UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-34221

The Providence Service Corporation
(Exact name of registrant as specified in its charter)

Delaware	**86-0845127**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
700 Canal Street, Third Floor, Stamford, CT	**06902**
(Address of principal executive offices)	**(Zip code)**

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

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

Title of each Class	**Name of each exchange on which registered**
Common Stock, $0.001 par value per share	**The NASDAQ Global Select Market**

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth company	☐		

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

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

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates based on the closing price for such common equity as reported on The NASDAQ Global Select Market on the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2017) was $576.8 million.

As of March 5, 2018, there were outstanding 12,866,551 shares (excluding treasury shares of 4,656,738) of the registrant's Common Stock, $0.001 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

All or a portion of Items 10 through 14 in Part III of this Annual Report on Form 10-K are incorporated by reference to our definitive proxy statement on Schedule 14A for our 2018 stockholder meeting; provided that if such proxy statement is not filed on or before April 30, 2018, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

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Part I

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

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Item 1. *Business.*

Background

The Providence Service Corporation 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 we hold 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"), a nationwide provider of in-home care optimization and management solutions, including comprehensive health assessments ("CHAs"), to members of managed care organizations, accounted for as an equity method investment. On February 16, 2018, Matrix acquired HealthFair, expanding its service offerings to include mobile health assessments, advanced diagnostic testing, and additional care optimization services.

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 actively monitoring these activities as they relate to our capital allocation and acquisition strategy to ensure alignment with Providence's overall strategic objectives and its goal of enhancing shareholder value.

The Company is a Delaware corporation formed in 1996 and headquartered in Stamford, Connecticut.

Business Strategies

Our businesses are operated on a decentralized basis and do not share any integrated functions such as sales, marketing, purchasing, human resources, accounting, finance or legal. They pursue strategies reflective of their respective industries and operating models. Our segments' core competencies include developing and managing large provider networks, tailoring healthcare and workforce development service offerings to the unique needs of diverse communities and populations, and implementing technology-enabled delivery models to achieve superior outcomes in low cost settings. We pursue both organic and inorganic growth through entry into adjacent markets and complementary service lines, particularly with offerings that may leverage the advantages inherent in our large-scale, technology-enabled, networks. In particular, as it relates to inorganic growth, we are actively evaluating the optimal industry sectors, such as the non-emergency medical transportation industry and others in which businesses complementary to our NET Services business operate, around which to focus our merger and acquisition activity. This ongoing evaluation takes into consideration and balances a number of factors, including the strategic goals, competitive landscape, and growth opportunities of our current segments, in an attempt to direct our capital towards those areas of our business most likely to drive long-term value creation and generate the highest levels of return for our shareholders. We also may enter into strategic partnerships or dispose of businesses, as demonstrated by the Matrix Transaction (defined below) and the Human Services Sale (defined below), based on a variety of factors, including availability of alternative opportunities to deploy capital or otherwise maximize shareholder value as well as other strategic considerations. The outcome of our active evaluation of the optimal industry sectors around which to focus our merger and acquisition activity as well as the potential future entry into strategic partnerships or potential disposition of businesses may impact the extent and manner in which we deploy resources across Providence, including strategic and administrative resources between Corporate and Other and our operating segments.

Discontinued Operations

On October 19, 2016, affiliates of Frazier Healthcare Partners purchased a controlling equity interest in Matrix, with Providence retaining a noncontrolling equity interest (the "Matrix Transaction"). Matrix's financial results prior to October 19, 2016 are presented as a discontinued operation. In addition, on November 1, 2015, the Company completed its sale of the Human Services Segment (the "Human Services Sale"), which is accounted for as a discontinued operation for all periods presented.

Description of Our Segments

The Company operates in two principal business segments, NET Services and WD Services. In addition, Providence holds a noncontrolling interest in Matrix, which is a reportable segment for financial reporting purposes (the "Matrix Investment"). Financial information about segments and geographic areas, including revenues, operating income (loss), and long-lived assets of each segment, is included in Note 21, *Segments*, to our consolidated financial statements and is incorporated herein by reference. See Item 1A, Risk Factors, for a discussion of risks related to our operations and investments.

NET Services

Services offered. NET Services provides non-emergency transportation solutions to clients in 38 states and the District of Columbia. As of December 31, 2017, approximately 23.6 million individuals were eligible to receive our transportation services, and during 2017, NET Services managed 66.8 million trips. For 2017, 2016 and 2015, NET Services accounted for 81.2%, 78.2% and 73.3%, respectively, of Providence's consolidated service revenue, net.

