

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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

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

Commission File Number 001-34221

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**The Providence Service Corporation**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

06902  
(Zip Code)

(203) 307-2800  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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 Exchange Act).  Yes  No

As of August 6, 2018, there were outstanding 12,809,314 shares (excluding treasury shares of 4,968,899) of the registrant's Common Stock, \$0.001 par value per share.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2018	December 31, 2017
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 29,700	\$ 95,310
Accounts receivable, net of allowance of \$5,811 in 2018 and \$5,762 in 2017	184,313	158,926
Other receivables	5,366	5,759
Prepaid expenses and other	52,961	35,243
Restricted cash	1,868	1,091
Current assets held for sale	14,872	—
Total current assets	289,080	296,329
Property and equipment, net	47,450	50,377
Goodwill	121,138	121,668
Intangible assets, net	39,303	43,939
Equity investments	165,988	169,912
Other assets	10,296	12,028
Restricted cash, less current portion	3,260	5,205
Deferred tax asset	3,720	4,632
Total assets	\$ 680,235	\$ 704,090
<b>Liabilities, redeemable convertible preferred stock and stockholders' equity</b>		
Current liabilities:		
Current portion of long-term obligations	\$ 1,714	\$ 2,400
Accounts payable	24,956	15,404
Accrued expenses	84,292	103,838
Accrued transportation costs	94,077	83,588
Deferred revenue	30,004	17,381
Reinsurance and related liability reserves	5,646	4,319
Current liabilities held for sale	14,872	—
Total current liabilities	255,561	226,930
Long-term obligations, less current portion	507	584
Other long-term liabilities	16,085	21,386
Deferred tax liabilities	38,722	41,627
Total liabilities	310,875	290,527
Commitments and contingencies (Note 14)		
<b>Redeemable convertible preferred stock</b>		
Convertible preferred stock, net: Authorized 10,000,000 shares; \$0.001 par value; 802,159 and 803,200 issued and outstanding; 5.5%/8.5% dividend rate	77,445	77,546
<b>Stockholders' equity</b>		
Common stock: Authorized 40,000,000 shares; \$0.001 par value; 17,775,131 and 17,473,598 issued and outstanding (including treasury shares)	18	17
Additional paid-in capital	330,009	313,955
Retained earnings	202,548	204,818
Accumulated other comprehensive loss, net of tax	(27,846)	(25,805)
Treasury shares, at cost, 4,968,758 and 4,126,132 shares	(210,802)	(154,803)
Total Providence stockholders' equity	293,927	338,182
Noncontrolling interest	(2,012)	(2,165)
Total stockholders' equity	291,915	336,017
Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$ 680,235	\$ 704,090

See accompanying notes to the unaudited condensed consolidated financial statements

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

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Service revenue, net	\$ 411,794	\$ 407,983	\$ 817,840	\$ 807,477
<b>Operating expenses:</b>				
Service expense	385,071	377,036	756,306	746,446
General and administrative expense	19,278	18,048	37,691	35,076
Asset impairment charge	9,881	—	9,881	—
Depreciation and amortization	6,878	6,900	13,677	13,169
Total operating expenses	421,108	401,984	817,555	794,691
Operating income (loss)	(9,314)	5,999	285	12,786
<b>Other expenses:</b>				
Interest expense, net	245	329	570	681
Equity in net (gain) loss of investees	147	(1,530)	2,468	530
Loss (gain) on foreign currency transactions	(6)	463	(629)	400
Income (loss) from continuing operations before income taxes	(9,700)	6,737	(2,124)	11,175
Provision for income taxes	1,654	2,879	3,496	5,402
Income (loss) from continuing operations, net of tax	(11,354)	3,858	(5,620)	5,773
Discontinued operations, net of tax	(49)	(117)	(57)	(5,984)
Net income (loss)	(11,403)	3,741	(5,677)	(211)
Net loss (income) attributable to noncontrolling interests	188	174	(108)	(200)
Net income (loss) attributable to Providence	\$ (11,215)	\$ 3,915	\$ (5,785)	\$ (411)
Net income (loss) available to common stockholders (Note 12)	\$ (12,321)	\$ 2,434	\$ (7,980)	\$ (3,037)
<b>Basic earnings (loss) per common share:</b>				
Continuing operations	\$ (0.94)	\$ 0.19	\$ (0.61)	\$ 0.22
Discontinued operations	(0.01)	(0.01)	—	(0.44)
Basic earnings (loss) per common share	\$ (0.95)	\$ 0.18	\$ (0.61)	\$ (0.22)
<b>Diluted earnings (loss) per common share:</b>				
Continuing operations	\$ (0.94)	\$ 0.19	\$ (0.61)	\$ 0.22
Discontinued operations	(0.01)	(0.01)	—	(0.44)
Diluted earnings (loss) per common share	\$ (0.95)	\$ 0.18	\$ (0.61)	\$ (0.22)
<b>Weighted-average number of common shares outstanding:</b>				
Basic	13,008,106	13,553,704	13,056,765	13,628,572
Diluted	13,008,106	13,607,576	13,056,765	13,687,183

See accompanying notes to the unaudited condensed consolidated financial statements

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

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net income (loss)	\$ (11,403)	\$ 3,741	\$ (5,677)	\$ (211)
Net loss (income) attributable to noncontrolling interest	188	174	(108)	(200)
Net income (loss) attributable to Providence	(11,215)	3,915	(5,785)	(411)
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	(3,967)	3,225	(2,041)	4,426
Other comprehensive income (loss)	(3,967)	3,225	(2,041)	4,426
Comprehensive income (loss)	(15,370)	6,966	(7,718)	4,215
Comprehensive loss (income) attributable to noncontrolling interest	62	264	(153)	(87)
Comprehensive income (loss) attributable to Providence	\$ (15,308)	\$ 7,230	\$ (7,871)	\$ 4,128

See accompanying notes to the unaudited condensed consolidated financial statements

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

	<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Net (loss) income	\$ (5,677)	\$ (211)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,565	9,245
Amortization	4,112	3,924
Asset impairment charge	9,881	—
Provision for doubtful accounts	197	1,082
Stock-based compensation	4,278	3,021
Deferred income taxes	(2,665)	(6,733)
Amortization of deferred financing costs and debt discount	308	349
Equity in net loss of investees	2,468	530
Other non-cash charges (credits)	(605)	403
Changes in operating assets and liabilities:		
Accounts receivable	(33,993)	(8,949)
Prepaid expenses and other	(10,967)	(3,485)
Reinsurance and related liability reserve	(1,294)	(4,874)
Accounts payable and accrued expenses	(4,865)	(1,716)
Accrued transportation costs	10,489	11,456
Deferred revenue	10,780	2,896
Other long-term liabilities	72	2,325
Net cash (used in) provided by operating activities	(7,916)	9,263
<b>Investing activities</b>		
Purchase of property and equipment	(8,792)	(10,745)
Net increase from short-term investments	—	300
Loan to joint venture	—	(566)
Proceeds from note receivable	3,130	—
Net cash used in investing activities	(5,662)	(11,011)
<b>Financing activities</b>		
Preferred stock dividends	(2,190)	(2,191)
Repurchase of common stock, for treasury	(55,999)	(18,754)
Proceeds from common stock issued pursuant to stock option exercise	12,405	1,028
Performance restricted stock surrendered for employee tax payment	(429)	(96)
Capital lease payments and other	(1,793)	(738)
Net cash used in financing activities	(48,006)	(20,751)
Effect of exchange rate changes on cash	(53)	606
Net change in cash and cash equivalents	(61,637)	(21,893)
Cash, cash equivalents and restricted cash at beginning of period	101,606	86,392
Cash, cash equivalents and restricted cash at end of period	\$ 39,969	\$ 64,499
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 588	\$ 714
Cash paid for income taxes	\$ 9,462	\$ 7,736
Purchase of equipment through capital lease obligation	\$ 677	\$ —

See accompanying notes to the unaudited condensed consolidated financial statements



**The Providence Service Corporation**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**June 30, 2018**  
(in thousands except years, share and per share data)

**1. Organization and Basis of Presentation**

***Description of Business***

The Providence Service Corporation (“we”, the “Company” or “Providence”) owns subsidiaries and investments primarily engaged in the provision of healthcare services in the United States and workforce development services internationally. The subsidiaries and other investments in which the Company holds interests comprise the following segments:

- Non-Emergency Transportation Services (“NET Services”) – Nationwide manager of non-emergency medical transportation (“NET”) programs for state governments and managed care organizations.
- Workforce Development Services (“WD Services”) – Global provider of employment preparation and placement services, legal offender rehabilitation services, youth community service programs and certain health related services to eligible participants of government sponsored programs.
- Matrix Investment – Minority interest in CCHN Group Holdings, Inc. and its subsidiaries (“Matrix”), accounted for as an equity method investment. Matrix offers a national network of community-based clinicians who deliver in-home services for members, including comprehensive health assessments (“CHAs”), and a fleet of mobile health clinics with advanced diagnostic capabilities. On February 16, 2018, Matrix acquired HealthFair.

In addition to its segments’ operations, the Corporate and Other segment includes the Company’s activities at its corporate office that include executive, accounting, finance, internal audit, tax, legal, public reporting, certain strategic and corporate development functions and the results of the Company’s captive insurance company. On April 11, 2018, the Company announced an organizational consolidation plan to integrate substantially all activities and functions performed at the corporate holding company level into its wholly-owned subsidiary, LogistiCare. See Note 8, *Restructuring and Related Reorganization Costs*, for further information.

***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 non-SEC accounting and reporting standards to be applied by non-governmental entities. All amounts are presented in United States (“U.S.”) dollars, unless otherwise noted.

The Company’s unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for the fair presentation of the results of the interim periods have been included.

The Company has made estimates relating to the reporting of assets and liabilities, revenues and expenses and certain disclosures to prepare these unaudited condensed consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018. Management has evaluated events and transactions that occurred after the balance sheet date and through the date these unaudited condensed consolidated financial statements were filed, and considered the effect of such events in the preparation of these unaudited condensed consolidated financial statements.

The condensed consolidated balance sheet at December 31, 2017 has been derived from the audited financial statements at that date, but does not include all the information and footnotes required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements contained herein should be read in conjunction with the audited financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

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

**Reclassifications**

We have reclassified certain amounts relating to our prior period results to conform to our current period presentation. See Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, for additional information on reclassifications.

**2. Significant Accounting Policies and Recent Accounting Pronouncements**

The Company adopted the following accounting pronouncements during the six months ended June 30, 2018:

In May 2014, the FASB issued Accounting Standards Update ("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 is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. The core principle of ASC 606 is 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 requires 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 allows 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. Upon adoption of ASU 2014-09, the cumulative effect of the changes made to the Company's condensed consolidated balance sheet as of January 1, 2018 were as follows:

	<b>Balance at December 31, 2017</b>	<b>Adjustments due to ASU 2014-09</b>	<b>Balance at January 1, 2018</b>
<b>Assets</b>			
Prepaid expenses and other	\$ 35,243	\$ 11,182	\$ 46,425
<b>Liabilities</b>			
Accrued expenses	103,838	2,330	106,168
Deferred revenue	17,381	3,112	20,493
Deferred tax liability	41,627	30	41,657
<b>Equity</b>			
Retained earnings, net of tax	204,818	5,710	210,528

The impact of applying the new revenue recognition guidance on the Company's condensed consolidated statements of income for the three and six months ended June 30, 2018, and balance sheet as of June 30, 2018, was as follows:

Statements of Income	Three months ended June 30, 2018		Six months ended June 30, 2018	
	As Reported	Pro forma as if the previous accounting guidance was in effect	As Reported	Pro forma as if the previous accounting guidance was in effect
Service revenue, net	\$ 411,794	\$ 416,059	\$ 817,840	\$ 831,407
Service expense	385,071	389,198	756,306	766,283
Operating income (loss)	(9,314)	(9,176)	285	3,875
Income (loss) from continuing operations before taxes	(9,700)	(9,562)	(2,124)	1,466
Net loss attributable to Providence	(11,215)	(11,089)	(5,785)	(2,990)
Diluted loss per share	\$ (0.95)	\$ (0.94)	\$ (0.61)	\$ (0.40)

  

Balance Sheet	June 30, 2018	
	As Reported	Pro forma as if the previous accounting guidance was in effect
Prepaid expenses and other	\$ 52,961	\$ 42,042
Accrued expenses	84,292	82,717
Deferred revenue	30,004	22,917
Deferred tax liabilities	38,722	39,386
Retained earnings, net of tax	202,548	199,628

The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. See further information in Note 3, *Revenue Recognition*.

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 2016-15"). ASU 2016-15 provides guidance for eight targeted changes with respect to how cash receipts and cash payments are classified in the statements of cash flows, with the objective of reducing diversity in practice. ASU 2016-15 is effective for financial statements issued for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2016-15 on January 1, 2018. The adoption did not have a significant impact on 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 2016-18"). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for public entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period; however, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. ASU 2016-18 must be adopted retrospectively. The Company adopted ASU 2016-18 on January 1, 2018. As a result of the adoption of ASU 2016-18, the Company recast its condensed consolidated statement of cash flows for the six months ended June 30, 2017. The recast resulted in an increase in cash used in investing activities of \$6,216. See additional information in Note 4, *Cash, Cash Equivalents and Restricted Cash*.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"). ASU 2017-09 provides guidance about which changes to the terms of a share-based payment award should be accounted for as a modification. A change to an award should be accounted for as a modification unless the fair value of the modified award is the same as the original award, the vesting conditions do not change, and the classification as an equity or liability instrument does not change. This guidance is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The Company adopted ASU 2017-09 on January 1, 2018. The adoption of ASU 2017-09 did not have a material impact on the Company's consolidated financial statements.

Updates to the recent accounting pronouncements as disclosed in the Company's Form 10-K for the year ended December 31, 2017 are as follows:

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 will replace 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"), which is intended to reduce costs and ease implementation of the leases standard for financial statement preparers. ASU 2018-11 provides a new transition method and a practical expedient for separating components of a contract.

Under ASC 842, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

ASU 2016-02, ASU 2018-10 and ASU 2018-11 are effective for publicly held entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Lessees may apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, or the lessee may initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The modified retrospective approach does not require transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach.

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. The Company is assessing the impact of adopting ASC 842. It has assembled a cross-functional project team and commenced its adoption plan, which will require modifications and enhancements to the Company's information systems and internal controls. The Company's assessment of the related financial impact is ongoing and, therefore, the Company has not yet determined whether the impact will be material to the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)* ("ASU 2016-13"). The amendments in 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. The amendments in ASU 2016-13 affect 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 Company is currently evaluating the impact of ASU 2016-13 on its consolidated financial statements.

There were no other significant updates to the new accounting guidance not yet adopted by the Company as disclosed in its Form 10-K for the year ended December 31, 2017.

### **3. Revenue Recognition**

Under ASC 606, 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.

