Goodwill—Goodwill represents the excess of the purchase price over the fair value of tangible net assets of acquired businesses after amounts are allocated to other intangible assets.

In accordance with ASC 350-20, *Intangibles—Goodwill and Other*, the Company evaluates goodwill for impairment on an annual basis as of the first day of the fourth quarter of each calendar year-end and on an interim basis should events and circumstances warrant. To test for impairment, the Company first performs a qualitative assessment of relevant circumstances and events to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If this qualitative assessment indicates it is more likely than not the estimated fair value of a reporting unit exceeds its carrying value, no further analysis is required and goodwill is not impaired. Otherwise, the Company performs a quantitative goodwill impairment test to determine if goodwill is impaired. The quantitative test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds the carrying value of the net assets associated with that unit, goodwill is not considered impaired. If the carrying value of the net assets associated with the reporting unit exceeds the fair value of the reporting unit, goodwill is considered impaired and will be determined as the amount by which the reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Determining the fair value of the Company's reporting units is subjective in nature and involves the use of significant estimates and assumptions, including projected net cash flows, discount, and long-term growth rates. The Company determines the fair value of its reporting units based on an income approach, whereby the fair value of the reporting unit is derived from the present value of estimated future cash flows. The assumptions about estimated cash flows include factors such as future revenue, gross profit, operating expenses, and industry trends. The Company considers historical rates and current market conditions when determining the discount and long-term growth rates to use in its analysis. The Company considers other valuation methods, such as the cost approach or market approach, if it is determined that these methods provide a more representative approximation of fair value. Changes in these estimates based on evolving economic conditions or business strategies could result in material impairment charges in future periods. The Company bases its fair value estimates on assumptions it believes to be reasonable. Actual results may differ from those estimates.

As a result of the process described above, the Company recorded a goodwill impairment charge of $14.1 million for the year ended December 31, 2019. This amount is included in "Asset impairment charges" in the consolidated statements of operations. See Note 4. No goodwill impairment charges were recorded for the years ended December 31, 2018 and 2017.

Other Intangible Assets—Other intangible assets consist of customer relationships, trade names and trademarks, and developed technologies acquired in business combination transactions. Intangible assets (excluding indefinite-lived assets) are amortized over their estimated useful lives using the straight-line method.

In accordance with ASC 360-10-35, *Impairment or Disposal of Long-Lived Assets*, the Company evaluates the carrying amount of its long-lived assets whenever changes in circumstances or events indicate that the value of such assets may not be fully recoverable. Long-lived assets include, for example, property and equipment and identifiable intangible assets. An impairment loss is recorded when the sum of the undiscounted future cash flows is less than the carrying amount of the asset and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

As a result of the process described above, the Company recorded a long-lived intangible asset impairment charge of $38.6 million for the year ended December 31, 2019. This amount is included in "Asset impairment charges" in the consolidated statements of operations. See Note 4. No intangible asset impairment charges were recorded for the years ended December 31, 2018 and 2017.

Fair Value Measurements—The Company applies fair value accounting for assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring or nonrecurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The accounting framework for determining fair value includes a hierarchy for ranking the quality and reliability of the information used to measure fair value, which enables the reader of the consolidated financial statements to assess the inputs used to develop those measurements. The fair value hierarchy consists of three tiers as follows: Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3, defined as unobservable inputs that are not corroborated by market data. The Company applies Level 2 inputs to measure stock-based compensation using the grant date fair value of Series A-D unit awards. The Company also applied Level 3 inputs to measure the fair value of long-lived assets that were impaired for the year ended December 31, 2019. See Note 4.

The fair values of cash, accounts receivable, trade accounts payable, capital expenditures payable, and certain other current assets and accrued expenses approximate carrying values because of their short-term nature. Our assets and liabilities recorded at fair value on a recurring basis include cash equivalent money market funds. The carrying value of long-term debt (see Note 8) includes an amount recorded as debt discount that reduces

the unpaid principal balance of the debt to an amount that approximated fair value at December 31, 2019 and 2018. Interest on such debt is based on variable rates, which approximate borrowing rates currently available to the Company for long-term borrowings with similar terms and variable interest rates. This estimate may not be indicative of the amounts that the Company could realize in a current market exchange. Cash equivalent money market funds (Level 1) were $18.3 million and $6.1 million as of December 31, 2019 and 2018, respectively.

Operating Leases—The Company has certain operating leases for its vehicle fleet and its administrative facilities and office equipment in Arizona, Massachusetts, and Florida. Leases that do not transfer substantially all benefits and risks of ownership to the Company or meet any of the other criteria for capitalization are classified as operating leases. These lease payments are recognized as an expense on a straight-line basis over the lease term.

Debt Issuance Costs—Debt issuance costs are deferred and amortized to interest expense using the effective interest method over the term of the related debt. For the years ended December 31, 2019, 2018, and 2017, the Company recognized interest expense of $1.4 million, $1.5 million, and $1.5 million, respectively, from the amortization of debt issuance costs. Unamortized debt issuance costs are a reduction of current and long-term debt.