NET Services primarily contracts with state Medicaid programs and managed care organizations ("MCOs" and collectively "NET customers") for the coordination of their members' ("NET end-users") non-emergency transportation needs. NET end-users are typically Medicaid or Medicare eligible members, whose limited mobility or financial resources hinders their ability to access necessary healthcare and social services. We believe our transportation services enable access to care that not only improves the quality of life and health of the populations we serve, but also enables many of the individuals we serve to pursue independent living in their homes rather than in more expensive institutional care settings.

NET Services program delivery is dependent upon a highly-integrated technology platform and business process as well as the management of a multifaceted network of subcontracted transportation providers. Our technology platform is purpose-built for the unique needs of our industry and is highly scalable, capable of supporting substantial growth in our clients' current and future membership base. In addition, our technology platform efficiently provides a broad interconnectivity among NET end-users, NET customers, and our network of transportation providers. We believe this technological capability and our industry experience uniquely position us as a future focal point in the evolving healthcare industry to introduce valuable population insights. In 2016 and 2017, we introduced service offerings and new technological features for NET end-users to improve service levels, lower costs and build the foundation for additional data analytics capabilities.

To fulfill the transportation needs of NET end-users, we apply our proprietary technology platform to an extensive network of approximately 5,100 transportation resources. This includes our in-network roster of fully contracted transportation providers who operate sedans, wheelchair equipped vehicles, multi-passenger vans and ambulances. Our system also utilizes partnerships with on-demand transportation network companies, mass transit entities, mileage reimbursement programs, taxis and county-based emergency medical service providers. To promote safety, quality, and compliance, our in-network transportation providers undergo an in-depth credentialing and education process. Our proprietary technology platform is designed to connect with our external partners' application program interfaces to improve on-time and on-demand performance, provide real time information and analytics (including live vehicle location data), minimize cancellations and better allow for the scale required to provide an effective, nationwide service.

Our transportation management services also include fraud, waste, and abuse and utilization review programs designed to monitor that our transportation services are provided in compliance with Medicaid program rules and remediate issues that are identified. Compliance controls include ongoing monitoring, auditing and remediation efforts, such as validating NET end-user eligibility for the requested date of service and employing a series of gatekeeping questions to check that the treatment type is covered and the appropriate mode of transportation is assigned. We also conduct post-trip confirmations of attendance directly with the healthcare providers for certain repetitive trips and we employ field monitors to inspect transportation provider vehicles and observe some transports in real time. Our claims validation process generally limits payment to trips that are properly documented, have been authorized in advance, and are billed at the pre-trip estimated amount.

In 2016, NET Services launched a strategic initiative to enhance client and member satisfaction and drive greater operational efficiencies. This initiative focuses on developing and deploying new processes and technologies needed to: progress towards an industry-leading call center and reservation scheduling platform; improve member communication, accessibility, and satisfaction; optimize the utilization of our extensive network of transportation providers; and build the foundation for additional analytical capabilities. Implementations under this strategic initiative that were completed in 2017 include new workforce management tools aimed at streamlining our call center operations and decreasing payroll costs, tools and models to better monitor transportation provider performance and capacity availability, and rate setting protocols aimed at lowering transportation costs and improving service quality. The full implementation of the initiative is expected to be substantially completed by the end of 2018.

Revenue and customers. In 2017, contracts with state Medicaid agencies and MCOs represented 55.9% and 44.1%, respectively, of NET Services' revenue. NET Services derived 13.8%, 13.1% and 15.0% of its revenue from a single state Medicaid agency for the years ended December 31, 2017, 2016 and 2015, respectively. The next four largest NET Services customers in the aggregate comprised 22.3%, 22.6% and 24.2% of NET Services' revenue for the years ended December 31, 2017, 2016 and 2015, respectively.

Contracts with state Medicaid agencies are typically for three to five years with multiple renewal options. Contracts with MCOs continue until terminated by either party upon reasonable notice (as determined in accordance with the contract), and allow for regular price adjustments based upon utilization and transportation cost. As of December 31, 2017, 30.8% of NET Services revenue was generated under state Medicaid contracts that are subject to renewal within the next 12 months. In 2017, NET Services renewed contracts representing 29.5% of its revenue in such year, including its contract with the New Jersey Department of Human Services, Division of Medical Assistance and Health Services, to provide non-emergency medical transportation management services to Medicaid-eligible New Jersey residents.

77.9% of NET Services' revenue in 2017 was generated under capitated contracts where we assume the responsibility of meeting the covered healthcare related transportation requirements of a specific population based on per-member per-month fees for the number of members in the customer's program. Revenue is recognized based on the population served during the period. Under certain capitated contracts, partial payment is received as a prepayment during the month service is provided. These partial payments may be due back to the customer, or additional payments may be due to the Company, after each reconciliation period, based on a reconciliation of actual utilization and cost compared to the prepayment made. 22.1% of NET Services' revenue was generated under other types of fee arrangements, including administrative services only, fee for service ("FFS"), cost plus and flat fee contracts, under which fees are generated based upon billing rates for specific services or defined membership populations.