### Disaggregation of Revenue

The following table summarizes disaggregated revenue from contracts with customers for the three and six months ended June 30, 2018 by contract type for NET Services:

	<b>Three months ended June 30, 2018</b>	<b>Six months ended June 30, 2018</b>
State Medicaid agency contracts	\$ 183,459	\$ 360,748
Managed care organization contracts	160,278	319,685
<b>Total NET Services revenue, net</b>	<b>\$ 343,737</b>	<b>\$ 680,433</b>
Capitated contracts	\$ 286,994	\$ 571,395
Non-capitated contracts	56,743	109,038
<b>Total NET Services revenue, net</b>	<b>\$ 343,737</b>	<b>\$ 680,433</b>

The following table summarizes disaggregated revenue from contracts with customers for the three and six months ended June 30, 2018 by revenue category for WD Services:

	<b>Three months ended June 30, 2018</b>	<b>Six months ended June 30, 2018</b>
Employment preparation and placement services	\$ 44,372	\$ 86,395
Legal offender rehabilitation services	17,637	40,849
Other	6,048	10,163
<b>Total WD Services revenue, net</b>	<b>\$ 68,057</b>	<b>\$ 137,407</b>

The following table summarizes disaggregated revenue from contracts with customers for the three and six months ended June 30, 2018 by geographic region:

	<b>Three months ended June 30, 2018</b>			
	<b>United States</b>	<b>United Kingdom</b>	<b>Other Foreign</b>	<b>Total</b>
NET Services	\$ 343,737	\$ —	\$ —	\$ 343,737
WD Services	4,629	34,364	29,064	68,057
<b>Total</b>	<b>\$ 348,366</b>	<b>\$ 34,364</b>	<b>\$ 29,064</b>	<b>\$ 411,794</b>
	<b>Six months ended June 30, 2018</b>			
	<b>United States</b>	<b>United Kingdom</b>	<b>Other Foreign</b>	<b>Total</b>
NET Services	\$ 680,433	\$ —	\$ —	\$ 680,433
WD Services	9,041	74,450	53,916	137,407
<b>Total</b>	<b>\$ 689,474</b>	<b>\$ 74,450</b>	<b>\$ 53,916</b>	<b>\$ 817,840</b>

### NET Services Revenue

NET Services provides non-emergency transportation services pursuant to contractual commitments over defined service delivery periods. For most contracts, NET Services arranges for transportation of members through its network of independent transportation providers, whereby it remits payment to the transportation providers. However, for certain contracts, NET Services only provides 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.

These contracts typically include single performance obligations under which NET Services stands 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. NET Services' 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, NET Services is the principal in its arrangements because it controls the services before transferring those services to the customer.

NET Services primarily uses the 'as invoiced' practical expedient to recognize revenue because it typically has the right to consideration from customers in an amount that corresponds directly with the value of its performance to date. This is consistent with NET Services' historical revenue recognition policy. NET Services recognizes revenue for some of its 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 NET Services contracts are deemed to be short-term in nature.

Some of NET Services' contracts include provisions whereby it must provide certain levels of service or face potential penalties or be required to refund fees paid by the customer. For those contracts, NET Services' records a provision to reduce revenue to reflect the amount to which it expects it will ultimately be entitled.

The only financial impact for NET Services of adopting ASU 2014-09 was the determination it is the agent under one of its contracts based on the new guidance, whereas it previously considered itself the principal in the arrangement. Consequently, NET Services now recognizes revenue under the specific contract on a net basis, which resulted in reduced revenue and service expense of \$3,464 and \$7,401 during the three and six months ended June 30, 2018, respectively.

During the three and six months ended June 30, 2018, NET Services recognized negative \$1,007 and positive \$5,685, respectively, from performance obligations satisfied in previous periods due to the resolution of contractual adjustments agreed with the customer.

#### *WD Services Revenue*

WD Services provides workforce development and offender rehabilitation services, which include employment preparation and placement, as well as apprenticeship and training, youth community service programs and certain health related services to clients on behalf of governmental and private entities pursuant to contractual commitments over defined service delivery periods. While the specific terms vary by contract, WD Services often receives four types of revenue streams under contracts with government entities: referral/attachment fees, job placement/job outcome fees, sustainment fees and incentive fees (collectively, "outcome fees").

Most of WD Services' contracts include a single promise to stand ready to deliver pre-defined services. WD Services concluded its performance obligations comprise a series of distinct monthly services that are substantially the same and which are transferred to the customer in the same manner. Accordingly, the monthly promise to stand ready is accounted for as a single performance obligation. Substantially all of WD Services' contracts include variable consideration, whereby it earns revenues if certain contractually-defined outcomes occur in the future. As the related performance obligations are satisfied, WD Services recognizes revenue for those outcomes in proportion to the amount of the related fees it estimates have been earned. The amount of revenue is based upon WD Services' estimate of the final amount of outcome fees to be earned. WD Services evaluates probability generally using the expected value method because the likelihood it will be entitled to variable fees is binary in nature. These estimates consider i) contractual rates, ii) assumed success rates and iii) assumed participant life on program. Generally, each of these estimates is based upon historical results, although for new contracts, other factors may be considered. At each reporting period, WD Services updates its estimate of variable consideration based on actual results or other relevant information and records an adjustment to revenue based upon services performed to date. For some of WD Services' contracts, it recognizes revenue as it invoices customers because the amount to which it is entitled to invoice approximates the fair value of the services transferred.

WD Services constrains its estimates of variable consideration by reducing those estimates to amounts it believes with sufficient confidence will not later result in a significant reversal of revenue. When determining if variable consideration should be constrained, management considers whether there are factors outside WD Services' control that could result in a significant reversal of revenue. In making these assessments, WD Services considers the likelihood and magnitude of a potential reversal of revenue.

For some of WD Services' contracts, WD Services accrues for potential penalties it could incur as a result of not meeting certain performance targets. These penalties are estimated based on expectations from historical results. During the three months ended June 30, 2018, our subsidiary, The Reducing Reoffending Partnership Limited ("RRP"), along with other providers of probation services, obtained further clarity on the recommendations resulting from the UK probation services review, including

the measurement of frequency and binary recidivism measures and the related income and penalties. Although the final agreement has not been signed, as a result of this clarification, RRP was able to calculate a reasonable estimate of its liability, recording a reduction of revenue of \$1,928 during the three months ended June 30, 2018. In addition, based upon current performance trends, the Company estimates it will incur additional penalties over the remainder of the contract through 2020, and such amounts will be recorded as an offset to revenue earned over such periods, based upon ASC 606. The Company believes it will have the opportunity to earn additional income based upon the final amendment, but such amounts will be recorded in the future as services are provided.

Under the new standard, for certain contracts in which WD Services receives up-front fees or fixed monthly fees, WD Services may recognize revenue over a different period than under historical guidance, which may include a longer period of time. In addition, WD Services may recognize revenue for outcome fees earlier than under historical guidance, as WD Services previously recognized those revenues only upon final resolution of the outcome, at which point the related invoice was issued. Thus, the new standard results in a greater degree of estimation for outcome-based fees, and to a lesser extent, fixed fees.

During the three and six months ended June 30, 2018, WD Services recognized \$3,833 and \$4,342, respectively, from performance obligations satisfied in previous periods, based upon final resolution of amounts with the customer.

#### **Related Balance Sheet Accounts**

*Accounts receivable, net* - 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 receivable, 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. In addition, certain government entities which WD Services serves remit payment substantially beyond the payment terms. For example, under WD Services' employability contract in Saudi Arabia, certain receivable balances are significantly past due. The Company monitors these amounts due to the aging of receivables, taking into account discussions with the customer and other considerations, and generally believes the balances are collectible. However, factors within those government entities could change and there can be no assurance that such changes would not result in an inability to collect the receivables.

The following table provides information about accounts receivable, net as of June 30, 2018 and December 31, 2017:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Accounts receivable	\$ 138,441	\$ 122,634
NET Services' reconciliation contract receivable	51,683	42,054
Allowance for doubtful accounts	(5,811)	(5,762)
	<u>\$ 184,313</u>	<u>\$ 158,926</u>

*Contract assets* - Primarily reflects estimated revenue expected to be billed, as the Company does not have the unconditional right to invoice these amounts. We receive payments from customers based on the terms established in our contracts. The balance of \$7,986 is included in Prepaid expenses and other in the condensed consolidated balance sheet at June 30, 2018.

*NET Services accrued contract payments* - Includes liabilities related to certain contracts of NET Services for which final payment is based on a reconciliation of actual utilization and cost, and the final reconciliation may require a considerable period of time. The balance is included in Accrued liabilities in the condensed consolidated balance sheet. The balance at June 30, 2018 and December 31, 2017 totaled \$13,619 and \$17,487, respectively.

*Deferred Revenue* - Includes funds received for certain services in advance of services being rendered. The balance at June 30, 2018 and December 31, 2017 totaled \$30,004 and \$17,381, respectively. The increase in the deferred revenue balance from December 31, 2017 to June 30, 2018 is primarily driven by cash payments received or due in advance of satisfying our performance obligations, including the impact of the adoption of the revenue recognition standard, as revenue under the WD Services youth services contract is now fully deferred until the courses are offered in the summer and fall. During the six months ended June 30, 2018, \$7,432 of revenue deferred as of December 31, 2017 was recognized.

### **Costs to Obtain and Fulfill a Contract**

The Company capitalizes costs incurred to fulfill its contracts that i) relate directly to the contract; ii) are expected to generate resources that will be used to satisfy the Company's performance obligation under the contract; and iii) are expected to be recovered through revenue generated under the contract. Contract fulfillment costs are expensed to service expense as the Company satisfies its performance obligations. These costs, which are classified in "Prepaid expenses and other" on the condensed consolidated balance sheets, principally relate to costs deferred for work performed by sub-contractors under WD Services' contracts that will be used in satisfying future performance obligations. These deferred costs totaled \$12,606 and \$2,543 at June 30, 2018 and December 31, 2017, respectively.

### **Practical Expedients, Exemptions and Other Matters**

We do not incur significant sales commissions expenses. Any amounts are expensed as incurred. These costs are recorded within service expense in the condensed consolidated statements of income.

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 for 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 condensed consolidated balance sheets to the amounts shown in the condensed consolidated statements of cash flows:

	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Cash and cash equivalents	\$ 29,700	\$ 56,583
Restricted cash, current	1,868	1,461
Current assets held for sale (cash)	5,141	—
Restricted cash, less current portion	3,260	6,455
Cash, cash equivalents and restricted cash	<u>\$ 39,969</u>	<u>\$ 64,499</u>

Restricted cash primarily relates to amounts held in trusts for reinsurance claims losses under the Company's Captive 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. Cash recorded as an asset held for sale relates to the sale of our Ingeus France business. See Note 17, *Assets Held for Sale*, for additional information.

### **5. Equity Investment**

#### **Matrix**

As of June 30, 2018 and December 31, 2017, the Company owned a 43.6% and 46.6% noncontrolling interest in Matrix, respectively. The Company's ownership decreased as a result of the rollover of certain equity interests in HealthFair, which Matrix acquired on February 16, 2018. 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 (gain) loss of investees" in the accompanying condensed consolidated statements of income.

The carrying amount of the assets included in the Company's condensed consolidated balance sheet and the maximum loss exposure related to the Company's interest in Matrix as of June 30, 2018 and December 31, 2017 totaled \$165,731 and \$169,699, respectively.



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

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Current assets	\$ 61,053	\$ 37,563
Long-term assets	740,387	597,613
Current liabilities	34,121	27,718
Long-term liabilities	371,847	240,513
	<b>Three months ended June 30, 2018</b>	<b>Three months ended June 30, 2017</b>
Revenue	\$ 78,409	\$ 60,852
Operating income	4,627	5,942
Net (loss) income	(869)	1,619
	<b>Six months ended June 30, 2018</b>	<b>Six months ended June 30, 2017</b>
Revenue	145,839	116,707
Operating income	3,838	6,950
Net loss	(9,387)	(238)

Included in Matrix's standalone net loss for the three months ended June 30, 2018 are depreciation and amortization of \$9,359, interest expense of \$5,940, equity compensation of \$863, management fees paid to certain of Matrix's shareholders of \$697, merger and acquisition related diligence costs of \$77, integration costs of \$1,097, and an income tax benefit of \$444. Included in Matrix's standalone net loss for the six months ended June 30, 2018 are depreciation and amortization of \$18,411, interest expense of \$16,283, including \$6,288 related to the amortization of deferred financing costs primarily resulting from the refinancing of Matrix debt facility, equity compensation of \$1,600, management fees paid to certain of Matrix's shareholders of \$3,754, merger and acquisition related diligence costs of \$2,246 primarily related to the first quarter acquisition of HealthFair, integration costs of \$1,532, and an income tax benefit of \$3,058.

Included in Matrix's standalone net loss for the three months ended June 30, 2017 were transaction bonuses and other transaction related costs of \$523, equity compensation of \$620, depreciation and amortization of \$8,127, interest expense of \$3,658 and an income tax expense of \$665. Included in Matrix's standalone net loss for the six months ended June 30, 2017 were transaction bonuses and other transaction related costs of \$3,518, equity compensation of \$1,262, depreciation and amortization of \$16,160, interest expense of \$7,264 and an income tax benefit of \$76.

## 6. Prepaid Expenses and Other

Prepaid expenses and other were comprised of the following:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Prepaid income taxes	\$ 2,659	\$ 1,106
Escrow funds	10,000	10,000
Contract asset	7,986	—
Prepaid insurance	1,714	2,121
Prepaid taxes and licenses	2,566	906
Note receivable	—	3,224
Prepaid rent	2,034	2,268
Deposits held for leased premises and bonds	2,119	2,849
Costs to fulfill a contract	12,606	2,543
Other	11,277	10,226
Total prepaid expenses and other	\$ 52,961	\$ 35,243

Escrow funds represent amounts related to indemnification claims from the sale of the Human Services segment, which was completed on November 1, 2015. The Company has accrued \$15,000 as a contingent liability for the settlement of indemnification claims, which is included in “Accrued expenses” in the condensed consolidated balance sheet as of June 30, 2018 and December 31, 2017. The escrow funds will be used to satisfy a portion of this settlement. See Note 14, *Commitments and Contingencies*, for further information. “Contract asset” and “Costs to fulfill a contract” in the table above relate to the adoption of ASC 606, as described in Note 3, *Revenue Recognition*.

## 7. Accrued Expenses

Accrued expenses consisted of the following:

	June 30, 2018	December 31, 2017
Accrued compensation	\$ 11,319	\$ 29,715
NET Services accrued contract payments	13,619	17,487
Accrued settlement	15,000	15,000
Accrued cash settled stock-based compensation	7,328	3,938
Income taxes payable	410	3,723
Other	36,616	33,975
Total accrued expenses	<u>\$ 84,292</u>	<u>\$ 103,838</u>

## 8. Restructuring and Related Reorganization Costs

### *Corporate and Other*

On April 11, 2018, the Company announced an organizational consolidation plan to integrate substantially all activities and functions performed at the corporate holding company level into its wholly-owned subsidiary, LogistiCare. As part of the organizational consolidation process, the Company’s Stamford, CT headquarters and Tucson, AZ satellite office will be closed. The Company adopted an employee retention plan designed to incentivize current holding company level employees to remain employed with the Company during the transition. The employee retention plan became effective on April 9, 2018 and covers the holding company level employees and provides for certain payments and benefits to be provided to the employees if they remain employed with the Company through a retention date established for each individual, subject to a fully executed retention letter. The organizational consolidation is expected to be completed by the middle of 2019.