Defined Contribution Plans—The Company maintains defined contribution plans (the "Plans") for the benefit of eligible employees under the provision of Section 401(k) of the U.S. Internal Revenue Code (IRC). The Company provides matching contributions that vest over three years. Unvested matching contributions are forfeitable upon employee termination. Employee contributions are fully vested and nonforfeitable. The assets of the Plans are held separately from those of the Company and are independently managed and administered. The Company's contributions to the Plans were $1.2 million, $1.2 million, and $1.1 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Income Taxes—The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in its consolidated financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax law or rates.

While Mercury Parent is a pass-through entity, affiliates and subsidiaries in these consolidated financial statements are taxable entities, giving rise to the tax provisions contained in these consolidated financial statements.

The Company reviews its filing positions for all open tax years in all U.S. federal and state jurisdictions where it is required to file for uncertain tax positions. The Company recognizes a liability for each uncertain tax position at the amount estimated to be required to settle the issue. The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company recognized expense of $0.2 million, $0.2 million, and $0.3 million, during the years ended December 31, 2019, 2018, and 2017 respectively, related to uncertain tax positions.

Equity-Based Compensation—The Company accounts for equity-based compensation in accordance with ASC 718, *Compensation-Stock Compensation*. In accordance with ASC 718, equity-based compensation cost is measured at the grant date based on the fair value of the award and the Company accounts for forfeitures as they occur.

The Company uses an option-pricing model to determine the fair value of stock-based awards. The assumptions for expected terms were determined using the simplified method outlined in Staff Accounting Bulletin No. 110, as the Company does not have sufficient historical evidence for determining expected terms. The risk-free interest rate is based on the U.S. Treasury rates at the grant date with maturity dates approximately equal to the expected term at the grant date. The historical volatility of a representative group of peer companies' stock is used as the basis for the volatility assumption.

Related-Party Transactions

Management Fees—In 2016, the Company entered into a management services agreement with an affiliate of its majority member. As part of the agreement, the Company is also obligated to pay to its members an ongoing management fee that equals a combined 4% of consolidated EBITDA, as such term is defined in the agreement, to be distributed based upon each member's relative share of ownership.

The Company recognized management fee expense of $2.2 million, $5.0 million, and $3.1 million for the years ended December 31, 2019, 2018, and 2017, respectively. Included in the management fee expense for the year ended December 31, 2018, are transaction fees of $2.4 million paid to related parties for the HealthFair acquisition. Additionally, the Company incurred $0.6 million in consulting fees and related expenses for the CEO for the year ended December 31, 2019 and $0.8M in 2017 related to taxes paid by its minority member on the Company's behalf.

Leases—The Company leases one of its properties from the former owner of HealthFair. For the years ended December 31, 2019, and 2018, the Company paid $0.3 million and $0.3 million, respectively, in rent and taxes related to this property. This lease agreement was terminated as of December 31, 2019.

Deposits—For the year ended December 31, 2018, the Company repaid $1 million to the former owner of HealthFair for a bus deposit that the former owner funded prior to the acquisition of HealthFair.

Recent Accounting Pronouncements—In May 2014, the FASB issued ASU No. 2014-09. The core principle of ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delayed the effective date of ASU No. 2014-09 by one year. In 2016 and 2017, the FASB issued ASUs that amended several aspects of ASU No. 2014-09. ASU No. 2014-09, as amended, is effective for the Company beginning January 1, 2019, and allows for full retrospective or modified retrospective methods of adoption. The Company elected to adopt ASU No. 2014-09 early as of January 1, 2018, under the modified retrospective method. This adoption did not result in any change to revenue recognition for any of its revenue streams.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 will require lessees to recognize on the balance sheet the assets and liabilities for the

rights and obligations created by those leases. Under ASU No. 2016-02, a lessee will be required to recognize assets and liabilities for leases with terms of more than 12 months. Lessor accounting remains substantially similar to current GAAP. In addition, disclosures of leasing activities are to be expanded to include qualitative along with specific quantitative information. ASU No. 2016-02 will be effective beginning January 1, 2021 (with early adoption permitted).

The Company elected to adopt the standard beginning January 1, 2020 using the optional transition method prescribed by ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, whereby the Company will recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Under ASU 2016-02, the Company will recognize a right-of-use asset and a right-of-use liability for leases classified as operating leases in the consolidated balance sheet. The Company has applied the package of practical expedients when scoping and identifying leases and elected not to reassess the following: (i) whether any expired or existing contracts are or contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. The Company does not expect the adoption of the standard to have a material impact on the accounting for finance (capital) leases.

As of January 1, 2020, the Company expects to recognize a right-of-use liability for its operating leases of approximately $22.3 million classified as other accrued liabilities and other long-term liabilities and a corresponding right-of-use asset of approximately $20.9 million as other long-term assets in its consolidated balance sheet. The difference of $1.4 million reflects a reduction to the right-of-use asset for existing deferred rent balances, which will be reversed upon adoption of the new standard. The Company does not expect to recognize a material cumulative effect adjustment to retained earnings as of January 1, 2020 and does not expect the adoption of the standard to have a material impact on the consolidated statement of operations or consolidated statement of cash flows.