Seasonality. While revenue is generally fixed, primarily as a result of the capitated nature of the majority of our contracts, service expense varies based on the utilization of our services. The quarterly operating income and cash flows of NET Services normally fluctuate as a result of seasonal variations in the business, principally due to lower transportation demand during the winter season and higher demand during the summer season.

Competition. We compete with a variety of national organizations that provide similar healthcare and social services related transportation, such as Medical Transportation Management, Southeastrans, Veyo, and American Medical Response, as

well as local and regional providers. Most local competitors seek to win contracts for specific counties or small geographic territories whereas we and other larger competitors seek to win contracts for an entire state or large regional area. We compete based upon a number of factors, including our nationwide network, technical expertise, experience, service capability, service quality, and price.

Business development. Our sales and marketing strategy relies on a concentrated business development effort, with centralized marketing programs. Due to the critical nature of our services, our customers rely upon our past delivery performance record, network development and management expertise, technical expertise and capability, and specialized knowledge. A significant portion of our revenue is generated from long-term, repeat customers. Our long-term strategy is to improve our position as the preferred provider of transportation, complementary network-based services and data analytics offerings to a broad array of healthcare payers. Key elements of our long-term strategy include continued investment in our technologies, enabling us to both lower costs and improve service delivery. We also consider acquisitions of businesses that serve our market or leverage our nationwide infrastructure.

WD Services

Services offered. WD Services is a 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. For 2017, 2016 and 2015, WD Services accounted for 18.8%, 21.8% and 26.7%, respectively, of Providence's consolidated revenue.

WD Services' end user client base ("WD end-users") is broad and includes the disabled, recently and long-term unemployed and individuals seeking new skills, as well as individuals that are coping with medical illnesses, are newly graduated from educational institutions, or are being released from incarceration.

As of December 31, 2017, WD Services operated in 10 countries outside of the U.S. These countries included the United Kingdom ("UK"), France, Saudi Arabia, South Korea, Canada, Germany, Australia, Switzerland and Singapore. WD Services also holds a noncontrolling interest in a joint venture in Spain.

In order to build upon its leadership position in the UK employment services industry, enhance client satisfaction and drive greater operational efficiencies, WD Services implemented the Ingeus Futures program, which was substantially completed in 2017. This program included organizational restructuring, the development and deployment of new processes and technologies, and increased business development resources. Each aspect of the program was aimed at improving operational efficiencies and client services as well as developing the internal capabilities necessary to ensure long-term profitable growth in the employment, training and healthcare industries.

Revenue, customers and clients. The majority of WD Services' revenue is generated through the provision of employability, legal offender rehabilitation and training programs to national government entities seeking to reduce unemployment or recidivism rates. For the years ended December 31, 2017, 2016 and 2015, 61.4%, 68.3% and 75.5%, respectively, of WD Services' revenue was derived from operations in the UK, with 38.6%, 31.7% and 24.5%, respectively, derived from operations outside the UK. Additionally, during the years ended December 31, 2017, 2016 and 2015, respectively, 19.6%, 28.9% and 40.0% of WD Services' revenue was derived from a contract with the UK government's Department of Work and Pensions for employability services and 27.1%, 25.9% and 28.2% of WD Services' revenue was derived from a contract with the UK government's Ministry of Justice (the "MOJ"), for legal offender rehabilitation services. Revenue under the UK employability services contract is decreasing as expected, as referrals ended under this program in March 31, 2017. In late 2017, WD Services was awarded three new employability contracts and one sub-contract under the new Work and Health Programme in the UK, allowing Ingeus to continue to maintain its position as a leader in the UK workforce development market, although overall this program has a smaller scale than the legacy employability services contract. During 2017, there was negligible revenue under the new Work and Health Programme.

The revenue earned by WD Services under its contracts is often derived through a combination of different revenue channels including, but not limited to, fees contingent upon: (1) the volume of WD end-users referred to and/or admitted into a specific program, (2) the achievement of defined outcomes for specific individuals, such as a job placement or continued employment and (3) the achievement of defined outcomes for a population of individuals over a specific time period, such as aggregate employment or recidivism rates. The relative contributions of different revenue channels under a specific contract can fluctuate meaningfully over the life of a contract and thus contribute to significant earnings volatility. Revenue recognition related to our National Citizen Services ("NCS") youth programs can be particularly volatile due to the timing of services provided, which typically occur in the second and third quarters of each year. WD Services also earns revenue under fixed FFS arrangements, based

upon contractual rates established at the outset of the contract or the applicable contract year, although the rate may be prospectively adjusted during the contract year based upon actual volumes. Volume levels are typically not guaranteed under contracts.