As of June 30, 2018, the Company estimates that it will incur aggregate pre-tax restructuring charges of approximately \$8,400 through June 30, 2019 in connection with the organizational consolidation discussed above. These charges include approximately \$4,400 related to retention and personnel costs, \$2,000 related to acceleration of stock-based compensation, \$600 related to accelerated depreciation and \$1,400 related to other costs, including lease termination and recruiting costs. A total of \$2,634 restructuring and related costs have been incurred during the three months ended June 30, 2018 related to the organizational consolidation. These costs include \$708 of retention costs, \$1,450 of accelerated stock-based compensation expense, including the immediate expensing of \$1,273 related to the forfeiture of awards by the CEO, \$146 of accelerated depreciation and \$330 of other costs, primarily related to recruiting. A total of \$3,082 restructuring and related costs have been incurred during the six months ended June 30, 2018 related to the organizational consolidation. These costs include \$708 of retention costs, \$1,450 of accelerated stock-based compensation expense, \$146 of accelerated depreciation and \$778 of other costs. These costs are recorded as “General and administrative expense” and “Depreciation and amortization” in the accompanying condensed consolidated statements of income.

### *Summary of Liability for Corporate and Other Restructuring and Related Charges*

	January 1, 2018	Costs Incurred	Cash Payments	June 30, 2018
Retention liability	\$ —	\$ 708	\$ —	\$ 708
Other liability	—	778	(578)	200
Total	<u>\$ —</u>	<u>\$ 1,486</u>	<u>\$ (578)</u>	<u>\$ 908</u>

The total restructuring liability at June 30, 2018 includes \$903 classified as “Accrued expenses” and \$5 classified as “Accounts payable” in the condensed consolidated balance sheet.

#### *WD Services*

WD Services has two active redundancy programs at June 30, 2018. During the year ended December 31, 2017, WD Services had four redundancy programs. Of these four redundancy plans, two redundancy plans were approved in 2015: a plan related to the termination of employees delivering services under an offender rehabilitation program (“Offender Rehabilitation Program”), which has been completed, and a plan related to the termination of employees delivering services under the Company’s employability and skills training programs and certain other employees in the United Kingdom (“UK Restructuring Program”). In addition, a redundancy plan related to the termination of employees as part of a value enhancement project (“Ingeus Futures Program”) to better align costs at Ingeus with revenue and to improve overall operating performance was approved in 2016 and began a second phase during the three months ended March 31, 2018. Further, a redundancy program to align costs with revenue for offender rehabilitation services (“Delivery First Program”) was approved in the fourth quarter of 2017, and a second phase of this program began in the second quarter of 2018. The Company recorded severance and related charges of \$2,400 and \$859 during the six months ended June 30, 2018 and 2017, respectively, relating to the termination benefits for employee groups and specifically identified employees impacted by these plans. The severance charges incurred are recorded as “Service expense” in the accompanying condensed consolidated statements of income.

The initial estimate of severance and related charges for the plans was based upon the employee groups impacted, average salary and benefits, and redundancy benefits pursuant to the existing policies. Additional charges above the initial estimates, or additional phases of the plan, were incurred for the redundancy plans during the six months ended June 30, 2018 and 2017 related to the actualization of termination benefits for specifically identified employees impacted under these plans, as well as an increase in the number of individuals impacted by these plans. The final identification of the employees impacted by each program is subject to customary consultation procedures. In addition, additional phases of value enhancement projects may be undertaken in the future, if costs and revenue are not aligned.

#### *Summary of Liability for WD Services Severance and Related Charges*

	<b>January 1, 2018</b>	<b>Costs Incurred</b>	<b>Cash Payments</b>	<b>Foreign Exchange Rate Adjustments</b>	<b>June 30, 2018</b>
Ingeus Futures Program	\$ 482	\$ 1,226	\$ (1,463)	\$ (30)	\$ 215
Delivery First Program	1,287	1,174	(1,297)	14	1,178
Total	<u>\$ 1,769</u>	<u>\$ 2,400</u>	<u>\$ (2,760)</u>	<u>\$ (16)</u>	<u>\$ 1,393</u>
	<b>January 1, 2017</b>	<b>Costs Incurred</b>	<b>Cash Payments</b>	<b>Foreign Exchange Rate Adjustments</b>	<b>June 30, 2017</b>
Ingeus Futures Program	\$ 2,486	\$ 836	\$ (2,341)	\$ 130	\$ 1,111
Offender Rehabilitation Program	1,380	52	(1,295)	18	155
UK Restructuring Program	50	(29)	—	2	23
Total	<u>\$ 3,916</u>	<u>\$ 859</u>	<u>\$ (3,636)</u>	<u>\$ 150</u>	<u>\$ 1,289</u>

The total of accrued severance and related costs of \$1,393 is reflected in “Accrued expenses” in the condensed consolidated balance sheet at June 30, 2018. The amount accrued as of June 30, 2018 is expected to be settled principally by the end of 2018. Additionally, in conjunction with the second phase of the Ingeus Futures Program, the Company incurred \$295 of expense during the six months ended June 30, 2018 primarily related to property and equipment costs.

#### **9. Debt**

On June 7, 2018, the Company and certain of its subsidiaries entered into the Fifth Amendment to the Amended and Restated Credit and Guaranty Agreement (the “Amendment”), amending the Amended and Restated Credit and Guaranty

Agreement dated as of August 2, 2013 (as amended to date, the “Credit Agreement”), by and among the Company, 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.

The Amendment extends the maturity date of the Credit Agreement to August 2, 2019. The Amendment also amends certain covenants under the Credit Agreement to provide for greater operational, financial and strategic flexibility, including the implementation of the Company’s organizational consolidation plan. The Company had no amounts outstanding under the Credit Agreement on June 30, 2018.

## 10. Stockholders’ Equity

The following table reflects changes in common stock, additional paid-in capital, retained earnings, accumulated other comprehensive loss, treasury stock and noncontrolling interest for the six months ended June 30, 2018:

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Non-controlling Interest	Total
	Shares	Amount				Shares	Amount		
Balance at December 31, 2017	17,473,598	\$ 17	\$ 313,955	\$ 204,818	\$ (25,805)	4,126,132	\$ (154,803)	\$ (2,165)	\$ 336,017
Stock-based compensation	—	—	4,439	—	—	—	—	—	4,439
Exercise of employee stock options	265,793	1	11,661	—	—	—	—	—	11,662
Restricted stock issued	26,989	—	(320)	—	—	3,907	(246)	—	(566)
Performance restricted stock issued	3,110	—	(109)	—	—	—	—	—	(109)
Shares issued for bonus settlement and director stipend	3,033	—	150	—	—	—	—	—	150
Stock repurchase plan	—	—	—	—	—	838,719	(55,753)	—	(55,753)
Conversion of convertible preferred stock to common stock	2,608	—	105	(5)	—	—	—	—	100
Foreign currency translation adjustments, net of tax	—	—	—	—	(2,041)	—	—	45	(1,996)
Convertible preferred stock dividends	—	—	—	(2,190)	—	—	—	—	(2,190)
Noncontrolling interests	—	—	—	—	—	—	—	108	108
Other	—	—	128	—	—	—	—	—	128
Net income attributable to Providence	—	—	—	(5,785)	—	—	—	—	(5,785)
Cumulative effect adjustment from change in accounting principle	—	—	—	5,710	—	—	—	—	5,710
Balance at June 30, 2018	17,775,131	\$ 18	\$ 330,009	\$ 202,548	\$ (27,846)	4,968,758	\$ (210,802)	\$ (2,012)	\$ 291,915

### Share Repurchases

On March 29, 2018, the Board of Directors (“Board”) authorized an increase in the amount available for stock repurchases under the Company’s existing stock repurchase program by \$77,794, and extended the existing stock repurchase program through June 30, 2019 (as amended and extended, the “Stock Repurchase Program”). As of June 30, 2018, approximately \$81,177 remains for additional repurchases by the Company under the Stock Repurchase Program, excluding commission payments. The share repurchases may be made from time-to-time through a combination of open market repurchases (including Rule 10b5-1 plans), privately negotiated transactions, accelerated share repurchase transactions and other derivative transactions. The timing, number and amount of any shares repurchased will be determined by the Company’s officers at their discretion, and as permitted by securities laws, covenants under existing bank agreements and other legal requirements, and will be based on a number of factors, including an evaluation of general market and economic conditions and the trading price of the common stock. The Stock Repurchase Program may be suspended or discontinued at any time without prior notice.

## 11. Stock-Based Compensation and Similar Arrangements

The Company provides stock-based compensation to employees and non-employee directors under the Company’s 2006 Long-Term Incentive Plan (“2006 Plan”). Typical awards issued under this plan include stock option awards, restricted stock awards (“RSAs”) and performance based restricted stock units (“PRSU”).

The following table reflects the amount of stock-based compensation, for share settled awards, recorded in each financial statement line item for the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Service expense	\$ 39	\$ 110	\$ 94	\$ 234
General and administrative expense	3,302	1,445	4,184	2,787
Equity in net loss of investees	102	13	161	40
Total stock-based compensation	\$ 3,443	\$ 1,568	\$ 4,439	\$ 3,061

At June 30, 2018, the Company had 635,995 stock options outstanding with a weighted-average exercise price of \$61.81. The Company also had 53,958 shares of unvested RSAs outstanding at June 30, 2018 with a weighted-average grant date fair value, as modified, of \$54.58.

#### *Awards Granted and Modified in Conjunction with the Organizational Consolidation*

In connection with the organizational consolidation plan, the Company entered into an agreement with R. Carter Pate for his continued employment as the Company's Interim CEO through June 30, 2019. The agreement also provides for a grant of unvested options to purchase up to 394,000 shares of the Company's common stock, at a price of \$71.67 per share, which was the closing price of the Company's common stock on the grant date. The options are subject to vesting as follows: (i) 50% of the options will become vested if Mr. Pate remains employed by the Company through June 30, 2019 (the "Time-Vesting Options"), (ii) 25% of the options will become vested on March 31, 2019 if the Company has achieved its budget for its 2018 fiscal year, subject to certain adjustments, and Mr. Pate is then employed, and (iii) 25% of the options will become vested on March 31, 2019 subject to Mr. Pate's achievement of other performance metrics if Mr. Pate is then employed. In addition, the Time-Vesting Options will become fully vested upon a "change in control" (as defined in the 2006 Plan) or a termination of Mr. Pate's employment by the Company without "cause" (as defined in the Company's 2015 Holding Company LTI Program) or for "good reason" (as defined in the Option Agreement). Once vested, the options will remain exercisable until April 8, 2021, unless terminated earlier due to a termination of Mr. Pate's employment for "cause". In recognition of certain holding company employees' essential contributions to the success of the Company, and to encourage further alignment with the Company's long-term interests through the ownership of equity, Mr. Pate voluntarily set aside 98,500 of the options granted to him, representing 25% of his total award. The value of the awards of \$1,273 was fully expensed in the three months ended June 30, 2018. The Compensation Committee of the Board expects to grant at a later date restricted stock awards equivalent in value to the options voluntarily set aside by Mr. Pate, to employees based upon their performance throughout the organizational consolidation process.

Also in connection with the organizational consolidation plan and his appointment as Interim CFO, on April 9, 2018, William Severance received an option to purchase 13,710 shares of common stock at a price of \$71.67 per share, which was the closing price of the Company's common stock on the grant date. The options will become fully exercisable on May 10, 2019, subject to Mr. Severance's continued employment with the Company, and if not exercised will expire on December 31, 2020.

In addition, as part of the Company's retention plan associated with the organizational consolidation plan, the Company provided that unvested share based awards to employees subject to the retention plan will vest in full upon their termination dates so long as those employees fulfill their service obligation to the Company under the retention plan. As such, the vesting terms of 9,966 restricted stock awards and 11,035 stock options were modified. Additionally, the exercise terms of the respective unvested stock options were modified to allow for exercise through December 31, 2020. As a result of the modifications, the Company revalued the awards as of April 9, 2018, and is expensing the unrecognized stock-based compensation cost, based on the new fair value, through the termination date of each relevant employee. Additional expense incurred during the three and six months ended June 30, 2018, as a result of the modification, totaled \$177. See Note 8, *Restructuring and Related Reorganization Costs*, for additional information.

#### *Cash Settled Awards*

The Company also grants stock equivalent unit awards ("SEUs") and stock option equivalent units that are cash settled awards and are not included as part of the 2006 Plan. During the three and six months ended June 30, 2018, respectively, the Company recorded \$1,795 and \$3,626 of stock-based compensation expense for cash settled awards. During the three and six months ended June 30, 2017, respectively, the Company recorded \$564 and \$1,231 of stock-based compensation expense for cash settled awards. The expense for cash settled awards is included as "General and administrative expense" in the accompanying condensed consolidated statements of income. As the instruments are accounted for as liability awards, the expense recorded for

the three and six months ended June 30, 2018 and 2017 is almost entirely attributable to the Company's increase in stock price from the previous reporting period. The liability for unexercised cash settled share-based payment awards of \$7,328 and \$3,938 at June 30, 2018 and December 31, 2017, respectively, are reflected in "Accrued expenses" in the condensed consolidated balance sheets. At June 30, 2018, the Company had 5,202 SEUs and 200,000 stock option equivalent units outstanding.

#### *Vertical Long-Term Incentive Plans*

The Company also provides cash settled long-term incentive plans for executive management and key employees of its operating segments. For the three and six months ended June 30, 2018, expenses of \$57 and \$114, respectively, are included as "Service expense" in the condensed consolidated statements of income related to an ongoing long-term incentive plan for NET Services. For the three and six months ended June 30, 2017, a benefit of \$401 and expense of \$144, respectively, are included as "Service expense" in the condensed consolidated statements of income related to an ongoing long-term incentive plan for NET Services. At June 30, 2018 and December 31, 2017, the liability for this plan of \$997 and \$2,657, respectively, is reflected in "Accrued expenses" and "Other long-term liabilities" in the condensed consolidated balance sheet.

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 ended 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. As of June 30, 2018, 65.5% of the awards have been issued under the LogistiCare LTIP. No expense has been incurred for this plan during the six months ended June 30, 2018.