The Company assessed the disclosure requirements under ASU 2016-02, and anticipates disclosing additional information, as necessary, to comply with the standard.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. The Company adopted ASU No. 2016-15 on January 1, 2019. The adoption of this standard did not affect the Company's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU No. 2016-18 requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. The Company adopted ASU No. 2016-18 on January 1, 2019 applying a retrospective transition method to each period presented. As the Company does not have restricted cash, the adoption of this standard did not affect the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU No. 2017-04 simplifies the

accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. The amendment is effective for calendar year-end 2021, and early adoption is permitted. The Company early adopted ASU No. 2017-04 during 2018. The adoption of this standard did not affect the Company's consolidated financial statements for the year ended December 31, 2018.

Subsequent Events—The Company has evaluated all subsequent events that occurred after the consolidated balance sheet date through February 27, 2020, which represents the date the consolidated financial statements were available to be issued. The Company is not aware of any significant events that have not been disclosed herein that will have an impact on these consolidated financial statements.

3. ACQUISITIONS

HealthFair—On February 16, 2018, the Company acquired 100% of the equity interests of DPN USA, LLC ("HealthFair" or the "HF Membership Interests"). HealthFair is a health and wellness company whose primary service offering consists of utilizing mobile clinics to conduct CHAs.

Pursuant to the HF Membership Interest purchase agreement governing the transaction, the Company acquired all the assets and liabilities of HealthFair for an aggregate purchase price of $155.3 million, consisting of cash consideration of $124.7 million (inclusive of working capital adjustments) and the issuance of 24.2 million of the Company's Series B units with a fair value of $30.6 million.

The Company has accounted for this transaction as a purchase under ASC 805, *Business Combinations*. Accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their respective preliminary fair values at the date of the acquisition. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. The Company may adjust the preliminary purchase price allocation, as necessary, for up to one year after the acquisition closing date if it obtains more information regarding asset valuations and liabilities assumed.

The goodwill of $95.2 million resulting from this transaction is attributable to the synergies gained with the Company's existing business. Goodwill also includes an identified assembled workforce with an associated value of $3.3 million, which does not qualify for separate acquired asset recognition in a business combination. The goodwill recognized is expected to be partially deductible for tax purposes. The Company has determined that it will maintain one core reporting unit.

The following table summarizes the final allocation of the total purchase consideration at the date of the acquisition based on current estimates of the fair value of assets acquired and liabilities assumed:

Cash and cash equivalents	$ 0.9
Accounts receivable	7.1
Prepaid expenses and other current assets	1.7
Property and equipment	2.0
Intangible assets	55.0
Goodwill	95.2
Accrued liabilities	(2.0)
Other short-term liabilities	(1.9)
Deferred tax liability	(2.7)
	$155.3

Intangible assets in the table above include customer relationships of $53.5 million, developed technology of $1.4 million, and trademarks and trade names of $0.1 million that will be amortized over their useful lives of 10 years, 1.5 years, and 1 year, respectively.

See Note 4 regarding impairment charges related to the HealthFair acquisition.

LP Health—On November 30, 2017, the Company acquired 100% of the equity interests of LP Health Services, LLC and LP Health Network LLC (collectively, "LP Health" or the "LP Membership Interests"). Immediately prior to the transaction, the assets and liabilities related to the LP Membership Interests were owned by Munich Atlanta Financial Corporation and were contributed into the LP Membership Interests for the purpose of carving out the specific assets and liabilities to be sold. LP Health is a leading provider of quality and wellness visits on behalf of primarily Medicaid/Duals managed care plans via a national network of providers.

Pursuant to the LP Membership Interest purchase agreement governing the transaction, the Company acquired all the assets and liabilities of LP Health for an aggregate purchase price of $3.6 million of cash consideration after working capital adjustments and transaction expenses.

The Company has accounted for this transaction as a purchase under ASC 805. Accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their respective preliminary fair values at the date of the acquisition due to the proximity of the acquisition to the end of the year. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. The Company may adjust the preliminary purchase price allocation, as necessary, for up to one year after the acquisition closing date if it obtains more information regarding asset valuations and liabilities assumed.

The goodwill of $0.3 million resulting from this transaction is attributable to the synergies gained with the Company's existing business. Goodwill also includes an identified assembled workforce with an associated value of $0.3 million, which does not qualify for separate acquired asset recognition in a business combination. Adjustments to goodwill in 2018 of $0.6 million are the result of an intangible asset valuation adjustment and net working capital adjustments. The goodwill recognized is expected to be deductible for tax purposes. The Company has determined that it will maintain one core reporting unit.

The following table summarizes the allocation of the total purchase consideration at the date of the acquisition based on current estimates of the fair value of assets acquired and liabilities assumed:

Cash and cash equivalents	$ 0.3
Accounts receivable	1.2
Prepaid expenses and other current assets	0.2
Intangible assets	2.2
Goodwill	0.3
Accrued liabilities	(0.5)
Other short-term liabilities	(0.1)
	$ 3.6

Intangible assets in the table above consist of customer relationships of $1.6 million, developed technology of $0.6 million, and trademarks and trade names of $20 thousand that will be amortized over their useful lives of 10 years, 1 year, and 1 year, respectively. As part of a measurement period adjustment, the useful life for customer relationships changed from 8 to 10 years.

Due to the operating performance and long-term prospects of the LP business, the Company decided in the fourth quarter of 2019 to exit this business. All business activities will be terminated as of June 30, 2020. See Note 4 regarding impairment charges related to the LP Health acquisition.

4. IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the carrying value of long-lived assets when indicators of potential impairment exist. Such indicators include, but are not limited to, significant underperformance relative to expected, historical or projected future operating results; significant negative industry or economic trends; and significant changes in laws and regulations. Given the continued underperformance and overcapacity of the Company's HealthFair business, management determined impairment indicators were present as of October 1, 2019. As such, the Company performed an impairment analysis and recoverability test during the fourth quarter of 2019, which ultimately concluded the long-lived assets of the HealthFair business were impaired.

For the year ended December 31, 2019, the Company recorded total asset impairment charges related to the HealthFair and LP businesses of $55.1 million. The following table sets forth the carrying values and impairment charges of the affected assets as of the impairment date of October 1, 2019:

	Carrying Value	**Impairment**
Customer relationships (HealthFair)	$ 44.8	$ (37.3)
Customer relationships (LP)	1.3	(1.3)
Vehicles (HealthFair)	3.2	(1.0)
Other PP&E (HealthFair)	1.7	(1.4)
Goodwill	95.3	(14.1)
Total	$ 146.3	$ (55.1)

The Company determined the HealthFair business is the lowest level of separately identifiable cash flows and constitutes the asset group to be tested for impairment. The goodwill impairment was calculated at the reporting unit level for the consolidated entity. Based on recent sales transactions, the Company estimated the fair value of the vehicles to be approximately $2.1 million. The Company wrote the vehicles down to the estimated fair value and then allocated the remaining impairment among the long-lived assets of the group. The depreciable life of the remaining HealthFair customer list was also reduced to seven years during the fourth quarter of 2019.

5. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2019 and 2018, consist of the following (in millions):

	December 31, 2019	December 31, 2018
Computer equipment	$ 5.3	$ 5.8
Computer software	32.5	25.6
Furniture and fixtures	0.6	0.9
Office equipment	0.1	-
Leasehold improvements	0.8	0.6
Medical equipment	0.4	0.7
Vehicles	2.6	1.9
Work in process	1.8	1.6
	44.1	37.1
Accumulated depreciation	(25.8)	(15.8)
Property and equipment—net	$ 18.3	$ 21.3

Depreciation expense on property and equipment was $11.3 million, $9.6 million, and $6.2 million for the years ended December 31, 2019, 2018, and 2017, respectively. The Company recorded an impairment charge of $2.5 million to vehicles and other property, plant and equipment for the year ended December 31, 2019. See Note 4.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill of $434.4 million consists of $353.0 million attributable to the change of control transaction that occurred on October 19, 2016, $0.3 million attributable to the acquisition of LP Health that occurred on November 30, 2017, and $81.2 million associated with acquisition of HealthFair that occurred on February 16, 2018 (each of which are inclusive of measurement period adjustments and impairment. See Note 3. The Company recorded a goodwill impairment charge of $14.1 million for the year ended December 31, 2019. There were no goodwill impairment charges recognized for the years ended December 31, 2018 and 2017.

Goodwill consists of the following (in millions):

Balance at December 31, 2016	$ 351.4
Impairment losses	-
Measurement period adjustments	1.6
Acquisition	0.9
Balance at December 31, 2017	$ 353.9
Impairment losses	-
Measurement period adjustments	(0.6)
Acquisition	95.2
Balance at December 31, 2018	448.5
Impairment losses	(14.1)
Balance at December 31, 2019	$ 434.4
Goodwill Gross balance at December 31, 2019	448.5
Accumulated impairment losses	(14.1)
Net Goodwill balance at December 31, 2019	$ 434.4

Other intangible assets—net consist of the following (in millions):

	As of December 31, 2019			
	Gross Carrying Amount	**Accumulated Amortization**	**Impairment**	**Net Carrying Value**
Customer relationships	$ 190.6	$ (22.5)	$ (38.6)	$ 129.5
Developed technologies	26.4	(9.8)	-	16.6
Trade names and trademarks	31.4	-	-	31.4
	$ 248.4	$ (32.3)	$ (38.6)	$ 177.5

	As of December 31, 2018		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Value**
Customer relationships	$ 235.1	$ (44.5)	$ 190.6
Developed technologies	48.2	(21.8)	26.4
Trade names and trademarks	31.4	-	31.4
	$ 314.7	$ (66.3)	$ 248.4

At December 31, 2019, the remaining net book value of customer relationships and developed technologies is expected to be amortized over a weighted-average period of 6.7 years and 1.8 years, respectively. Trade names and trademarks are indefinite-lived intangible assets and are not subject to amortization, except for trade names and

trademarks acquired through the HealthFair and LP Health acquisitions, which are amortized over a useful life of one year.