The nature of the services offered by WD Services often relies on our ability to improve a certain set of outcomes at a reduced cost versus previously utilized in-sourced delivery models. As a result, as we commence new contracts using transformational delivery models, we are often required to invest significant upfront capital for information technology, human resources, facilities and other onboarding costs, such as consultants and redundancy payments. The level of upfront funding required is dependent upon the size and nature of the contract. Although significant upfront funding may be required, revenues are often payable only as services are delivered and, in some cases, only after incentive measures have been achieved over a multi-year period. As a result of these two factors, there can be significant variability in our earnings from quarter-to-quarter and year-to-year. 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. The Company also relies on certain customers to periodically provide information regarding the achievement of service delivery targets, which information could result in reductions in future payments if targets are not met. As a result, we often measure a contracts success over the entire term of the contract and believe the financial results of WD Services are best viewed from a multi-year perspective.

The MOJ is currently reviewing its program for outsourcing probationary services, which includes its contracts with our subsidiary Reducing Reoffending Partnership ("RRP"), which is in our WD Services segment. The review includes an investigation regarding sustainability of the economic terms of such contracts, as well as data relating to reoffending statistics and other factors that could impact contractual performance measures. The potential impact of this review on RRP's agreement with the MOJ, including with respect to any potential payments to the MOJ that may be required, cannot be determined at this time because the review is ongoing. See also "Risk Factors—Risks Related to our Business—If we fail to satisfy our contractual obligations, we could be liable for damages and financial penalties, which may place existing pledged performance and payment bonds at risk as well as harm our ability to keep our existing contracts or obtain new contracts and future bonds."

Seasonality. While there has been period-to-period variability in WD Services' earnings due to the factors discussed above and also set forth in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Revenues and Expenses – WD Services", there has not been a material seasonal effect on WD Services' results of operations.

Competition. In the UK, U.S., Saudi Arabia and Singapore the workforce development market is served by large, often multi-national, corporations, along with national and regional for-profit and non-profit entities. In Canada, France, Germany, South Korea, Spain and Switzerland, our competition is primarily companies specific to the geography, nationally or regionally, and both privately owned for-profit and non-profit entities. In the UK, the offender rehabilitation market is served by large corporations, often working with charitable sector providers. In general our larger competitors internationally include Maximus, Interserve, Sodexo, The Reed Group and Working Links.

The market for services to governments is competitive and subject to change and pricing pressure, particularly during the bidding for new contracts and contract renewals. However, due to the critical nature of our offerings and the WD end-users we serve, market entry can be difficult for new entrants or those without prior established track-records. Other barriers to entry include operational service complexity and significant upfront investments. This can include establishment of complex IT systems which often must interface with government systems, significant monitoring and reporting obligations, delivery from sites across wide geographies, and management and development of supply chains.

Business development. Our business development activities are performed both locally and centrally from WD Services' London headquarters. Through local and global networks and relationships, we become aware of new opportunities for which we develop bids through competitive processes. The nature of the competitive processes varies from highly competitive to being one of a few providers, or the sole provider, to bid on a contract. We pursue only those contracts that meet certain investment criteria, including risk-weighted return on capital thresholds, and involve the provision of services where we believe our experience will allow us to deliver differentiated and improved outcomes for our clients.

Matrix Investment

Providence's Matrix Investment is comprised of our interest in Matrix. Since the completion of the Matrix Transaction, the Company has had a noncontrolling equity interest in Matrix. The Company and an affiliate of Frazier Health Partners (the "Frazier Subscriber"), which holds the controlling equity interest in Matrix, are party to the Second Amended and Restated Limited Liability Company Agreement (the "Operating Agreement") of Mercury Parent, LLC, the company through which the parties hold their equity interests in Matrix. The Operating Agreement sets forth certain terms and conditions regarding the ownership by the Company and Frazier Subscriber of interests in Mercury Parent and their indirect ownership of common stock of Matrix, and

provides for, among other things, certain liquidity and governance rights and other obligations and rights, in each case, on the terms and conditions contained therein.

At December 31, 2017, the Company owned a 46.6% noncontrolling interest in Matrix. Prior to the closing of the Matrix Transaction, the financial results of Matrix were included in our Health Assessment Services ("HA Services") segment. The Company's proportionate share of Matrix's net assets and financial results for the period following the closing of the Matrix Transaction are presented under the equity method. The assets, liabilities and financial results of Matrix for the period prior to the closing of the Matrix Transaction are presented within discontinued operations. For additional information regarding the Matrix Transaction, see Note 20, *Discontinued Operations,* to our consolidated financial statements.