## 12. Earnings Per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
<b>Numerator:</b>				
Net income attributable to Providence	\$ (11,215)	\$ 3,915	\$ (5,785)	\$ (411)
Less dividends on convertible preferred stock	(1,106)	(1,102)	(2,195)	(2,191)
Less income allocated to participating securities	—	(379)	—	(435)
Net income (loss) available to common stockholders	<u>\$ (12,321)</u>	<u>\$ 2,434</u>	<u>\$ (7,980)</u>	<u>\$ (3,037)</u>
Continuing operations	\$ (12,272)	\$ 2,551	\$ (7,923)	\$ 2,947
Discontinued operations	(49)	(117)	(57)	(5,984)
	<u>\$ (12,321)</u>	<u>\$ 2,434</u>	<u>\$ (7,980)</u>	<u>\$ (3,037)</u>
<b>Denominator:</b>				
Denominator for basic earnings per share -- weighted-average shares	13,008,106	13,553,704	13,056,765	13,628,572
<b>Effect of dilutive securities:</b>				
Common stock options	—	48,836	—	53,575
Performance-based restricted stock units	—	5,036	—	5,036
Denominator for diluted earnings per share -- adjusted weighted-average shares assumed conversion	<u>13,008,106</u>	<u>13,607,576</u>	<u>13,056,765</u>	<u>13,687,183</u>
<b>Basic earnings (loss) per share:</b>				
Continuing operations	\$ (0.94)	\$ 0.19	\$ (0.61)	\$ 0.22
Discontinued operations	(0.01)	(0.01)	—	(0.44)
	<u>\$ (0.95)</u>	<u>\$ 0.18</u>	<u>\$ (0.61)</u>	<u>\$ (0.22)</u>
<b>Diluted earnings (loss) per share:</b>				
Continuing operations	\$ (0.94)	\$ 0.19	\$ (0.61)	\$ 0.22
Discontinued operations	(0.01)	(0.01)	—	(0.44)
	<u>\$ (0.95)</u>	<u>\$ 0.18</u>	<u>\$ (0.61)</u>	<u>\$ (0.22)</u>

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:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Stock options to purchase common stock	386,721	46,478	238,806	144,811
Convertible preferred stock	803,165	803,398	803,182	803,398

### 13. Income Taxes

The Company's effective tax rate from continuing operations for the three and six months ended June 30, 2018 was negative 17.1% and negative 164.6%, respectively. The Company's effective tax rate from continuing operations for the three and six months ended 2017 was 42.7% and 48.3%, respectively. The effective tax rate for the three and six months ended June 30, 2018 was less than the U.S. federal statutory rate of 21% primarily due to foreign net operating losses for which the future income tax benefit cannot be currently recognized, as well as WD Services impairment charge of \$9,202, which contributes to the tax basis in WD Services but does not generate a current tax benefit. The effective tax rate for the three and six months ended June 30, 2017 exceeded the U.S. federal statutory rate of 35% primarily due to foreign net operating losses (including equity investment losses) for which the future income tax benefit currently cannot be recognized, losses in foreign jurisdictions with tax rates lower than the U.S. rate, state income taxes and certain non-deductible expenses.

On December 22, 2017, the U.S. bill commonly referred to as the Tax Cuts and Jobs Act ("Tax Reform Act") was enacted which institutes fundamental changes to the taxation of multinational corporations. As a result of the Tax Reform Act, the U.S. corporate income tax rate was reduced to 21% and the Company revalued its ending net deferred tax liabilities as of December 31, 2017. The Company recognized a provisional tax benefit of \$19,397 in its consolidated financial statements for the year ended December 31, 2017. The final impact of the Tax Reform Act may differ from these provisional amounts, possibly materially, due to, among other things, issuance of additional regulatory guidance, changes in interpretations and assumptions the Company has made, and actions the Company may take as a result of the Tax Reform Act. There have been no changes to the Company's provisional tax benefit recognized in 2017. The Company expects the financial reporting impact of the Tax Reform Act will be completed in the fourth quarter of 2018, after the Company's 2017 income tax returns are filed.

### 14. 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 Providence. Litigation is inherently uncertain and the actual losses incurred in the event that the related legal proceedings were to result in unfavorable outcomes could have a material adverse effect on the Company's business and financial performance.

#### *Haverhill Litigation*

On June 15, 2015, a putative stockholder class action derivative complaint was filed in the Court of Chancery of the State of Delaware (the "Court"), captioned Haverhill Retirement System v. Kerley et al., C.A. No. 11149-VCL ("Haverhill Litigation").

On September 28, 2017, the Court approved a proposed settlement agreement among the parties that provides for a settlement amount of \$10,000 less plaintiff's legal fees and expenses (the "Settlement Amount"), with 75% of the Settlement Amount to be paid to the Company and 25% of the Settlement Amount to be paid to holders of the Company's common stock other than certain excluded parties. In November 2017, the Company received a payment of \$5,363 from the Settlement Amount.

For further information regarding this legal proceeding please see Note 18, *Commitments and Contingencies*, in the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

#### *Indemnifications related to Haverhill Litigation*

The Company has indemnified certain third parties in connection with a rights offering on February 5, 2015 as well as in connection with the Company's acquisition of CCHN Group Holdings, Inc. (operating under the tradename Matrix, and formerly included in our Health Assessment Services segment) in October 2014 and related financing commitments. For further information regarding these indemnifications, please see Note 18, *Commitments and Contingencies*, in the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The Company recorded \$143 and \$275, respectively, of such indemnified legal expenses related to the Haverhill Litigation during the three and six months ended June 30, 2017 which is included in "General and administrative expense" in the condensed consolidated statements of income. Of this amount, \$92 and \$208, respectively, was indemnified legal expenses of related parties for the three and six months ended June 30, 2017. Other legal expenses of the Company related to the Haverhill Litigation are covered under the Company's insurance policies, subject to applicable deductibles and customary review of the expenses by the carrier. The Company recognized a related benefit of \$201 for the three and six months ended June 30, 2018, and related expense



of \$0 and \$11, respectively, for the three and six months ended June 30, 2017. While the carrier typically remits payment directly to the respective law firm, the Company accrues for the cost and records a corresponding receivable for the amount to be paid by the carrier. The Company has recognized an insurance receivable of \$88 and \$941 in "Other receivables" in the condensed consolidated balance sheets at June 30, 2018 and December 31, 2017, respectively, with a corresponding liability amount recorded to "Accrued expenses".

#### ***Other Indemnifications***

The Company has 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 Membership Interest Purchase Agreement (the "Purchase Agreement"), including tax representations, survive until the expiration of applicable statutes of limitation, and healthcare representations survive until the third anniversary of the closing date.

Molina and the Company have entered into a settlement agreement regarding a settlement of an indemnification claim 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 (the "Rodriguez Court") against Providence Community Corrections, Inc. ("PCC"), an entity sold under the Purchase Agreement, and other matters. As of June 30, 2018, the accrual was \$15,000 with respect to an estimate of loss for potential indemnification claims. The Company expects to recover a portion of the settlement through insurance coverage, although this cannot be assured. The parties to the Rodriguez Litigation submitted a proposed settlement to the Rodriguez Court for approval pursuant to which PCC would pay the plaintiffs approximately \$14,000. On July 5, 2018, the Rodriguez Court granted final approval of the proposed settlement. The Company expects to release \$10,000 from escrow and make an additional payment to Molina in August 2018.

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 June 30, 2018.

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 June 30, 2018 collectively held approximately 9.6% of the Company's outstanding common stock and approximately 95.5% 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").

#### ***Loss Reserves for Certain Reinsurance Programs***

The Company historically reinsured a substantial portion of its automobile, general and professional liability and workers' compensation costs under reinsurance programs 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 continues 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 June 30, 2018 and December 31, 2017, the Company had reserves of \$5,187 and \$6,699, 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 June 30, 2018 and December 31, 2017 of \$9,399 and \$12,448, respectively, is classified as "Reinsurance liability reserves" and "Other long-term liabilities" in the condensed consolidated balance sheets. The estimated amount to be reimbursed to SPCIC as of June 30, 2018 and December 31, 2017 was \$4,212 and \$5,749, respectively, and is classified as "Other receivables" and "Other assets" in the condensed consolidated balance sheets.

### Deferred Compensation Plan

The Company has one deferred compensation plan for highly compensated employees of NET Services as of June 30, 2018. 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 condensed consolidated balance sheets, was \$2,188 and \$1,806 at June 30, 2018 and December 31, 2017, respectively.

### 15. Transactions with Related Parties

The Company incurred legal expenses under an indemnification agreement with the Coliseum Stockholders as further discussed in Note 14, *Commitments and Contingencies*. Convertible preferred stock dividends earned by the Coliseum Stockholders during the three and six months ended June 30, 2018 totaled \$1,050 and \$2,089, respectively. Convertible preferred stock dividends earned by the Coliseum Stockholders during the three and six months ended June 30, 2017 totaled \$1,050 and \$2,089, respectively.

During the three months ended March 31, 2017, the Company made a \$566 loan to Mission Providence. The loan was repaid during the three months ended September 30, 2017.

Effective June 15, 2018, the Company registered shares of the Company's common stock and Preferred Stock held by the Coliseum Stockholders for resale under the Securities Act and on May 9, 2018, in connection with such registration, the Company entered into a registration indemnification agreement with the Coliseum Stockholders as further discussed in Note 14, *Commitments and Contingencies*.

### 16. Discontinued Operations

On November 1, 2015, the Company completed the sale of the Human Services segment. During the three and six months ended June 30, 2018 and 2017, the Company recorded additional expenses related to the Human Services segment, principally related to legal proceedings as described in Note 14, *Commitments and Contingencies*, related to an indemnified legal matter.

### Results of Operations

The following tables summarize the results of operations classified as discontinued operations, net of tax, for the Company's Human Services segment for the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30,		Six months ended June 30, 2018	
	2018	2017	2018	2017
Operating expenses:				
General and administrative expense	\$ 65	\$ 190	\$ 76	\$ 9,596
Total operating expenses	65	190	76	9,596
Loss from discontinued operations before income taxes	(65)	(190)	(76)	(9,596)
Income tax benefit	16	73	19	3,612
Discontinued operations, net of tax	<u>\$ (49)</u>	<u>\$ (117)</u>	<u>\$ (57)</u>	<u>\$ (5,984)</u>

General and administrative expense for the three and six months ended June 30, 2018 includes legal expenses of \$65 and \$76, respectively. General and administrative expense for the three months ended June 30, 2017 includes legal expense of \$190. General and administrative expense for the six months ended June 30, 2017 includes an accrual of \$9,000 for an estimated settlement of indemnified claims related to the sale of the Human Services segment, as well as related legal expenses of \$596. See Note 14, *Commitments and Contingencies*, for additional information.

### 17. Assets Held for Sale

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

Due to this disposition, the assets and liabilities of Ingeus France have been presented as held for sale at June 30, 2018. In connection with classifying these assets and liabilities as held for sale, 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 \$9,202 was recorded during the three and six months ended June 30, 2018, and is included in "Asset impairment charge" on the condensed consolidated statement of income.

The disposition of Ingeus France did not meet the criteria to be reported as a discontinued operation and accordingly, its results of operations have not been reclassified. The assets and liabilities held for sale included the following:

	<b>June 30, 2018</b>
<b>Current assets held for sale:</b>	
Cash and cash equivalents	\$ 5,141
Accounts receivable	6,959
Other receivables	9
Prepaid expenses and other	2,763
Total current assets held for sale	<u>\$ 14,872</u>
<b>Current liabilities held for sale:</b>	
Accounts payable	\$ 2,783
Accrued expenses	11,810
Deferred revenue	279
Total current liabilities held for sale	<u>\$ 14,872</u>

## 18. Segments

The Company owns subsidiaries and investments primarily engaged in the provision of healthcare services in the United States and workforce development services internationally. The subsidiaries and other investments in which the Company holds interests comprise the following segments:

- NET Services – Nationwide manager of NET programs for state governments and managed care organizations.
- WD Services – Global provider of employment preparation and placement services, legal offender rehabilitation services, youth community service programs and certain health related services to eligible participants of government sponsored programs.
- Matrix Investment – Minority interest in Matrix, accounted for as an equity method investment. Matrix offers a national network of community-based clinicians who deliver in-home services for members, including CHAs, and a fleet of mobile health clinics with advanced diagnostic capabilities. On February 16, 2018, Matrix acquired HealthFair.

In addition to its segments' operations, the Corporate and Other segment includes the Company's activities at its corporate office that include executive, accounting, finance, internal audit, tax, legal, public reporting, certain strategic and corporate development functions and the results of the Company's captive insurance company.

The following tables set forth certain financial information from continuing operations attributable to the Company's business segments for the three and six months ended June 30, 2018 and 2017:

	<b>Three months ended June 30, 2018</b>				
	NET Services	WD Services	Matrix Investment	Corporate and Other	Total
Service revenue, net	\$ 343,737	\$ 68,057	\$ —	\$ —	\$ 411,794
Service expense	324,398	60,945	—	(272)	385,071
General and administrative expense	3,104	7,190	—	8,984	19,278
Asset impairment charge	679	9,202	—	—	9,881
Depreciation and amortization	3,511	3,131	—	236	6,878
Operating income (loss)	<u>\$ 12,045</u>	<u>\$ (12,411)</u>	<u>\$ —</u>	<u>\$ (8,948)</u>	<u>\$ (9,314)</u>
Equity in net gain (loss) of investee	\$ —	\$ 27	\$ (174)	\$ —	\$ (147)

**Three months ended June 30, 2017**

	NET Services	WD Services	Matrix Investment	Corporate and Other	Total
Service revenue, net	\$ 338,805	\$ 69,178	\$ —	\$ —	\$ 407,983
Service expense	316,435	62,882	—	(2,281)	377,036
General and administrative expense	3,089	6,919	—	8,040	18,048
Depreciation and amortization	3,326	3,489	—	85	6,900
Operating income (loss)	\$ 15,955	\$ (4,112)	\$ —	\$ (5,844)	\$ 5,999
Equity in net gain (loss) of investee	\$ —	\$ 440	\$ 1,090	\$ —	\$ 1,530

**Six months ended June 30, 2018**

	NET Services	WD Services	Matrix Investment	Corporate and Other	Total
Service revenue, net	\$ 680,433	\$ 137,407	\$ —	\$ —	\$ 817,840
Service expense	635,099	121,479	—	(272)	756,306
General and administrative expense	6,040	14,803	—	16,848	37,691
Asset impairment charge	679	9,202	—	—	9,881
Depreciation and amortization	7,005	6,349	—	323	13,677
Operating income (loss)	\$ 31,610	\$ (14,426)	\$ —	\$ (16,899)	\$ 285
Equity in net gain (loss) of investee	\$ —	\$ 50	\$ (2,518)	\$ —	\$ (2,468)

**Six months ended June 30, 2017**

	NET Services	WD Services	Matrix Investment	Corporate and Other	Total
Service revenue, net	\$ 662,839	\$ 144,638	\$ —	\$ —	\$ 807,477
Service expense	622,627	126,084	—	(2,265)	746,446
General and administrative expense	5,980	13,964	—	15,132	35,076
Depreciation and amortization	6,477	6,529	—	163	13,169
Operating income (loss)	\$ 27,755	\$ (1,939)	\$ —	\$ (13,030)	\$ 12,786
Equity in net gain (loss) of investee	\$ —	\$ (960)	\$ 430	\$ —	\$ (530)

**Geographic Information**

Domestic service revenue, net, totaled 84.3% and 83.1% of service revenue, net for the six months ended June 30, 2018 and 2017, respectively. Foreign service revenue, net, totaled 15.7% and 16.9% of service revenue, net for the six months ended June 30, 2018 and 2017, respectively.

At June 30, 2018 and December 31, 2017, \$74,380, or 20.1%, and \$99,071, or 20.8%, respectively, of the Company's net assets were located in countries outside of the U.S.

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes for the three and six months ended June 30, 2018 and 2017, as well as our consolidated financial statements and accompanying notes and management’s discussion and analysis of financial condition and results of operations included in our Form 10-K for the year ended December 31, 2017. For purposes of “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” references to Q2 2018 and Q2 2017 mean the three months ended June 30, 2018 and the three months ended June 30, 2017, respectively, and references to YTD 2018 and YTD 2017 mean the six months ended June 30, 2018 and the six months ended June 30, 2017, respectively.