Other intangible assets are amortized using the straight-line method over the following useful lives:

	Useful Life
Customer relationships	7 to 10 years
Developed technologies	1 to 5 years

The Company recognized amortization expense related to other intangible assets of $32.3 million, $33.5 million, and $27.3 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Estimated future amortization expense of the other intangible assets with finite lives is as follows for each of the fiscal years ending December 31 (in millions):

2020	$ 28.7
2021	26.8
2022	19.4
2023	19.4
2024	19.4
Thereafter	32.4
Total	$ 146.1

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in millions):

	December 31, 2019	**December 31, 2018**
Salaries, payroll taxes, and benefits	$ 7.4	$ 5.8
Accrued bonuses	4.2	2.5
Other accruals	10.2	9.8
Total accrued liabilities	$ 21.8	$ 18.1

8. LONG-TERM DEBT

Long-term debt consists of the following (in millions):

	December 31, 2019	December 31, 2018
Term loan	$ 325.1	$ 328.4
Unamortized debt issuance costs	(7.2)	(8.6)
Total term loan	317.9	319.8
Less current portion of long-term debt	1.9	1.9
Long-term debt—net of current portion	$ 316.0	$ 317.9

In 2018, the Company conducted a refinancing of its existing term and line of credit facilities, with its existing lenders. The revised credit facility agreement is with two national banks and provides for an initial term loan facility in the amount of $330 million and a revolving credit line of $20 million. The term loan bears interest at a rate of London InterBank Offered Rate (LIBOR) plus 4.75% (6.45% at December 31, 2019). Principal and interest payments are due and payable quarterly through the maturity date of February 16, 2025. The Company incurred debt issuance costs of $5.4 million, which have been recorded as a direct reduction to the carrying value of the loan and will be amortized over the life of the loan. The Company analyzed the terms of this refinancing and determined that it constitutes a modification under the guidance of ASC 470, *Debt*. Under this guidance, the existing unamortized debt issuance costs of $4.5 million associated with the continuing lender are being amortized over the life of the new credit facilities and $1.1 million associated with the lender that was replaced were expensed. As a result of the modification, the Company recorded $2.5 million in finance restructuring charges of which $1.4 million related to debt issuance costs paid to third parties and $1.1 million related to write-offs of existing term facilities' debt issuance costs.

Total amortization of debt issuance costs was $1.4 million, $1.5 million, and $1.5 million for the years ended December 31, 2019, 2018, and 2017, respectively. As of December 31, 2019 and 2018, unamortized debt issuance costs were $7.2 million and $8.6 million, respectively. The revolving credit line has a variable interest rate that adjusts to the Company's secured net leverage ratio. The interest rate of the revolving credit line is LIBOR plus 4.75%. The unused portion of the revolving credit line is subject to a commitment fee rate up to 0.5%. Commitment fees incurred on the revolving credit line were $101 thousand, $88 thousand, and $37 thousand for the years ended December 31, 2019, 2018, and 2017, respectively.

The Company was in compliance with debt covenants as of December 31, 2019 and 2018.

Annual maturities of long-term debt are as follows for the years ending December 31 (in millions):

2020	$ 3.3
2021	3.3
2022	3.3
2023	3.3
2024	3.3
Thereafter	308.6
Total	$ 325.1

9. INCOME TAXES

The components of the Company's income tax provision are as follows (in millions):

	Year Ended December 31, 2019	**Year Ended December 31, 2018**	**Year Ended December 31, 2017**
Current:			
Federal	$ 3.3	$ 2.6	$ 4.2
State—net of state tax credits	1.3	1.1	0.7
Total current	4.6	3.7	4.9
Deferred:			
Federal	(16.8)	(7.2)	(29.0)
State	(4.3)	(3.7)	(5.5)
Total deferred	(21.1)	(10.9)	(34.5)
Total income tax benefit	$ (16.5)	$ (7.2)	$ (29.6)

A reconciliation of the provision for income taxes with the expected provision for income taxes computed by applying the federal statutory income tax rate of 21% in 2019 and 2018 and 35% for 2017 to the net loss before provision for income taxes is as follows (in millions):

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
Federal income tax at statutory rate	$ (18.0)	$ (5.7)	$ (0.9)
State income tax benefit—net of federal income tax effect	(4.7)	(1.4)	-
Change in blended rate	1.0	(1.3)	(29.2)
Research and development tax credits	(1.4)	(1.1)	(1.1)
Goodwill impairment	3.7	-	-
Non-deductible expenses	0.2	0.1	0.1
Change in uncertain tax positions	0.2	0.2	0.3
Change in valuation allowance	1.6	0.7	0.6
Mercury Parent, LLC equity compensation	0.4	0.5	0.8
Other—net	0.5	0.8	(0.2)
Total income tax benefit	$ (16.5)	$ (7.2)	$ (29.6)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows (in millions):

	December 31, 2019	December 31, 2018
Deferred tax assets:		
Accrued incentive compensation	$ 1.1	$ 0.6
Other reserves and accruals	2.7	1.6
Loss carryforwards	1.9	1.0
Credit carryforwards	4.7	3.1
Interest limitation	7.4	4.4
Total deferred tax assets	17.8	10.7
Deferred tax liabilities:		
Goodwill—tax amortization	(1.9)	(0.7)
Intangible assets	(36.1)	(53.3)
Fixed assets	(3.9)	(4.4)
Deferred financing costs	(0.5)	(0.6)
Total deferred tax liabilities	(42.4)	(59.0)
Valuation allowance	(6.6)	(4.1)
Net deferred tax liabilities	$ (31.2)	$ (52.4)

At December 31, 2019, the Company has Arizona and California state research and development tax credits of $6.0 million available to offset future income taxes, if any, for those jurisdictions. The Arizona research and development tax credits will begin to expire in 2026. The California research and development tax credits may be carried forward indefinitely.