Services offered. Matrix provides in-home care optimization and care management solutions, which include CHAs. As of December 31, 2017, Matrix utilized a national network of over 5,800 clinical providers, including 1,700 nurse practitioners ("NPs"), located across 50 states, to provide its services primarily to members of Medicare Advantage ("MA") health plans.

Matrix recently expanded its provider network and service offerings through a series of acquisitions. In December 2017, Matrix grew its clinical provider network through its acquisition of LP Health Services, a provider of quality and wellness visits on behalf of Medicaid/Duals managed care plans across the U.S., for a purchase price of $3.8 million. LP Health Services' revenue for the year ended December 31, 2017 was approximately $6 million.

In February 2018, Matrix completed its acquisition of HealthFair, a leading operator of mobile clinics which offer preventative health assessment and advanced diagnostic testing services, including laboratory, ultrasound, EKG and mammography testing, for a purchase price of $160 million plus an earnout payment contingent on HealthFair's 2018 performance. With the addition of HealthFair, Matrix's network increased to more than 6,000 community-based providers across all 50 states, including over 1,700 NPs. We believe the combination of the two organizations will provide health plan members with more convenient access to important care management and preventative health services. As a result of the rollover of certain equity interests of HealthFair, Providence's equity ownership in Matrix was 43.6% as of February 16, 2018. HealthFair's revenue for the year ended December 31, 2017 was approximately $45 million.

Matrix primarily generates revenue from CHAs, which obtain a health plan members' information related to health status, social, environmental and medical risks and help the MA plans improve the accuracy of such information. Matrix's services typically commence with a member analysis that utilizes client data, such as medical claims data, to maximize its ability to improve client and member outcomes as a result of the assessment process. Through Matrix's contact centers, which include approximately 160 colleagues, Matrix pursues additional data collection and schedules assessments. Matrix's NPs then conduct a CHA, which is comprised of a physical examination and other diagnostic services, in the member's home. Matrix also operates a care management offering which provides additional data analytics and chronic care management services.

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

Revenue, customers and clients. As of December 31, 2017, Matrix's customers included 48 health plans, including for-profit multi-state health plans and non-profit health plans that operate in only one state or several counties within one state. For the year ended December 31, 2017, Matrix's top five customers accounted for 72.2% of its revenue, as its largest customer accounted for 30.9% of its revenue and its second largest customer account for 26.8% of its revenue. Matrix enters into annual or multi-annual contracts with its customers under which it is paid on a per assessment basis.

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

Competition. We believe that Matrix and CenseoHealth, which announced in December 2017 a combination with Advance Health, a smaller competitor, are the largest independent providers of CHAs to the health plan market. There are many smaller competitors, such as EMSI Healthcare Services, MedXM, which was acquired by Quest Diagnostics on February 1, 2018, and Inovalon. In addition, some health plans in-source CHA services. Matrix's chronic care management competitors include Landmark Healthcare, PopHealthcare and Optum.

Employees

As of December 31, 2017, there were approximately 7,100 employees across Providence and our subsidiaries. Of such employees, approximately 3,800 work in NET Services and approximately 3,300 work in WD Services. In addition, 30 employees primarily conduct corporate activities.

None of our U.S. employees are members of a union. We have nearly 1,950 and 330 full-time employees in the UK and France, respectively. Certain of our UK employees are members of the NAPO and Unison unions and certain of our employees in France are members of the Confederation Generale du Travail and have collective bargaining rights. In other countries employees may be members of a trade union but these trade unions are not formally recognized by us. Participation in unions is confidential under European employment laws. We believe we have good relationships with our employees, both unionized and non-unionized, in the U.S. and internationally.

Regulatory Environment

NET Services and Matrix Investment

Overview

Our NET Services and Matrix Investment segments (the "U.S. Healthcare Segments") are subject to numerous U.S. federal, state and local laws, regulations and agency guidance (collectively, "Laws"). These Laws significantly affect the way in which these segments operate various aspects of their businesses. Our U.S. Healthcare Segments must also comply with state and local licensing requirements, state and federal requirements for participation in Medicare and Medicaid, requirements for contracting with MA plans, and contractual requirements imposed upon them by the federal, state and local agencies and third-party commercial customers to which they provide services. Failure to follow the rules and requirements of these programs can significantly affect our U.S. Healthcare Segments' ability to be paid for the services they provide and be authorized to provide services on an ongoing basis.

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

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

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

Federal Law

Federal healthcare Laws apply in any case in which our U.S. Healthcare Segments are providing an item or service that is reimbursable or provide information to such segments' customers that results in reimbursement by a federal healthcare payer program to such segments or to them. The principal federal Laws that affect our U.S. Healthcare Segments' businesses include those that prohibit the filing of false or improper claims or other data with federal healthcare payer programs and those that prohibit unlawful inducements for the referral of business reimbursable under federal healthcare payer programs.