### Overview of our business

Providence owns subsidiaries and investments primarily engaged in the provision of healthcare services in the United States and workforce development services internationally. The subsidiaries and other investments in which the Company holds interests comprise the following segments:

- Non-Emergency Transportation Services (“NET Services”) – Nationwide manager of non-emergency medical transportation (“NET”) programs for state governments and managed care organizations.
- Workforce Development Services (“WD Services”) – Global provider of employment preparation and placement services, legal offender rehabilitation services, youth community service programs and certain health related services to eligible participants of government sponsored programs.
- Matrix Investment – Minority interest in CCHN Group Holdings, Inc. and its subsidiaries (“Matrix”), accounted for as an equity method investment. Matrix offers a national network of community-based clinicians who deliver in-home services for members, including comprehensive health assessments (“CHAs”), and a fleet of mobile health clinics with advanced diagnostic capabilities. On February 16, 2018, Matrix acquired HealthFair.

In addition to its segments’ operations, the Corporate and Other segment includes the Company’s activities at its corporate office that include executive, accounting, finance, internal audit, tax, legal, public reporting, certain strategic and corporate development functions and the results of the Company’s captive insurance company. We are currently in the process of an organizational consolidation to integrate substantially all activities and functions performed at the corporate holding company level into LogistiCare. This strategic process is expected to be completed by the middle of 2019, over which time implementation costs will negatively impact earnings.

### 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 in the U.S. and international government outsourcing and employment 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;
- 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, 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;
- changes in UK government policy driven by opposition to the government’s outsourcing of the services provided by WD Services to private companies, which opposition may increase in light of recent events in the UK, including the liquidation of the UK government contractor Carillion plc;
- the results of the referendum on the UK’s exit from the European Union and related political and economic uncertainty in the UK; and

- proposals by the President of the United States, Congress and/or the Centers for Medicare and Medicaid Services (“CMS”) to change the Medicaid program, including considering converting the Medicaid program to a block grant format, capping the federal contribution to state Medicaid programs to a fixed amount per beneficiary, and CMS’ grant of waivers to states relative to the parameters of their Medicaid programs, including limitations in benefits or enrollment such as enacting eligibility limitations or imposing eligibility work requirements. Enactment of adverse legislation, regulation or agency guidance may reduce the demand for our services, our ability to conduct some or all of our business and/or reimbursement rates for services performed within our segments.

In April 2018, the Company's Board of Directors (the “Board”) approved an organizational consolidation plan to integrate substantially all activities and functions performed at the corporate holding company level into LogistiCare to create an organizational structure with strategic, operational and cultural alignment, which will be led by a single executive leadership team. We believe this organizational consolidation will drive shareholder value by sharpening our focus on the significant growth opportunities available to our core asset, LogistiCare. We have been increasingly allocating growth capital and strategic resources to LogistiCare, and this organizational consolidation reflects our view that the highest returning opportunities will continue to reside within LogistiCare, where we have been actively investing in numerous organic growth and margin enhancement initiatives. We also anticipate that future merger and acquisition efforts will be focused on opportunities that are adjacent, complementary and synergistic to LogistiCare. Ultimately, the consolidation of Providence under a unified, streamlined organizational structure is a natural evolution that will ensure more effective management and alignment with our multiple value enhancement strategies. In furtherance of our efforts to create this more streamlined organizational structure and allow us to more effectively deploy capital and focus strategic resources towards the significant growth opportunities available to LogistiCare, we are also exploring strategic alternatives in regards to our WD Services segment, which may involve a sale of the segment. On June 11, 2018, the Company entered into a Share Purchase Agreement to sell the shares of Ingeus France for a de minimis amount. The sale was effective on July 17, 2018, after court approval. As a result, an impairment charge of \$9.2 million was recorded during the three and six months ended June 30, 2018. We can provide no assurance we will be successful in entering into or completing another transaction, or that such transaction will be on satisfactory terms and conditions.

### **Critical accounting estimates and policies**

As discussed in Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, and Note 3, *Revenue Recognition*, of our condensed consolidated financial statements, as of January 1, 2018 the Company adopted the new standard on revenue recognition. Other than this standard, there have been no significant changes in our critical accounting policies to our condensed consolidated financial statements. For further discussion of our critical accounting policies, see management’s discussion and analysis of financial condition and results of operations contained in our Form 10-K for the year ended December 31, 2017.

### **Results of operations**

*Segment reporting.* Our operations are organized and reviewed by management along our segment lines. We operate in two principal business segments: NET Services and WD 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 the two principal business segments include revenue and expenses incurred by the segment, as well as an allocation of direct expenses incurred by our corporate segment on behalf of the business segment, which primarily relate to insurance and stock-based compensation allocations. Indirect expenses, including unallocated corporate functions and expenses, such as executive, accounting, finance, internal audit, tax, legal, public reporting, certain strategic and corporate development functions and the results of the Company’s captive insurance company and elimination entries recorded in consolidation are reflected in “Corporate and Other”.

Effective November 1, 2015, we completed the sale of our Human Services segment. Subsequent to the sale of our Human Services segment, we have incurred additional expenses in certain periods related to the settlement of indemnification claims and associated legal costs, which are recorded to “Discontinued operations, net of tax”.

Q2 2018 compared to Q2 2017

*Consolidated Results.* The following table sets forth results of operations and the percentage of consolidated total revenues represented by items in our unaudited condensed consolidated statements of income for Q2 2018 and Q2 2017 (in thousands):

	Three months ended June 30,			
	2018		2017	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue, net	411,794	100.0 %	407,983	100.0 %
<b>Operating expenses:</b>				
Service expense	385,071	93.5 %	377,036	92.4 %
General and administrative expense	19,278	4.7 %	18,048	4.4 %
Asset impairment charge	9,881	2.4 %	—	— %
Depreciation and amortization	6,878	1.7 %	6,900	1.7 %
Total operating expenses	<u>421,108</u>	102.3 %	<u>401,984</u>	98.5 %
Operating income (loss)	(9,314)	(2.3)%	5,999	1.5 %
<b>Non-operating expense:</b>				
Interest expense, net	245	0.1 %	329	0.1 %
Equity in net (gain) loss of investees	147	— %	(1,530)	(0.4)%
Loss (gain) on foreign currency transactions	(6)	— %	463	0.1 %
Income (loss) from continuing operations before income taxes	(9,700)	(2.4)%	6,737	1.7 %
Provision for income taxes	1,654	0.4 %	2,879	0.7 %
Income (loss) from continuing operations, net of tax	(11,354)	(2.8)%	3,858	0.9 %
Discontinued operations, net of tax	(49)	— %	(117)	— %
Net income (loss)	(11,403)	(2.8)%	3,741	0.9 %
Net income attributable to noncontrolling interest	188	— %	174	— %
Net income (loss) attributable to Providence	<u>(11,215)</u>	(2.7)%	<u>3,915</u>	1.0 %

*Service revenue, net.* Consolidated service revenue, net for Q2 2018 increased \$3.8 million, or 0.9%, compared to Q2 2017. Revenue for Q2 2018 compared to Q2 2017 included an increase in revenue attributable to NET Services of \$4.9 million and a decrease in revenue attributable to WD Services of \$1.1 million. Excluding the effects of changes in currency exchange rates, consolidated service revenue increased 0.2% for Q2 2018 compared to Q2 2017. The results for Q2 2018 reflect the negative impact of the adoption of FASB Accounting Standards Codification Topic 606 (“ASC 606”). The Company began recognizing revenue under ASC 606 effective January 1, 2018. As a result of applying ASC 606, NET Services recorded \$3.5 million less revenue in Q2 2018 than would have been recorded under our historical revenue recognition policy due to one contract now being accounted for as net versus gross. Additionally, WD Services recorded \$0.8 million less of revenue in Q2 2018 than would have been recognized under the previous accounting standard.

*Total operating expenses.* Consolidated operating expenses for Q2 2018 increased \$19.1 million, or 4.8%, compared to Q2 2017. Operating expenses for Q2 2018 compared to Q2 2017 included an increase in expenses attributable to NET Services of \$8.8 million, WD Services of \$7.2 million and Corporate and Other of \$3.1 million. The impact on Q2 2018 of adopting ASC 606 effective January 1, 2018 was \$3.5 million less in operating expenses recorded by NET Services, as one contract is now being recorded on a net versus gross basis, and \$0.7 million less in operating expenses recorded by WD Services, as these costs were deferred in relation to the deferral of revenue. Total operating expenses include asset impairment charges for Q2 2018 of \$9.2 million for WD Services as a result of the sale of Ingeus France and \$0.7 million for NET Services for impairment of a long-lived asset.

*Operating income (loss).* Consolidated operating income for Q2 2018 decreased \$15.3 million, or 255.3%, compared to Q2 2017. The decrease was primarily attributable to a decrease in operating income in Q2 2018 as compared to Q2 2017 at NET Services of \$3.9 million, as well as increased operating losses for WD Services of \$8.3 million and Corporate and Other of \$3.1 million. The impact of adopting ASC 606 on operating income in Q2 2018 was zero for NET Services and negative \$0.1 million for WD Services.

*Interest expense, net.* Consolidated interest expense, net for Q2 2018 and Q2 2017 remained relatively consistent.

*Equity in net (gain) loss of investees.* Equity in net (gain) loss of investees primarily relates to our investments in Matrix in both periods and Mission Providence in Q2 2017. Our investment in Mission Providence, which was part of our WD Services segment, was sold effective September 29, 2017. Our equity in net loss of investees for Q2 2018 of \$0.1 million primarily related to our equity in net loss for Matrix. Included in Matrix's Q2 2018 standalone results are depreciation and amortization of \$9.4 million, interest expense of \$5.9 million, equity compensation of \$0.9 million, management fees paid to certain of Matrix's shareholders of \$0.7 million, merger and acquisition related diligence costs of \$0.1 million, integration costs of \$1.1 million, and an income tax benefit of \$0.4 million. Our equity in net loss of investees related to WD Services and Matrix totaled \$0.4 million and \$1.1 million, respectively, for Q2 2017. Included in Matrix's standalone Q2 2017 results were transaction bonuses and other transaction related costs of \$0.5 million, equity compensation of \$0.6 million, depreciation and amortization of \$8.1 million, interest expense of \$3.7 million and an income tax benefit of \$0.7 million.

*Loss (gain) on foreign currency transactions.* The de minimis foreign currency gain for Q2 2018 and foreign currency loss of \$0.5 million for Q2 2017 were primarily due to translation adjustments of our foreign subsidiaries in the WD Services segment.

*Provision for income taxes.* Our effective tax rate from continuing operations for Q2 2018 and Q2 2017 was negative 17.1% and positive 42.7%, respectively. The Q2 2018 effective tax rate was lower than the U.S. federal statutory rate of 21% primarily due to foreign net operating losses for which the future income tax benefit cannot be currently recognized, as well as WD Services impairment charge of \$9.2 million, which contributes to the tax basis in WD Services but does not generate a current tax benefit. The effective tax rate exceeded the U.S. federal statutory rate of 35% for Q2 2017 primarily due to foreign net operating losses (including equity investment losses) for which the future income tax benefit currently cannot be recognized, losses in foreign jurisdictions with tax rates lower than the U.S. federal statutory rate of 35%, state income taxes, and certain non-deductible expenses.

*Discontinued operations, net of tax.* Discontinued operations, net of tax, includes the activity related to our former Human Services segment. For Q2 2018 and Q2 2017, discontinued operations, net of tax for our Human Services segment reflects expenses incurred for the ongoing indemnified legal matter, which were minimal. See Note 16, *Discontinued Operations*, to our condensed consolidated financial statements for additional information.

*Net income attributable to noncontrolling interests.* Net loss 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 WD Services segment.



YTD 2018 compared to YTD 2017

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

	Six months ended June 30,			
	2018		2017	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue, net	817,840	100.0 %	807,477	100.0 %
Operating expenses:				
Service expense	756,306	92.5 %	746,446	92.4 %
General and administrative expense	37,691	4.6 %	35,076	4.3 %
Asset impairment charge	9,881	1.2 %	—	— %
Depreciation and amortization	13,677	1.7 %	13,169	1.6 %
Total operating expenses	<u>817,555</u>	100.0 %	<u>794,691</u>	98.4 %
Operating income	285	— %	12,786	1.6 %
Non-operating expense:				
Interest expense, net	570	0.1 %	681	0.1 %
Equity in net loss of investees	2,468	0.3 %	530	0.1 %
Loss (gain) on foreign currency transactions	(629)	(0.1)%	400	— %
Income (loss) from continuing operations before income taxes	(2,124)	(0.3)%	11,175	1.4 %
Provision for income taxes	3,496	0.4 %	5,402	0.7 %
Income (loss) from continuing operations, net of tax	(5,620)	(0.7)%	5,773	0.7 %
Discontinued operations, net of tax	(57)	— %	(5,984)	(0.7)%
Net income (loss)	(5,677)	(0.7)%	(211)	— %
Net (income) loss attributable to noncontrolling interest	(108)	— %	(200)	— %
Net income (loss) attributable to Providence	<u>(5,785)</u>	(0.7)%	<u>(411)</u>	(0.1)%

*Service revenue, net.* Consolidated service revenue, net for YTD 2018 increased \$10.4 million, or 1.3%, compared to YTD 2017. Revenue for YTD 2018 compared to YTD 2017 included an increase in revenue attributable to NET Services of \$17.6 million. This increase in revenue was partially offset by a decrease in revenue attributable to WD Services of \$7.2 million. Excluding the effects of changes in currency exchange rates, consolidated service revenue increased 0.1% for YTD 2018 compared to YTD 2017. The Company began recognizing revenue under ASC 606 effective January 1, 2018. As a result of applying ASC 606, NET Services recorded \$7.4 million less revenue in YTD 2018 than would have been recorded under our historical revenue recognition policy due to one contract now being accounted for as net versus gross. Additionally, WD Services recorded \$6.2 million less revenue in YTD 2018 than would have been recognized under the previous accounting standard.

*Total operating expenses.* Consolidated operating expenses for YTD 2018 increased \$22.9 million, or 2.9%, compared to YTD 2017. Operating expenses for YTD 2018 compared to YTD 2017 included an increase in expenses attributable to NET Services of \$13.7 million, WD Services of \$5.3 million and Corporate and Other of \$3.9 million. The impact of adopting ASC 606 effective January 1, 2018 was \$7.4 million less in operating expenses recorded by NET Services, as one contract is now being recorded on a net versus gross basis, and \$2.6 million less in operating expenses recorded by WD Services, as these costs were deferred in relation to the deferral of revenue. Total operating expenses include asset impairment charges for YTD 2018 of \$9.2 million for WD Services and \$0.7 million for NET Services.

*Operating income.* Consolidated operating income for YTD 2018 decreased \$12.5 million compared to YTD 2017. The decrease was primarily attributable to an increase in operating income attributable to NET Services of \$3.9 million as compared to YTD 2017, as well as an increase in the operating losses for WD Services of \$12.5 million and Corporate and Other of \$3.9 million. The impact of adopting ASC 606 on operating income in YTD 2018 was zero for NET Services and negative \$3.6 million for WD Services.

*Interest expense, net.* Consolidated interest expense, net for YTD 2018 decreased \$0.1 million compared to YTD 2017.