Deferred tax assets arise primarily because expenses have been recorded in historical financial statement periods that will not become taxable for income taxes until future years. The Company records valuation allowances to reduce the book value of the deferred tax assets to amounts that are estimated on a more likely than not basis to be realized. The valuation allowance of $6.6 million and $4.1 million at December 31, 2019 and 2018, respectively, relates to separate legal entities that operate at breakeven for tax purposes, state research and development credits, and state net operating losses.

The Company has gross federal and state net operating loss carryforwards of $6.5 million and $9.3 million, respectively, at December 31, 2019. Federal net operating loss carryforwards will begin to expire in 2026 while the state net operating losses will begin to expire in 2022. The Company has a gross interest limitation carryforward of $29.2 million under Section 163(j) for federal tax purposes at December 31, 2019. The Section 163(j) interest may be carried forward indefinitely.

Under IRC Section 382 ("Section 382"), the annual utilization of the Company's federal net operating loss carryforwards, state research and developmental credits, and federal IRC Section 163(j) interest expense carryforward may be limited. The Company has determined that the annual limitation did not affect net operating loss, research and development, or interest expense utilization in 2019.

The Company is currently under audit in Minnesota for CCHN Group Holdings, Inc. and Regional Physician Services of Minnesota, P.C. The Company does not expect the audits to have a material adverse effect on the consolidated financial position, results of operations, or cash flows.

With exceptions due to the generation and utilization of net operating losses or credits, as of December 31, 2019, the CCHN Group Holdings, Inc. and subsidiaries and the affiliated entities are no longer subject to federal or state examinations by taxing authorities for tax years before 2016 and 2015, respectively.

The Company expects no material amount of the unrecognized tax benefits to be recognized during the next 12 months. The Company's policy is to recognize interest and penalties accrued on unrecognized tax benefits as a component of income tax expense. The Company has accrued interest and penalties of $98 thousand. A reconciliation of the liability for unrecognized income tax benefits is as follows:

	December 31, 2019	December 31, 2018
Unrecognized tax benefits—beginning of year	$ 1.5	$ 1.1
Increase related to prior-year tax positions	-	0.1
Increase related to current-year tax positions	0.3	0.3
Unrecognized tax benefits—end of year	$ 1.8	$ 1.5

10. MEMBERS' EQUITY

Capital Structure—At December 31, 2019, Mercury Parent had an authorized capital structure consisting of the following units:

- Common A units—353.5 million units authorized and outstanding, voting rights, liquidation preference of $1 per unit
- Common B units—24.2 million units authorized and outstanding, voting rights, liquidation preference of $1.267 per unit
- Series A units—39.1 million units authorized, no voting rights, participation in distributions in excess of $1 per common unit
- Series B units—18.2 million units authorized, no voting rights, participation in distributions in excess of $2 per common unit
- Series C units—14.8 million units authorized, no voting rights, participation in distributions in excess of $3 per common unit
- Series D units—15.9 million units authorized, no voting rights, participation in distributions in excess of $4 per common unit

For the year ended December 31, 2019, the Company issued an aggregate of 0.5 million Common A units to its members in exchange for proceeds of $0.5 million. In October 2019, the Company repurchased 3.8 million Series A units, 1.8 million Series B units, 1.4 million Series C units and 1.6 million Series D units for an aggregate cost of $0.4 million.

For the year ended December 31, 2018, the Company issued an aggregate of 24.2 million of the Company's Common B units with a fair value of $30.6 million as partial consideration for the acquisition of HealthFair. See Note 3 for further description of the transaction. For the year ended December 31, 2017, the Company issued an aggregate of 1.4 million common A units to its members in exchange for proceeds of $1.4 million.

Equity-Based Compensation—On October 19, 2016, the Company's board of directors adopted a Value Unit Plan (the "Plan") for certain executives within the Company. The Plan provides for awarding of up to 39.1 million Series A units, 18.2 million Series B units, 14.8 million Series C units, and 15.9 million Series D units, with each series of units being nonvoting and vesting at a rate of 25% after the first-year anniversary of the date of grant and 1/36 of the remaining to be vested in each successive month following the first-year anniversary. Each of the units shall participate in distributions provided that minimum value thresholds are met as defined in the Plan. At December 31, 2019, there were 12.2 million of Series A units, 3.5 million of Series B units, 2.9 million of Series C units, and 3.1 million of Series D units available for issuance under the Plan.

The fair value of each Plan unit was established at the date of award based on an option-pricing model using the following assumptions:

	Years Ended December 31,	
	2019	**2018**
Risk-free interest rate	1.56 %	2.86 %
Expected term	2.0 years	2.5 years
Volatility	70.00 %	60.00 %

The risk-free interest rate was based on the U.S. Federal Reserve rate in effect as of the date of grant, which corresponds to the expected term of the award. The expected term was based on management's estimated time to a transaction event, such as a sale, initial public offering, and recapitalization. The volatility was based on historical data for a group of peer companies for the expected term of the award.