False and Other Improper Claims

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

Many states also have similar false claims statutes. In addition, healthcare fraud is a priority of the U.S. Department of Justice, the Department of Health and Human Services ("DHHS"), its program integrity contractors and its Office of Inspector General, the Federal Bureau of Investigation and state Attorneys General. These agencies have devoted a significant amount of resources to investigating healthcare fraud.

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

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

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

Health Information Practices

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

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

healthcare privacy regulations to other HIPAA standards, including security, transactions and the appropriate use of service code sets.

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

Additionally, the HITECH Final Rule imposes various requirements on covered entities and business associates, and expands the definition of “business associates” to cover contractors of business associates. Even when our U.S. Healthcare Segments are not operating as covered entities, they may be deemed to be “business associates” for HIPAA rule purposes of such covered entities. Our U.S. Healthcare Segments monitor their compliance obligations under HIPAA as modified by HITECH, and implement operational and systems changes, associate training and education, conduct risk assessments and allocate resources as needed. Any noncompliance with HIPPA requirements could expose such segments to the criminal and increased civil penalties provided under HITECH and require them to incur significant costs in order to seek to comply with its requirements or to remediate potential issues that may arise.

Federal and State Anti-Kickback Laws

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

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

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

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

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

Federal and State Self-Referral Prohibitions

Our U.S. Healthcare Segments may be subject to federal and state statutes banning payments for referrals of patients and referrals by physicians to healthcare providers with whom the physicians have a financial relationship. Section 1877 of the Social Security Act, also known as the “Stark Law”, prohibits physicians from making a “referral” for “designated health services” for

Medicare (and in many cases Medicaid) patients from entities or facilities in which such physicians directly or indirectly hold a “financial relationship”.

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

Certain services that our U.S. Healthcare Segments provide may be identified as “designated health services” for purposes of the Stark Law. Such segments cannot provide assurance that future regulatory changes will not result in other services they provide becoming subject to the Stark Law’s ownership, investment or compensation prohibitions in the future.

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

Healthcare Reform

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

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

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

On January 20, 2017, the President of the United States issued an executive order that directed federal agencies to take steps to ensure the government’s implementation of the ACA minimizes the burden on impacted parties (such as individuals and states). The underlying intent of the executive order was to take the first steps to repeal and replace the ACA. The executive order specifically instructed agencies to “waive, defer, grant exemptions from, or delay implementation of provisions” that place a “fiscal burden on any State” or that impose a “cost, fee, tax, penalty, or regulatory burden” on stakeholders including patients, providers, and insurers. The order stated that any changes should be made only to the extent “permitted by law” and should comply with the law governing administrative rule-making. The executive order did not, however, provide specifics on next steps or provisions that would be reexamined nor was it clear how the executive branch would be reconciled with Republican congressional efforts to repeal and replace the ACA or what portions of the ACA may continue in any replacement legislation. There are multiple pending legislative proposals to amend the ACA which, among other effects, could repeal all or parts of the ACA without replacing its extension of coverage to expansion populations. In addition, there are pending legislative proposals to materially restructure Medicaid and other government health care programs.

In 2017, legislation was proposed in the U.S. Congress, but did not advance out of committee and was not passed, which would reduce or eliminate certain non-emergency medical transportation services provided by NET Services as a required Medicaid

benefit. A similar proposal was made in 2018 by the President of the United States in a federal budget proposal. If additional privatization initiatives are not proposed or enacted, or if previously enacted privatization initiatives are challenged, repealed or invalidated, there could be a material adverse impact on our segments' operating results.

Surveys and Audits

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

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

While our U.S. Healthcare Segments believe that our programs are in compliance with Medicare, Medicaid and other program certification requirements and state licensure requirements, failure to comply with these requirements could have a material adverse impact on such segments' businesses and their ability to enter into contracts with other agencies to provide services.

Billing/claims Reviews and Audits

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

Corporate Practice of Medicine and Fee Splitting

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

Professional Licensure and Other Requirements

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

WD Services

Overview

As a provider of workforce development services in the U.S. and 10 countries outside the U.S., WD Services is subject to numerous national and local laws and regulations. These laws and regulations significantly affect the way in which we operate various aspects of our business. WD Services has implemented compliance policies to help assure our compliance with these laws and regulations as they become effective; however, different interpretations or enforcement of these laws and regulations in the future could subject our practices to allegations of impropriety or illegality or could require us to make changes in our facilities, equipment, personnel, services or the manner in which we conduct our business.