*Equity in net loss of investees.* Our equity in net loss of investees for YTD 2018 of \$2.5 million primarily includes an equity in net loss of Matrix of \$2.5 million. Included in Matrix's standalone YTD 2018 results are depreciation and amortization of \$18.4 million, interest expense of \$16.3 million, including \$6.3 million related to the amortization of deferred financing costs primarily resulting from the refinancing of Matrix debt facility, equity compensation of \$1.6 million, management fees paid to Matrix's shareholders of \$3.8 million, merger and acquisition diligence related costs of \$2.2 million primarily related to the first quarter acquisition of HealthFair, integration costs of \$1.5 million, and income tax benefit of \$3.1 million. Our equity in net loss of investees for YTD 2017 included a loss of \$1.0 million for WD Services and gain for Matrix of \$0.4 million. Included in Matrix's standalone YTD 2017 results were transaction bonuses and other transaction related costs of \$3.5 million, equity compensation of \$1.3 million, depreciation and amortization of \$16.2 million, interest expense of \$7.3 million and an income tax benefit of \$0.1 million.

*Loss (gain) on foreign currency transactions.* The foreign currency gain of \$0.6 million and foreign currency loss of \$0.4 million for YTD 2018 and YTD 2017, respectively, were primarily due to translation adjustments of our foreign subsidiaries.

*Provision for income taxes.* Our effective tax rates from continuing operations for YTD 2018 and YTD 2017 were negative 164.6% and positive 48.3%, respectively. The YTD 2018 effective tax rate was lower than the U.S. federal statutory rate of 21% primarily due to foreign net operating losses for which the future income tax benefit cannot be currently recognized, as well as WD Services impairment charge of \$9.2 million, which contributes to the tax basis in WD Services but does not generate a current tax benefit. The effective tax rate exceeded the U.S. federal statutory rate of 35% for YTD 2017 primarily due to foreign net operating losses (including equity investment losses) for which the future income tax benefit currently cannot be recognized, losses in foreign jurisdictions with tax rates lower than the U.S. federal statutory rate of 35%, state income taxes, and certain non-deductible expenses.

*Discontinued operations, net of tax.* Discontinued operations, net of tax, includes the activity related to our former Human Services segment. For YTD 2018, discontinued operations, net of tax for our Human Services segment was minimal, as we did not incur significant expense for the ongoing indemnified legal matter. For YTD 2017, discontinued operations, net of tax for our Human Services segment was a loss of \$6.0 million. See Note 16, *Discontinued Operations*, to our condensed consolidated financial statements for additional information.

*Net income attributable to noncontrolling interests.* Net income 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 WD Services segment.

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

**NET Services**

NET Services segment financial results are as follows for Q2 2018 and Q2 2017 (in thousands):

	Three Months Ended June 30,			
	2018		2017	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue, net	343,737	100.0%	338,805	100.0%
Service expense	324,398	94.4%	316,435	93.4%
General and administrative expense	3,104	0.9%	3,089	0.9%
Asset impairment charge	679	0.2%	—	—%
Depreciation and amortization	3,511	1.0%	3,326	1.0%
Operating income	<u>12,045</u>	3.5%	<u>15,955</u>	4.7%

*Service revenue, net.* Service revenue, net for NET Services for Q2 2018 increased \$4.9 million, or 1.5%, compared to Q2 2017. The increase was primarily related to the impact of new contracts, including managed care organization (“MCO”) contracts in Indiana and Illinois and new state contracts in Texas, which contributed \$30.2 million of revenue for Q2 2018. This increase was 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 \$19.0 million, as well as net decreased revenue from existing contracts of \$2.8 million due to the net impact of membership and rate changes, including a retroactive rate adjustment recorded in Q2 2017 related to increased utilization activity under a significant contract, as well as increased rates agreed after Q2 2017 on certain other contracts related to increased costs to serve the contracts. In addition, the adoption of ASC 606 resulted in a decrease in revenue of \$3.5 million in Q2 2018 as compared to revenue under the previous accounting standard, as one contract is now accounted for on a net basis.

*Service expense, net.* Service expense for our NET Services segment included the following for Q2 2018 and Q2 2017 (in thousands):

	Three Months Ended June 30,			
	2018		2017	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Purchased services	270,052	78.6%	263,563	77.8%
Payroll and related costs	42,770	12.4%	39,648	11.7%
Other operating expenses	11,537	3.4%	13,092	3.9%
Stock-based compensation	39	—%	132	—%
Total service expense	<u>324,398</u>	94.4%	<u>316,435</u>	93.4%

Service expense for Q2 2018 increased \$8.0 million, or 2.5%, compared to Q2 2017 due primarily to higher purchased services and payroll and related costs, which were partially offset by lower other operating expenses.

Purchased services expense increased primarily as a result of higher transportation costs. Purchased services as a percentage of revenue increased from 77.8% in Q2 2017 to 78.6% in Q2 2018 primarily attributable to higher transportation costs on a per trip basis due to a shift in service mix from lower to higher cost modes of transportation and an increase in the average mileage per trip.

Payroll and related costs as a percentage of revenue increased from 11.7% in Q2 2017 to 12.4% in Q2 2018 due to increased corporate staffing and increased health insurance expenses. Other operating expenses decreased for Q2 2018 as compared to Q2 2017 primarily attributable to a decrease in value enhancement initiative costs of \$1.1 million.

*General and administrative expense.* General and administrative expense in Q2 2018 remained constant as a percentage of revenue, at 0.9%, as compared to Q2 2017.

*Asset impairment charge.* Asset impairment charge of \$0.7 million was incurred in Q2 2018 in relation to the decision to abandon specific development work intended to synchronize data across applications of the proprietary LCAD Nextgen system, based on the determination of an alternative method to accomplish this task.

*Depreciation and amortization.* Depreciation and amortization increased \$0.2 million primarily due to the addition of long-lived assets relating to information technology projects. As a percentage of revenue, depreciation and amortization remained constant at 1.0% for Q2 2017 and Q2 2018.

NET Services segment financial results are as follows for YTD 2018 and YTD 2017 (in thousands):

	<b>Six Months Ended June 30,</b>			
	<b>2018</b>		<b>2017</b>	
	<b>\$</b>	<b>Percentage of Revenue</b>	<b>\$</b>	<b>Percentage of Revenue</b>
Service revenue, net	680,433	100.0%	662,839	100.0%
Service expense	635,099	93.3%	622,627	93.9%
General and administrative expense	6,040	0.9%	5,980	0.9%
Asset impairment charge	679	0.1%	—	—%
Depreciation and amortization	7,005	1.0%	6,477	1.0%
Operating income	<u>31,610</u>	4.6%	<u>27,755</u>	4.2%

*Service revenue, net.* Service revenue, net for NET Services for YTD 2018 increased \$17.6 million, or 2.7%, compared to YTD 2017. The increase was primarily related to the impact of new contracts, including managed care organization (“MCO”) contracts in Indiana, Illinois and New York and new state contracts in Texas, which contributed \$60.1 million of revenue for YTD 2018, as well as net increased revenue from existing contracts of \$3.5 million due to the net impact of membership and rate changes, including increased rates agreed after YTD 2017 on certain contracts related to increased costs to serve the contracts, as well as a retroactive rate adjustment recorded in YTD 2017 related to increased utilization activity under a significant contract. 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 \$38.6 million. In addition, the adoption of ASC 606 resulted in a decrease in revenue of \$7.4 million in YTD 2018 as compared to revenue under the previous accounting standard, as one contract is now accounted for on a net basis.

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

	<b>Six Months Ended June 30,</b>			
	<b>2018</b>		<b>2017</b>	
	<b>\$</b>	<b>Percentage of Revenue</b>	<b>\$</b>	<b>Percentage of Revenue</b>
Purchased services	523,115	76.9%	516,020	77.8%
Payroll and related costs	87,966	12.9%	82,031	12.4%
Other operating expenses	23,929	3.5%	24,286	3.7%
Stock-based compensation	89	0.0%	290	0.0%
Total service expense	<u>635,099</u>	93.3%	<u>622,627</u>	93.9%

Service expense for YTD 2018 increased \$12.5 million, or 2.0%, compared to YTD 2017 due primarily to higher purchased services and payroll and related costs.

Purchased services expense increased primarily as a result of new contracts. Purchased services as a percentage of revenue decreased from 77.8% in YTD 2017 to 76.9% in YTD 2018. This was due primarily to lower transportation costs during the first quarter of 2018 on a per trip basis in certain geographies as a result of our value enhancement initiatives aimed at better aligning

the rates we pay to our transportation provider partners with local market conditions and the fees paid to us by our customers. This was partially offset in the second quarter of 2018 by higher transportation costs on a per trip basis due to a shift in service mix from lower to higher cost modes of transportation and an increase in the average mileage per trip.

Payroll and related costs as a percentage of revenue increased from 12.4% in YTD 2017 to 12.9% in YTD 2018 due to increased corporate staffing and increased health insurance expenses. Other operating expenses decreased for YTD 2018 as compared to YTD 2017 primarily attributable to a decrease in value enhancement initiative costs of \$1.6 million, partially offset by increased software and hardware maintenance costs associated with new technology initiatives.

*General and administrative expense.* General and administrative expense in YTD 2018 remained constant as a percentage of revenue at 0.9%, as compared to YTD 2017.

*Asset impairment charge.* Asset impairment charge of \$0.7 million was incurred in YTD 2018 in relation to the decision to abandon specific development work intended to synchronize data across applications of the proprietary LCAD Nextgen system, based on the determination of an alternative method to accomplish this task.

*Depreciation and amortization.* Depreciation and amortization increased \$0.5 million primarily due to the addition of long-lived assets relating to information technology projects. As a percentage of revenue, depreciation and amortization remained constant at 1.0%.

### WD Services

WD Services segment financial results are as follows for Q2 2018 and Q2 2017 (in thousands):

	Three Months Ended June 30,			
	2018		2017	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Service revenue, net	68,057	100.0 %	69,178	100.0 %
Service expense	60,945	89.5 %	62,882	90.9 %
General and administrative expense	7,190	10.6 %	6,919	10.0 %
Asset impairment charge	9,202	13.5 %	—	0.0 %
Depreciation and amortization	3,131	4.6 %	3,489	5.0 %
Operating loss	(12,411)	-18.2 %	(4,112)	-5.9 %

*Service revenue, net.* Service revenue, net for Q2 2018 decreased \$1.1 million, or 1.6%, compared to Q2 2017. Excluding the favorable effects of changes in currency exchange rates, service revenue decreased 5.7% in Q2 2018 compared to Q2 2017. The decrease in revenue was primarily attributable to the ongoing wind-down of the segment's legacy UK employability program, a reduction in revenue related to the offender rehabilitation program of \$1.9 million for estimated penalties related to the measurement of frequency and binary recidivism measures, and the impact of the adoption of the new revenue standard, which resulted in \$0.8 million less revenue in Q2 2018 than would have been recognized under the previous accounting standard. These decreases were partially offset by increased revenue under the segment's health program, as well as the segment's operations in the U.S. and certain other international operations, including Saudi Arabia in which revenue was recorded as a result of signing the contract covering the period January to May 2018.

*Service expense.* Service expense for our WD Services segment included the following for Q2 2018 and Q2 2017 (in thousands):

	<b>Three Months Ended June 30,</b>			
	<b>2018</b>		<b>2017</b>	
	<b>\$</b>	<b>Percentage of Revenue</b>	<b>\$</b>	<b>Percentage of Revenue</b>
Payroll and related costs	44,039	64.7%	43,992	63.6%
Purchased services	7,435	10.9%	9,215	13.3%
Other operating expenses	9,470	13.9%	9,661	14.0%
Stock-based compensation	1	—%	14	—%
<b>Total service expense</b>	<b>60,945</b>	<b>89.5%</b>	<b>62,882</b>	<b>90.9%</b>

Service expense in Q2 2018 decreased \$1.9 million, or 3.1%, compared to Q2 2017. Payroll and related costs increased slightly primarily as a result of the impact of the restructuring plans initiated in 2017. Payroll and related costs include \$1.0 million and \$0.3 million in Q2 2018 and Q2 2017, respectively, of termination benefits related to redundancy plans. Purchased services decreased in Q2 2018 compared to Q2 2017 primarily as a result of the ongoing wind-down of the legacy UK employability program, which resulted in a decline in the use of outsourced services. Additionally, the adoption of ASC 606 resulted in WD Services recording \$0.7 million less service expense in Q2 2018 than would have been recognized under our historical revenue recognition policy, as these costs were deferred in relation to the deferral of revenue.

*General and administrative expense.* General and administrative expense in Q2 2018 increased \$0.3 million compared to Q2 2017 due primarily to \$0.4 million of transaction related costs incurred for the sale of the segment's operations in France, which were partially offset by decreased rent and related costs attributable to office closures associated with restructuring of the UK operations.

*Asset impairment charge.* On June 11, 2018, the Company entered into an agreement to sell its shares in Ingeus France for a de minimis amount. The sale was effective on July 17, 2018. Due to this disposition, the assets and liabilities of Ingeus France have been presented as held for sale at June 30, 2018. In connection with classifying these assets and liabilities as held for sale, 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 \$9.2 million was recorded during Q2 2018.

*Depreciation and amortization.* Depreciation and amortization for Q2 2018 decreased \$0.4 million compared to Q2 2017, primarily due to asset disposals as a result of office closures associated with the restructuring of UK operations.

WD Services segment financial results are as follows for YTD 2018 and YTD 2017 (in thousands):

	<b>Six Months Ended June 30,</b>			
	<b>2018</b>		<b>2017</b>	
	<b>\$</b>	<b>Percentage of Revenue</b>	<b>\$</b>	<b>Percentage of Revenue</b>
Service revenue, net	137,407	100.0 %	144,638	100.0 %
Service expense	121,479	88.4 %	126,084	87.2 %
General and administrative expense	14,803	10.8 %	13,964	9.7 %
Asset impairment charge	9,202	6.7 %	—	0.0 %
Depreciation and amortization	6,349	4.6 %	6,529	4.5 %
<b>Operating loss</b>	<b>(14,426)</b>	<b>-10.5 %</b>	<b>(1,939)</b>	<b>-1.3 %</b>

*Service revenue, net.* Service revenue, net for YTD 2018 decreased \$7.2 million, or 5.0%, compared to YTD 2017. Excluding the effects of changes in currency exchange rates, service revenue decreased 11.4% in YTD 2018 compared to YTD 2017. The decrease was primarily related to the ongoing wind-down of the segment's legacy UK employability program and the impact of contractual adjustments under the offender rehabilitation program, as YTD 2018 included \$1.6 million of revenue related to a contractual adjustment whereas YTD 2017 included the impact of \$5.2 million of revenue related to the finalization of a

contractual adjustment for the contract year ended March 31, 2017. Additionally, the impact of the adoption of the new revenue standard resulted in \$6.2 million less revenue in YTD 2018 than would have been recognized under the previous accounting standard. YTD 2018 also includes a reduction in revenue related to the offender rehabilitation program of \$1.9 million for estimated penalties related to the measurement of frequency and binary recidivism measures. These revenue decreases were partially offset by increased revenue under the segment's health programs as well as the segment's operations in the U.S. and certain other international operations.