The following is the activity for the awards for the years ended December 31, 2019, 2018, and 2017:

	Series A Units	Fair Value per Unit	Series B Units	Fair Value per Unit	Series C Units	Fair Value per Unit	Series D Units	Fair Value Per Unit
Awards outstanding at December 31, 2016	28,845,525	$0.27	13,416,522	$0.13	10,911,028	$0.07	11,729,354	$0.04
Awards granted	1,074,333	0.27	499,690	0.13	406,374	0.07	436,852	0.04
Awards forfeited	(2,295,167)	0.27	(1,067,519)	0.13	(868,163)	0.07	(933,275)	0.04
Awards outstanding at December 31, 2017	27,624,691	0.27	12,848,693	0.13	10,449,239	0.07	11,232,931	0.04
Awards granted	462,434	0.27	363,411	0.13	295,545	0.07	317,711	0.04
Awards forfeited	(935,972)	0.27	(435,336)	0.13	(354,038)	0.07	(380,591)	0.04
Awards repurchased	(138,361)	0.27	(64,354)	0.13	(52,336)	0.07	(56,261)	0.04
Awards outstanding at December 31, 2018	27,012,792	0.27	12,712,414	0.13	10,338,410	0.07	11,113,790	0.04
Awards granted	10,348,663	0.19	7,222,792	0.08	5,873,956	0.04	6,314,505	0.02
Awards forfeited	(6,615,810)	0.19	(3,490,721)	0.08	(2,838,840)	0.04	(3,051,753)	0.02
Awards repurchased	(3,832,417)	0.19	(1,782,520)	0.08	(1,449,639)	0.04	(1,558,362)	0.02
Awards outstanding at December 31, 2019	26,913,228	0.19	14,661,965	0.08	11,923,888	0.04	12,818,180	0.02
Awards vested and expected to vest at December 31, 2019	26,913,228	0.19	14,661,965	0.08	11,923,888	0.04	12,818,180	0.02
Awards vested at December 31, 2019	16,846,088	0.19	8,238,188	0.08	6,699,732	0.04	7,201,176	0.02

The Company issues the respective equity units upon reaching the vesting date. The grant-date fair value of all unit awards granted under the Plan during the years ended December 31, 2019, 2018, and 2017, was $6.7 million, $0.2 million, and $0.2 million, respectively. During the years ended December 31, 2019, 2018, and 2017, the Company recognized $1.6 million, $2.5 million, and $2.5 million, respectively, of compensation expense for these awards. All compensation expense is included in service expense in the consolidated statements of operations. Unrecognized compensation expense related to the Plan as of December 31, 2019, was $5.2 million, which is expected to be recognized over a weighted-average period of 1.49 years. All awards are classified as equity.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Company leases office space in Arizona, California, Massachusetts, and Florida under operating leases that expire through 2027. These leases contain rent escalation clauses that have been factored into determining rent expense on a straight-line basis over the respective lease term. Rent expense under these leases totaled $3.6 million, $3.1 million, and $2.5 million for the years ended December 31, 2019, 2018, and 2017, respectively. The Company subleased its office space in California, for which it received income of $0.2 million and $0.1 million for the years ended December 31, 2018 and 2017, respectively. No rental income was received in 2019 as the sublease ended as of December 31, 2018, and the property is no longer occupied by the Company as of April 30, 2019. The Company has subleased its office space in Boston and will begin receiving rental income in 2020.

In September 2012, the Company entered into a master lease agreement with a vehicle fleet service company. This agreement has a base term of one year and will continue indefinitely thereafter until canceled or terminated by either party. The minimum lease term for each vehicle is 367 days, beginning on the Company's acceptance of the vehicle. Thereafter, the lease term may be renewed monthly for the lesser of the maximum lease term (up to 96 months) or the amortization term set in the respective vehicle order. Lease expense for the fleet lease was $4.2 million, $4.1 million, and $3.7 million, for the years ended December 31, 2019, 2018, and 2017, respectively.

At December 31, 2019, the approximate future minimum rental payments under the noncancelable operating leases for the years ending December 31 are as follows (in millions, net of expected subleases):

2020	$ 8.0
2021	5.5
2022	5.3
2023	3.4
2024	1.0
Thereafter	-
Total	$ 23.2

Capital Leases—The Company has capital leases for equipment and mobile clinics that expire through 2024. These leases are depreciated on a straight-line basis over the respective lease term. Depreciation expense under these leases totaled $0.5 million and $0.1 million for the years ended December 31, 2019 and 2018.

At December 31, 2019, the gross amounts of assets recorded under equipment and mobile clinic capital leases were $81 thousand and $3.5 million, respectively. At December 31, 2019, the accumulated depreciation of assets recorded under equipment and mobile clinic capital leases was $16 thousand and $0.5 million, respectively. At December 31, 2019, the current-term and long-term liabilities related to capital leases were $0.6 million and $2.4 million, respectively, which are included in other short-term liabilities and other long-term liabilities, respectively.

At December 31, 2019, the approximate future minimum lease payments under the capital leases for the years ending December 31 are as follows (in millions):

2020	$ 0.7
2021	0.7
2022	0.7
2023	0.7
2024	0.6
Total	3.4
Management fees	(0.1)
Imputed interest	(0.4)
Capital lease obligation	$ 2.9

In connection with certain strategic operating decisions to downsize the HealthFair business, the Company has plans to early terminate several of the capital leases for mobile equipment and certain operating leases, which will require a cash outlay that exceeds the carrying value of the leases. As such, during 2019, the Company recorded a contingent liability of $1.9 million reflected within Accrued Liabilities-Current in the accompanying consolidated balance sheet and a corresponding charge to "Loss contingency" in the accompanying consolidated statement of operations. Of this total liability, $1.3 million relates to the termination of operating leases, and $0.6 million relates to the termination of capital leases. The Company expects to terminate the leases over the next several years.