WD Services' revenue is primarily derived from contracts that are funded by national governments that are seeking to reduce the overall unemployment rate or improve job placement success for targeted cohorts, and to reduce the recidivism rate. Further, the revenue we receive from these contracts is typically tied to milestones that are largely uncontrolled by us. Such milestones include the job placement success of clients, duration and tenure of clients in jobs once they are placed, and various other market and industry factors including the overall unemployment rate. For more information on the risks related to failure to satisfy our contractual obligations, see "Risk Factors—Risks Related to Our Business—If we fail to satisfy our contractual obligations, we could be liable for damages and financial penalties, which may place existing pledged performance and payment bonds at risk as well as harm our ability to keep our existing contracts or obtain new contracts and future bonds."

Data Security and Protection

WD Services is also subject to the European Union's and other countries' data security and protection laws and regulations. These laws and regulations impose broad obligations on the organizations that collect such data, as well as confer broad rights on individuals about whom such data is collected. There are amendments which will come into effect in 2018 with respect to European data privacy legislation which will significantly increase the fines for any breaches. In addition to their power to impose fines, information privacy regulators in Europe have significant powers to require organizations that breach regulations to put in place measures to ensure that such breaches do not occur again, and require businesses to stop processing personal information until the required measures are in place. For more information on the risks related to a failure to comply with privacy and security regulations, see "Risk Factors—Regulatory Risks—Our segments are subject to regulations relating to privacy and security of patient and service user information. Failure to comply with privacy and security regulations could result in a material adverse impact on our segments' operating results."

The data security and protection laws and regulations may also restrict the flow of information, including information about employees or service users, from WD Services to Providence in the U.S. In certain instances, informed consent to the data transfer must be given by the affected employee or service user. Compliance with such laws and regulations is costly and requires our segment management to expend substantial time and resources which could negatively impact our segments' results of operations. Compliance may also make it more difficult for the Company to gather data necessary to ensure the appropriate operation of its internal controls or to detect corruption, resulting in the need for additional controls or increasing the Company's costs to maintain appropriate controls.

Anti-Bribery and Corruption

WD Services' international operations are subject to various U.S. and foreign statutes that prohibit bribery and corruption, including the U.S. Foreign Corrupt Practices Act and the UK's Bribery Act. These statutes generally require organizations to prohibit bribery by or for the organization and demand the implementation of systems to counter bribery, including risk management, training and guidance and the maintenance of adequate record-keeping and internal accounting practices. The statutes also, among other things, prevent the provision of anything of value to government officials for the purposes of influencing official decisions or obtaining or retaining business or otherwise obtaining favorable treatment. In addition, many countries in which we operate have antitrust or competition regulations which, among other things, prohibit collusive tendering or bid-rigging behavior. For more information on the risks related to a failure to comply with applicable anti-bribery and anti-corruption regulations, see "Risk Factors—Regulatory Risks—Our segments' business could be subject to civil penalties and loss of business if we fail to comply with applicable bribery, corruption and other regulations governing business with governments."

Licensing

In many of the locations where WD Services operates, it is required by local laws to obtain and maintain licenses. The applicable state and local licensing requirements govern the services our segments provide, the credentials of staff, record keeping, treatment planning, client monitoring and supervision of staff. The failure to maintain these licenses or the loss of a license could

have a material adverse impact on WD Services businesses and could prevent them from providing services to clients in a given jurisdiction.

Surveys and audits

WD Services' contracts permit clients to review its compliance or performance, as well as its records, at the client's discretion. In most cases, if a deficiency is found by a reviewing agency, WD Services' will work with the reviewing agency to agree upon the steps to be taken to bring our program into compliance with applicable regulatory requirements. In the case of any deficiency, however, a client may take a number of adverse actions against WD Services, including: (i) termination or modification of existing contracts, (ii) prevention of receipt of new contracts or extension of existing contracts or (iii) reduction of fees paid under existing contract.

Billing Requirements

In WD Services, particularly in Europe, our contracts are subject to stringent claims and invoice processing regimes which vary depending on the customer and nature of the payment mechanism. Under European procurement legislation which has been implemented in each EU member state, any conviction for fraud can result in a ban from participating in public procurement tenders for up to five years, or until the organization in question has put in place "self clean" measures to the satisfaction of the procuring authority. For more information on the risks related to a failure to comply with applicable government coding and billing rules, see "Risk Factors—Regulatory Risks—Our segments could be subject to actions for false claims or recoupment of funds pursuant to certain audits if they do not comply with government coding and billing rules, which could have a material adverse impact on our segments' operating results."