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

	Six Months Ended June 30,			
	2018		2017	
	\$	Percentage of Revenue	\$	Percentage of Revenue
Payroll and related costs	89,713	65.3%	88,963	61.5%
Purchased services	14,441	10.5%	18,004	12.4%
Other operating expenses	17,319	12.6%	19,089	13.2%
Stock-based compensation	6	0.0%	28	0.0%
<b>Total service expense</b>	<b>121,479</b>	<b>88.4%</b>	<b>126,084</b>	<b>87.2%</b>

Service expense in YTD 2018 decreased \$4.6 million, or 3.7%, compared to YTD 2017. Payroll and related costs increased as a percentage of revenue from 61.5% in YTD 2017 to 65.3% in YTD 2018. Payroll and related costs include \$2.4 million and \$0.9 million in YTD 2018 and YTD 2017, respectively, of termination benefits related to redundancy plans. Purchased services decreased in YTD 2018 compared to YTD 2017 primarily as a result of a decline in client referrals under our primary employability program in the UK, which resulted in a decline in the use of outsourced services. Additionally, the adoption of ASC 606 resulted in WD Services recording \$2.6 million less service expense in YTD 2018 than would have been recognized under our historical revenue recognition policy, as these costs were deferred in relation to the deferral of revenue.

*General and administrative expense.* General and administrative expense in YTD 2018 increased \$0.8 million compared to YTD 2017 due to \$0.5 million of transaction related costs incurred for the sale of the segment's operations in France and additional rent expense incurred during YTD 2018 as a result of additional properties leased outside of the UK. These increases were partially offset by office closures associated with restructuring of the UK operations.

*Asset impairment charge.* Due to the disposition of Ingeus France in July 2018, the assets and liabilities of these operations have been presented as held for sale at June 30, 2018. In connection with classifying these assets and liabilities as held for sale, 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 \$9.2 million was recorded during YTD 2018.

*Depreciation and amortization.* Depreciation and amortization for YTD 2018 decreased \$0.2 million compared to YTD 2017, primarily as a result of office closures associated with the restructuring of UK operations.

#### **Corporate and Other**

Corporate and Other includes the headcount and professional service costs incurred at the holding company level, at the Captive, and elimination entries to account for inter-segment transactions. Corporate and Other financial results are as follows for Q2 2018 and Q2 2017 (in thousands):

	Three Months Ended June 30,	
	2018	2017
	\$	\$
Service expense	\$ (272)	\$ (2,281)
General and administrative expense	8,984	8,040
Depreciation and amortization	236	85
Operating loss	8,948	5,844

*Operating loss.* Corporate and Other operating loss in Q2 2018 increased by \$3.1 million, or 53.1%, as compared to Q2 2017. Included in “General and administrative expense” for Q2 2018 are \$2.5 million of organizational consolidation related costs, additionally, included in “Depreciation and amortization” is \$0.1 million of accelerated depreciation expense incurred in relation to the organizational consolidation. Q2 2018 and Q2 2017 include a reduction in insurance loss reserves in “Service expense” due to favorable claims history of our Captive reinsurance program, based upon the results of a third party actuarial analysis. The reduction recorded in Q2 2017 was greater than Q2 2018. As the Captive is currently in run-off, we expect the level of actuarial gains in 2018 to remain lower than amounts recorded in prior periods.

The increase in operating loss is also due to an increase in cash settled stock-based compensation expense of \$1.2 million, primarily as a result of a more significant increase in the Company’s stock price in Q2 2018 as compared to Q2 2017. These increases were partially offset by decreased legal and consulting costs in Q2 2018 as compared to Q2 2017.

Corporate and Other financial results are as follows for YTD 2018 and YTD 2017 (in thousands):

	<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Service expense	\$ (272)	\$ (2,265)
General and administrative expense	16,848	15,132
Depreciation and amortization	323	163
Operating loss	<u>16,899</u>	<u>13,030</u>

*Operating loss.* Corporate and Other operating loss in YTD 2018 increased by \$3.9 million, or 29.7%, as compared to YTD 2017. Included in “General and administrative expense” for YTD 2018 are \$2.9 million of organizational consolidation related costs, additionally, included in “Depreciation and amortization” is \$0.1 million of accelerated depreciation expense incurred in relation to the organizational consolidation. YTD 2018 and YTD 2017 include a reduction in insurance loss reserves in “Service expense” due to favorable claims history of our Captive reinsurance program.

This increase was also attributable to an increase in cash settled stock-based compensation expense of \$2.4 million, primarily as a result of a more significant increase in the Company’s stock price in YTD 2018 as compared to YTD 2017. These increases were partially offset by decreased incentive compensation, legal costs and consulting costs in YTD 2018 as compared to YTD 2017.

#### **Seasonality**

Our quarterly operating results and operating cash flows normally fluctuate due in part to seasonal factors, uneven demand for services and the timing of new contracts, which impact the amount of revenues earned and expenses incurred. NET Services experiences fluctuations in demand during the summer and winter seasons. Due to higher demand in the summer months, lower demand during the winter months, and a primarily fixed revenue stream based on a per-member, per-month payment structure, NET Services normally experiences lower operating margins during the summer season and higher operating margins during the winter. WD Services is impacted by both the timing of commencement and expiration of major contracts. Under many of WD Services’ contracts, we may invest significant sums of money in personnel, leased office space, purchased or developed technology, and other costs, and generally would incur these costs prior to commencing services and receiving payments. This can result in significant variability in financial performance and cash flows between quarters and for comparative periods. It is expected that future contracts may be structured in a similar fashion. However, the Company does not expect a large variability in financial performance upon the commencement of WD Services’ newly secured Work and Health Programme contracts as the upfront implementation investments needed for these contracts are expected to be significantly less than those associated with other large contract commencements undertaken in the past, such as the offender rehabilitation program in 2016. In addition, under the majority of WD Services’ contracts, the Company relies on its customers, which include government agencies, to provide referrals, for which the Company can provide services and earn revenue. The timing and magnitude of referrals can fluctuate significantly, leading to volatility in revenue.

#### **Liquidity and capital resources**

Short-term capital requirements consist primarily of recurring operating expenses and new contract start-up costs, including restructuring costs. We expect to meet any cash requirements through available cash on hand, cash generated from our operating segments, and borrowing capacity under our Credit Facility (as defined below).



Our balance of cash and cash equivalents was \$29.7 million and \$95.3 million at June 30, 2018 and December 31, 2017, respectively, including \$15.4 million and \$40.1 million held in foreign countries, respectively. Such cash held in foreign countries is generally used to fund foreign operations, although it may also be used to repay intercompany indebtedness existing between Providence and its foreign subsidiaries. Additionally, at June 30, 2018, \$5.1 million of cash of Ingeus France is included in “Current assets held for sale” on our condensed consolidated balance sheet, as this cash was sold with the business to satisfy solvency requirements in order to obtain court approval.

We had restricted cash of \$5.1 million and \$6.3 million at June 30, 2018 and December 31, 2017, respectively, primarily related to contractual obligations and activities of our captive insurance subsidiary. Our Captive is currently in run-off, as we did not renew the policies which expired in May 2017, and we expect our restricted cash balances to decline over time as we pay claims. These restricted cash amounts are not included in our balance of cash and cash equivalents, although they are included in the cash, cash equivalents and restricted cash balance on the statement of cash flows, as a result of the adoption of Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, as of January 1, 2018. At June 30, 2018 and December 31, 2017, 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. During Q2 2018, we extended the term of our Credit Facility to expire in August 2019, as further discussed below.

On March 29, 2018, the Company’s Board of Directors amended our ongoing stock repurchase program to add an additional \$77.8 million of capacity and extend the expiration date of the program from December 31, 2018 to June 30, 2019. As of August 6, 2018, the Company has approximately \$81.2 million of share repurchase availability. During the six months ended June 30, 2018, the Company repurchased 838,719 shares for \$55.8 million.

The cash flow statement for all periods presented includes both continuing and discontinued operations. Discontinued operations for YTD 2018 and YTD 2017 include the activity of our Human Services segment. The loss from discontinued operations was negligible for YTD 2018 and totaled \$6.0 million for YTD 2017. For YTD 2017, the loss from discontinued operations primarily related to the accrual of a contingent liability of \$9.0 million related to the future settlement of indemnification claims associated with our former Human Services segment, partially offset by a related tax benefit. The settlement amount is expected to be paid later in 2018.

#### ***YTD 2018 cash flows compared to YTD 2017***

*Operating activities.* Cash used in operating activities was \$7.9 million for YTD 2018, an increase of \$17.2 million of cash used in operating activities as compared with YTD 2017. YTD 2018 and YTD 2017 cash flow from operations was driven by net losses of \$5.7 million and \$0.2 million, respectively, non-cash adjustments to reconcile net income to net cash provided by operating activities of \$27.5 million and \$11.8 million, respectively, and changes in working capital of negative \$29.8 million and \$2.3 million, respectively. The change in working capital is primarily driven by the following:

- Accounts receivable generated a cash outflow for YTD 2018 of \$34.0 million as compared to an outflow of \$8.9 million for YTD 2017. The increase in cash outflow of \$25.0 million is primarily attributable to NET Services due to the timing of collections, as well as an increase in reconciliation contract receivables due to higher revenue earned under these contracts, which are expected to be collected during the second half of 2018, as well as higher receivables at WD Services in certain foreign jurisdictions, including Saudi Arabia, which has experienced significant delays in payment.
- Prepaid expense and other generated a cash outflow for YTD 2018 of \$11.0 million as compared to an outflow of \$3.5 million for YTD 2017. The increase in cash outflow of \$7.5 million is partially attributable to the adoption of ASC 606 as of January 1, 2018. This resulted in recording inflows for contract assets of \$2.1 million in YTD 2018 and cash outflows for costs to fulfill contracts of \$1.9 million in YTD 2018 related to revenue which is deferred as of June 30, 2018, but which would have been recognized under the previous accounting standard. Additionally, outflows related to prepaid taxes and licenses were \$2.8 million in YTD 2018 as compared to cash inflows in YTD 2017 of \$1.1 million, and outflows related to prepaid income taxes were \$1.6 million in YTD 2018 as compared to cash outflows in YTD 2017 of \$0.2 million.
- Accrued transportation costs of NET Services generated a cash inflow of \$10.5 million in YTD 2018, as compared to a cash inflow of \$11.5 million in YTD 2017. The decrease in cash inflow of \$1.0 million is due primarily to the timing of payments.

- Deferred revenue generated cash inflow of \$10.8 million in YTD 2018, as compared to a cash inflow of \$2.9 million in YTD 2017. The increase in cash inflow of \$7.9 million is due primarily to WD Services. Approximately \$3.9 million of the increase is attributable to change in deferred revenue as a result of the adoption of ASC 606. Other increases in deferred revenue are a result of the timing of cash payments received under certain WD Services' contracts in advance of services being performed.

*Investing activities.* Net cash used in investing activities of \$5.7 million in YTD 2018 decreased by \$5.3 million as compared to YTD 2017. The decrease was primarily attributable to \$3.1 million of proceeds received on the note receivable related to the sale of a building in 2016, as well as a decrease in the purchase of property and equipment of \$2.0 million, and a \$0.6 million loan to Mission Providence made in YTD 2017.

*Financing activities.* Net cash used in financing activities of \$48.0 million in YTD 2018 increased \$27.3 million as compared to YTD 2017. During YTD 2018, we repurchased \$37.2 million more of our common stock than in YTD 2017. Partially offsetting this increase in cash outflows was an increase in proceeds from common stock issued pursuant to stock option exercises of \$11.4 million.

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

*Credit Facility.* We are 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 June 30, 2018, we had no borrowings and seven letters of credit in the amount of \$11.3 million outstanding. At June 30, 2018, our available credit under the revolving credit facility was \$188.7 million. Under the Credit Agreement, the Company has 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. 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.

On June 7, 2018, the Company and certain of its subsidiaries entered into the Fifth Amendment to the Credit Agreement (the "Amendment") which extends the maturity date of the Credit Agreement to August 2, 2019. The Amendment also amends certain covenants under the Credit Agreement to provide for greater operational, financial and strategic flexibility, including the implementation of the Company's previously announced organizational consolidation plan. We may from time to time incur additional indebtedness, obtain additional financing or refinance existing indebtedness, subject to market conditions and our financial condition.

Interest on the outstanding principal amount of the loans accrues, at the Company's election, at a per annum rate equal to 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 net 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 captives as well as the subsidiaries which comprise the Company's WD Services segment. 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 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 captives, equity ownership interest in Matrix and the stock of the subsidiaries which comprise the Company's WD Services segment.

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. The Company was in compliance with all covenants as of June 30, 2018.

*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 the Company, the Company issued 805,000 shares of Preferred Stock, of which 802,159 shares are outstanding as of June 30, 2018. For further information regarding these transactions, see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and capital resources – Obligations and commitments – Rights Offering” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. We may pay a noncumulative cash dividend on each share of Preferred Stock, when, as and if declared by a committee of our Board of Directors (“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. Paid in kind (“PIK”) dividends, if applicable, will accrue and be cumulative on the same schedule as set forth above for cash dividends and will also be compounded at the applicable annual rate on each applicable subsequent dividend date. PIK dividends are paid upon the occurrence of a liquidation event, conversion or redemption in accordance with the terms of the Preferred Stock. Cash dividends were declared for the six months ended June 30, 2018 and 2017 and totaled \$2.2 million in each period.

### ***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 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 June 30, 2018, the cumulative reserve for expected losses since inception of these historical automobile, general and professional liability and workers’ compensation reinsurance programs was \$0.5 million, \$0.6 million and \$4.1 million, respectively. Based on an independent actuarial report, our expected losses related to workers’ compensation, automobile and general and professional liability in excess of our liability under our associated historical reinsurance programs at June 30, 2018 was \$4.2 million. We recorded a corresponding receivable from third-party insurers and liability at June 30, 2018 for these expected losses, which would be paid by third-party insurers to the extent losses are incurred.

Further, SPCIC had restricted cash of \$5.1 million and \$6.3 million at June 30, 2018 and December 31, 2017, respectively, which was restricted to secure the reinsured claims losses of SPCIC under the historical automobile, general and professional liability and workers’ compensation reinsurance programs.

#### *Health Insurance*

We offer our NET Services’, certain WD Services’ and corporate employees an option to participate in a self-funded health insurance program. The liability for the self-funded health plan of \$2.3 million and \$2.2 million as of June 30, 2018 and December 31, 2017, respectively, was recorded in “Reinsurance liability and related reserve” in our condensed consolidated balance sheets.

### **Off-Balance Sheet Arrangements**

There have been no material changes to the Off-Balance Sheet Arrangements discussion previously disclosed in our audited consolidated financial statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

## Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain statements that may be deemed “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 (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 disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017 and our other filings with the SEC.

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 3. Quantitative and Qualitative Disclosures About Market Risk.

#### *Foreign currency risk*

As of June 30, 2018, we conducted business in ten countries outside the U.S. As a result, our cash flows and earnings are subject to fluctuations due to changes in foreign currency exchange rates. We do not currently hedge against the possible impact of currency fluctuations. During YTD 2018 we generated \$128.4 million of our net operating revenues from operations outside the U.S.