Severance Agreements—The Company has entered into employment and termination agreements with key personnel that obligate the Company for salary continuation upon termination without cause. The Company incurred $2.1 million, $0.8 million, and $0.5 million of severance costs for the years ended December 31, 2019, 2018, and 2017, respectively. At December 31, 2019 and 2018, the Company had $1.7 million and $0.2 million in accrued severance costs, respectively. In January 2020, the Company was notified by a client that they would not be providing membership in a certain geographic market. As services will no longer be provided in this area, the Company reduced the nurse practitioner workforce.

Bonus Incentive Plan—In 2016, the Company implemented a bonus plan. Under the plan, an aggregate of $8.8 million was paid to certain employees, with 50% paid on the 60-day anniversary of the change of control transaction and the other 50% paid on the six-month anniversary of the transaction. Such amounts were subject to continued employment. The Company recognized $2.7 million of bonus expense and paid $4.4 million related to this plan for the year ended December 31, 2017. No expenses were incurred and no payments were made under the plan for the year ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the Company had no accrued liabilities related to this plan.

Management Incentive Plan—The Company has a bonus incentive plan available for certain managers and executives of the Company. The bonus incentive plan is based on individual personal performance goals and the financial results of the Company, which include certain benchmark thresholds that are determined annually to establish a baseline pool of the amounts to be distributed to the eligible participants. If the Company does not meet the requirements as defined annually by the board of directors, the baseline pool is established for distribution based on a sliding scale. Further, the distribution of the bonus amounts is based at least in part on the individual performance of the eligible participants. For the years ended December 31, 2019, 2018, and 2017, the Company incurred $4.1 million, $2 million, and $1.5 million, respectively, of management incentive costs. At December 31, 2019 and 2018, the Company had $4.0 million and $2.2 million, respectively, in accrued management incentive costs.

Cash Bonus Plan—In connection with Providence's acquisition of CCHN on October 23, 2014, a seller-funded $5 million bonus pool was established for the benefit of certain Company employees. Plan amounts are held in escrow with escrow releases each time amounts are paid under the plan. Original awards under the plan are to be paid 25%, 25%, and 50% on the first, second, and third anniversaries of the acquisition. Amounts under the plan were reallocated upon forfeiture with reallocation awards paid on or before December 31, 2017. For the year ended 2017, the Company incurred $1.6 million of bonus expense. As of December 31, 2017, all such amounts have been paid.

Laws and Regulations—The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, Medicare and Medicaid fraud and abuse, false claims, and disguised payments in exchange for the referral of patients. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care service providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretations.

The Health Insurance Portability and Accountability Act (HIPAA) was enacted on August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Effective August 2009, the Health Information Technology for Economic and Clinical Health Act was introduced imposing notification requirements in the event of certain security breaches relating to protected health information. Organizations are required to be in compliance with HIPAA provisions and are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations.

Legal—The Company is a party to certain legal actions against the Company arising in the ordinary course of business. The Company believes that potential liability, if any, under these claims will not have a material adverse effect on the consolidated financial position, results of operations, or cash flows.

As of December 31, 2019, the Company is defending six open legal matters: One longstanding medical malpractice lawsuit that arose from operations involving a business that was discontinued in 2012; two EEOC discrimination charges, one Florida Civil Rights Act (FCRA) action; and two Telephone Consumer Protection Act (TCPA) class action lawsuits. The Company does not believe the aggregate amount of liability that could be reasonably possible with respect to these lawsuits would have a material adverse effect on its financial results.

Additionally, the Company is a party to four lawsuits involving the acquisition of the HealthFair business, including one action filed by the Company against the HealthFair Sellers. On April 2, 2019, the Company filed suit against the HealthFair Sellers for breach of contract in connection with the Securities Purchase Agreement dated January 4, 2018. The HealthFair Sellers filed a counterclaim against the Company in that action. Discovery is ongoing in those cases. As of December 31, 2019, the Company believes that potential liability, if any, under these actions will not have a material adverse effect on the consolidated financial position, results of operations, or cash flows.

Insurance—The Company has established and maintained a fully funded, no deductible workers' compensation plan (in all states, except Ohio and Washington as stated previously). The Company also maintains a self-insured medical plan. Other health care benefits, such as vision and dental, remained fully insured.

Determining reserves for losses in these self-insured programs involves significant judgments based upon the Company's experience and expectations of future events, including projected settlements for pending claims, known incidents that may result in claims, estimate of incurred but not yet reported claims, estimated litigation costs, and other factors. Since these reserves are based on estimates, actual expenses may differ from the amount reserved. The Company had $77 thousand, $78 thousand, and

$11 thousand of estimated workers' compensation plan expenses and $1.4 million, and $0.7 million, and $0.8 million estimated medical plan expenses included in accrued liabilities at December 31, 2019 and 2018, respectively.

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