A 10% adverse change in the foreign currency exchange rate from British Pounds to U.S. dollars would have a \$7.4 million negative impact on consolidated revenue and a negligible impact on net income. A 10% adverse change in other foreign currency exchange rates would not have a significant impact on our financial results.

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

### Item 4. Controls and Procedures.

#### *(a) Evaluation of disclosure controls and procedures*

The Company, under the supervision and with the participation of its management (including its principal executive officer and principal financial officer), evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act as of June 30, 2018. 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.

#### *(b) 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 June 30, 2018 that have materially affected or which are reasonably likely to materially affect such control. Except as set forth below, there were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) of the Exchange Act during the period

covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financing reporting.

During the first quarter of 2018, the Company implemented new internal controls and processes related to its adoption of ASC 606 and the automation of its financial statement consolidation process.

*(c) Limitations on the effectiveness of controls*

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.

## PART II—OTHER INFORMATION

### Item 1. 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. For information relating to legal proceedings, see Note 14, *Commitments and Contingencies*, in our condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

#### *Issuer Purchases of Equity Securities*

The following table provides information with respect to common stock repurchased by us during the three months ended June 30, 2018:

Period	Total Number of Shares of Common Stock Purchased (1)	Average Price Paid per Share	Total Number of Shares of Common Stock Purchased as Part of Publicly Announced Plans or Program	Maximum Dollar Value of Shares of Common Stock that May Yet Be Purchased Under the Plans or Program (000's) (2)
<b>Month 1:</b>				
April 1, 2018				
to				
April 30, 2018	6,149	\$ 74.54	6,088	\$ 99,546
<b>Month 2:</b>				
May 1, 2018				
to				
May 31, 2018	135,416	\$ 73.38	135,389	\$ 89,611
<b>Month 3:</b>				
June 1, 2018				
to				
June 30, 2018	114,256	\$ 73.84	114,215	\$ 81,177
Total	255,821		255,692	

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

(2) On October 26, 2016, our Board authorized a new repurchase program, under which the Company may repurchase up to \$100.0 million in aggregate value of the Company's Common Stock during the twelve-month period following October 26,

2016. On November 2, 2017, our Board approved the extension of the Company's prior stock repurchase program, authorizing the Company 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 the Company's existing stock repurchase program by \$77.8 million, and extended the existing stock repurchase program through June 30, 2019.

After giving effect to the increase in the authorized repurchase amount, as of June 30, 2018, approximately \$81.2 million remains for additional repurchases by the Company under the stock repurchase program, excluding commission payments. A total of 1.8 million shares have been repurchased since the Board originally approved the repurchase program on October 26, 2016. The share repurchases may be made from time-to-time through a combination of open market repurchases (including Rule 10b5-1 plans), privately negotiated transactions, accelerated share repurchase transactions and other derivative transactions.

### ***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. 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.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

#### *Retention Bonus Increases*

In recognition of the increased demands of time, attention and work on each of Mr. Bill Severance, the Company's Interim Chief Financial Officer, Mr. David Shackelton, the Company's Chief Transformation Officer, and Ms. Sophia Tawil, the Company's General Counsel (the "Specified NEOs"), particularly in light of their increased responsibilities in respect of certain transitional items and special projects, the Compensation Committee (the "Committee") of the Company's board of directors approved an increase in the retention bonuses that each of the Specified NEOs could be eligible for under their award agreements. Specifically, on August 6, 2018, the Committee approved increasing Mr. Severance's retention bonus to \$875,000, Mr. Shackelton's retention bonus to \$1,125,000, and Ms. Tawil's retention bonus to \$875,000. Each retention bonus increase was effected by the Company and the Specified NEO entering into an amendment to the applicable award agreement (the "Retention Letter Amendment").

The foregoing descriptions of the retention bonus increases do not purport to be complete and are qualified in their entirety by reference to the full text of each of the Retention Letter Amendments, a form of which will be filed with the Company's quarterly report on Form 10-Q for the quarter ending September 30, 2018.

Item 6. Exhibits.

EXHIBIT INDEX

Exhibit Number	Description
10.1+	<a href="#">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).</a>
10.2+	<a href="#">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).</a>
10.3+	<a href="#">Amendment No. 1 to the 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).</a>
10.4	<a href="#">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 (Incorporated by reference from an exhibit to the registrant's Registration Statement on Form S-1 filed with the SEC on May 9, 2018).</a>
10.5	<a href="#">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 from an exhibit to the registrant's current report on Form 8-K filed with the SEC on June 7, 2018).</a>
10.6+*	<a href="#">Form of Deferred Share Unit Agreement.</a>
31.1*	<a href="#">Certification pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 of the Chief Executive Officer.</a>
31.2*	<a href="#">Certification pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 of the Chief Financial Officer.</a>
32.1*	<a href="#">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.</a>
32.2*	<a href="#">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.</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
+	Management contract of compensatory plan or arrangement.
*	Filed herewith.



**SIGNATURES**

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

THE PROVIDENCE SERVICE CORPORATION

Date: August 8, 2018

By: \_\_\_\_\_  
/s/ R. Carter Pate  
**R. Carter Pate**  
**Interim Chief Executive Officer**  
*(Principal Executive Officer)*

Date: August 8, 2018

By: \_\_\_\_\_  
/s/ William Severance  
**William Severance**  
**Interim Chief Financial Officer**  
*(Principal Financial Officer)*

**DEFERRED SHARE UNIT AGREEMENT**

To:

Award Date:

You are hereby awarded, effective as of the date hereof, [ ] deferred share units (each a “DSU” and collectively the “DSUs”) each representing the right to receive one share of Stock of The Providence Service Corporation, a Delaware corporation (the “Company”), pursuant to, and subject to the terms of, the Company’s 2006 Long-Term Incentive Plan, as amended (the “Plan”). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Plan.

In addition to the terms, conditions, and restrictions set forth in the Plan, the following terms, conditions, and restrictions apply to the DSUs:

**Restrictions and Forfeiture**

The DSUs are not assignable or transferable, in whole or in part, and they may not, directly or indirectly, be offered, transferred, sold, pledged, assigned, alienated, hypothecated or otherwise disposed of or encumbered (including, but not limited to, by gift, operation of law or otherwise) other than by will or by the laws of descent and distribution to your estate or upon your death. Any purported transfer in violation of this paragraph shall be void *ab initio*.

**Vesting**

The DSUs are fully vested as of the Award Date.

**Settlement**

Upon the earlier to occur of (i) a Change in Control and (ii) the tenth (10th) business day following the termination of your Continuous Service (or such other date or event as provided in an agreement between you and the Company in compliance with Section 409A) (the earlier of the dates referred to in clause (i) and (ii), the “Settlement Date”), any outstanding DSUs shall be settled into an equal number of shares of Stock. On the Settlement Date, the Company shall issue to you one share of Stock for each DSU, and, upon such issuance, your rights in respect of such DSU shall be extinguished.

**Additional Conditions to Settlement**

You will not receive shares of Stock in respect of your DSUs unless and until all of the following events occur and during the following periods of time:

- (a) Until the shares of Stock are approved, registered and listed with such federal, state, local and foreign regulatory bodies or agencies and securities exchanges as the Company may deem necessary or desirable, or the Company deems such shares of Stock to be exempted therefrom; or
  - (b) During any period of time which the Company deems that the issuance of the shares of Stock may violate a federal, state, local, or foreign law, rule or regulation, or any applicable securities exchange or listing rule or agreement, or may cause the Company to be legally obligated to issue or sell more shares of Stock than the Company is legally entitled to issue or sell.
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<b>Continuous Service</b>	<p>“Continuous Service,” as used herein, means the absence of any interruption or termination of your service to the Company or any Affiliate. If you are a service provider to an Affiliate of the Company, your service shall be deemed to have terminated on the date the Affiliate of which your service to such Affiliate of the Company terminates, unless on that date you become a service provider to the Company or another Affiliate of the Company. Service shall not be considered interrupted in the case of sick leave, military leave or any other leave of absence approved by the Company or any then Affiliate of the Company. Your service shall not be deemed to have terminated if you are transferred from the Company to an Affiliate of the Company, or vice versa, or from one Company Affiliate to another Company Affiliate.</p>
<b>Dividend Equivalents and Voting</b>	<p>In the event that the Company pays a cash dividend in respect to shares of Stock following the Grant Date and prior to the applicable settlement date, there shall be credited to your account in respect of each outstanding DSU an amount equal to such per share dividend. The amount so credited shall be deferred (without interest, unless the Administrator determines otherwise) until the settlement of such related DSU and shall be forfeited upon the forfeiture of such related DSU. The Administrator may, in its discretion, determine, in connection with any such crediting, whether such crediting will be in cash, additional DSUs or other notional instrument; <u>provided</u> that in the absence of any such determination, such crediting will be in cash. You will not have any voting rights on any DSUs.</p>
<b>Tax Withholdings</b>	<p>Upon the settlement of DSUs and (if applicable) delivery of cash in respect of any DSUs, you shall be obligated to satisfy any applicable U.S. federal, state and local and non-U.S. tax withholding or other similar charges or fees that may arise in connection therewith.</p>
<b>Representation</b>	<p>The following paragraph shall be applicable if, on the date of issuance of the shares of Stock, no registration statement and current prospectus under the Securities Act of 1933 covers the shares of Stock, and shall continue to be applicable for so long as such registration has not occurred and such current prospectus is not available:</p> <p>The Participant hereby agrees, warrants and represents that [he/she] will acquire the shares of Stock to be issued hereunder for [his/her] own account for investment purposes only, and not with a view to, or in connection with, any resale or other distribution of any of such shares, except as hereafter permitted. The Participant further agrees that [he/she] will not at any time make any offer, sale, transfer, pledge or other disposition of such shares of Stock to be issued hereunder without an effective registration statement under the Securities Act of 1933, as amended, and under any applicable state securities laws or an opinion of counsel acceptable to the Company to the effect that the proposed transaction will be exempt from such registration. The Participant shall execute such instruments, representations, acknowledgments and agreements as the Company may, in its sole discretion, deem advisable to avoid any violation of federal, state, local or foreign law, rule or regulation, or any securities exchange rule or listing agreement.</p> <p>The sole purpose of the agreements, warranties and representations set forth in the immediately preceding paragraph is to prevent violations of the Securities Act of 1933, as amended, and any applicable state securities laws.</p>
<b>Stock Dividend, Stock Split and Similar Capital Changes</b>	<p>In the event of any change in the outstanding shares of Stock of the Company by reason of a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Administrator deems in its sole discretion to be similar circumstances, the number and kind of shares subject to this Agreement shall be appropriately adjusted in a manner to be determined in the sole discretion of the Administrator, whose decision shall be final, binding and conclusive in the absence of clear and convincing evidence of bad faith.</p>
<b>Non-Transferability</b>	<p>DSUs are not transferable.</p>

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**No Effect on Status as a Service Provider** Nothing herein shall modify your status as an employee, director or other service provider of the Company or any of its Affiliates. Further, nothing herein guarantees your status as a service provider for any specified period of time. This means that either you or the Company or any of its Affiliates may terminate your service at any time for any reason, with or without cause, or for no reason. You recognize that, for instance, you may terminate your service or the Company or any of its Affiliates may terminate your service.

**No Effect on Corporate Authority** You understand and agree that the existence of this Agreement will not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting the common shares or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

**Arbitration** Any dispute or disagreement between you and the Company with respect to any portion of this Agreement or its validity, construction, meaning, performance or your rights hereunder shall be settled by arbitration, at a location designated by the Company, in accordance with the Commercial Arbitration Rules of the American Arbitration Association or its successor, as amended from time to time. However, prior to submission to arbitration you will attempt to resolve any disputes or disagreements with the Company over this Agreement amicably and informally, in good faith, for a period not to exceed two weeks. Thereafter, the dispute or disagreement will be submitted to arbitration. At any time prior to a decision from the arbitrator(s) being rendered, you and the Company may resolve the dispute by settlement.

You and the Company shall equally share the costs charged by the American Arbitration Association or its successor, but you and the Company shall otherwise be solely responsible for your own respective counsel fees and expenses. The decision of the arbitrator(s) shall be made in writing, setting forth the award, the reasons for the decision and award and shall be binding and conclusive on you and the Company.

Further, neither you nor the Company shall appeal any such award. Judgment of a court of competent jurisdiction may be entered upon the award and may be enforced as such in accordance with the provisions of the award.

**Governing Law; Compliance with Laws** The laws of the State of Delaware will govern all matters relating to this Agreement, without regard to the principles of conflict of laws. No shares of Stock will be delivered to you unless counsel for the Company is satisfied that such delivery will be in compliance with all applicable laws. The Company reserves the right to impose other requirements on the Units, any Stock acquired or payment made pursuant to the DSUs, and your participation in the Plan, to the extent the Company determines, in its sole discretion, that such other requirements are necessary or advisable to comply with applicable laws. Such requirements may include (but are not limited to) requiring you to sign any agreements or undertakings that may be necessary to accomplish the foregoing.

**Notices** Any notice you give to the Company must be in writing and either hand-delivered or mailed to the office of the General Counsel of the Company. If mailed, it should be addressed to the General Counsel of the Company at its then main headquarters. Any notice given to you will be addressed to you at your address as reflected on the personnel records of the Company. You and the Company may change the address for notice by like notice to the other. Notice will be deemed to have been duly delivered when hand-delivered or, if mailed, on the day such notice is postmarked.

**Conflicting Terms** Wherever a conflict may arise between the terms of this Agreement and the terms of the Plan, the terms of the Plan will control.

[Signature page follows]

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Please sign the copy of this Deferred Share Unit Agreement and return it to the Company's Secretary, thereby indicating your understanding of and agreement with its terms and conditions.

**THE THE PROVIDENCE SERVICE CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:

**ACKNOWLEDGEMENT**

I hereby acknowledge receipt of a copy of the Plan. I hereby represent that I have read and understood the terms and conditions of the Plan and of the Deferred Share Unit Agreement. I hereby signify my understanding of, and my agreement with, the terms and conditions of the Plan and of the Deferred Share Unit Agreement. I agree to accept as binding, conclusive, and final all decisions or interpretations of the Administrator concerning any questions arising under the Plan with respect to this Deferred Share Unit Agreement. I accept this Deferred Share Unit Agreement in full satisfaction of any previous written or verbal promise made to me by the Company or any of its Affiliates with respect to option or stock grants.

Date: \_\_\_\_\_

CERTIFICATIONS

I, R. Carter Pate, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Providence Service Corporation;

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

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

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

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: August 8, 2018

/s/ R. Carter Pate

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R. Carter Pate  
Interim Chief Executive Officer  
(Principal Executive Officer)

CERTIFICATIONS

I, William Severance, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Providence Service Corporation;

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

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

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

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: August 8, 2018

/s/ William Severance

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William Severance  
Interim Chief Financial Officer  
(Principal Financial Officer)

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

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of The Providence Service Corporation (the "Company") does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended June 30, 2018 (the "Report") that, to the best of such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2018

/s/ R. Carter Pate  
R. Carter Pate  
Interim Chief Executive Officer  
(Principal Executive Officer)



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

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of The Providence Service Corporation (the "Company") does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended June 30, 2018 (the "Report") that, to the best of such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2018

/s/ William Severance  
William Severance  
Interim Chief Financial Officer  
*(Principal Financial Officer)*