Brexit

On June 23, 2016, the UK held a referendum in which eligible persons voted in favor of a proposal that the UK leave the EU, also known as "Brexit". The result of the referendum increased political and economic uncertainty in the UK for the foreseeable future, in particular during any period where the terms of any UK exit from the EU are negotiated. In turn, Brexit could cause disruptions to and create uncertainty surrounding our business, including affecting our relationships with our existing and future payers and employees, which could have an adverse effect on our financial results, operations and prospects, including being adversely affected in ways that cannot be anticipated at present. For more information on the risks related to the UK's exit from the European Union, see "Risk Factors—Regulatory Risks—Our business could be adversely affected by the referendum on the UK's exit from the European Union."

Additional Information

The Company's website at www.prscholdings.com provides access to its periodic reports, certain corporate governance documents, press releases, interim shareholder reports and links to its subsidiaries' websites. The Company makes available to the public on its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the SEC. Copies are also available, without charge, upon request to The Providence Service Corporation, 700 Canal Street, Third Floor, Stamford, CT 06902, (203) 307-2800, Attention: Corporate Secretary. The information contained on our website is not part of, and is not incorporated by reference in, this Annual Report on Form 10-K or any other report we file with or furnish to the SEC.

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

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

Risks Related to Our Business

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

Our NET Services contracts, and certain WD Services contracts, are subject to frequent renewal. For example, many of the state Medicaid contracts held by NET Services, which represented 55.9% of NET Services revenue for the year ended December 31, 2017, have terms ranging from three to five years and are typically subject to a competitive bidding process near the end of the term. NET Services also contracts with MCOs, which represented 44.1% of NET Services revenue for the year ended December 31, 2017. MCO contracts typically continue until terminated by either party upon reasonable notice (as determined in accordance with the contract). We cannot anticipate if, when or to what extent we will be successful in renewing our state government contracts or retaining our MCO contracts. During 2017, we experienced a decline in operating income as a percentage of revenue due to the nonrenewal of certain state contracts. In addition, with respect to many of our contracts, the payer may terminate the contract without cause, at will and without penalty to the payer, either immediately or upon the expiration of a short notice period in the event that, among other reasons, government appropriations supporting the programs serviced by the contract are reduced or eliminated or the payer deems our performance under the contract to be unsatisfactory.

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

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

We obtain, and will continue to seek to obtain, a significant portion of our business from national, state, and local government entities. To obtain business from government entities, we are often required to respond to requests for proposals ("RFPs"). To propose effectively, we must accurately estimate our cost structure for servicing a proposed contract, the time required to establish operations and the terms of the proposals submitted by competitors. We must also assemble and submit a large volume of information within rigid and often short timetables. Our ability to respond successfully to RFPs will greatly impact our business. If we misinterpret bid requirements as to performance criteria or do not accurately estimate performance costs in a binding bid for an RFP, we will seek to correct such mistakes in the final contract. However, there can be no assurance that we will be able to modify the proposed contract and we may be required to perform under a contract that is not profitable.

WD Services' ability to win contracts to administer and manage programs traditionally administered by government employees is also dependent on the impact of government unions. Many WD Services government employees belong to labor unions with considerable financial resources and lobbying networks. Union opposition could result in our losing government contracts, being precluded from providing services under government contracts, or maintaining or renewing existing contracts. If we could not renew certain contracts or obtain new contracts due to opposition political actions, it could have a material adverse impact on our operating results.

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

Our failure to comply with our contractual obligations could, in addition to providing grounds for immediate termination of the contract for cause, negatively impact our financial performance and damage our reputation, which, in turn, could have a

material adverse effect on our ability to maintain current contracts or obtain new contracts. The termination of a contract for cause could, for instance, subject us to liabilities for excess costs incurred by a payer in obtaining similar services from another source. In addition, our contracts require us to indemnify payers for our failure to meet standards of care, and some of them contain liquidated damages provisions and financial penalties that we must pay if we breach these contracts.

Our failure to meet contractual obligations could also result in substantial actual and consequential financial damages. For example, on January 25, 2018, the MOJ released a report on reoffending statistics for certain offenders who entered probation services during the period October 2015 to March 2016. The report provides statistics for all providers of probation services, including our subsidiary RRP, which is in our WD Services segment. This information is the second data set that is utilized to determine performance payments under the various providers' transforming rehabilitation contracts with the MOJ, as the actual rates of recidivism are compared to benchmark rates established by the MOJ. Performance payments and penalties are linked to two separate measures of recidivism - the binary measure and the frequency measure. The binary measure defines the percentage of offenders within a cohort, formed quarterly, who reoffend in the following 12 months. The frequency measure defines the average number of offenses committed by reoffenders within the same 12-month measurement period. The performance for the frequency measure for most providers has been below the benchmarks established by the MOJ. As a result, RRP could be required to make payments to the MOJ and the amounts of such payments could be material. The amount of potential payments to the MOJ, if any, under RRP's contracts with the MOJ cannot be estimated at this time, as the MOJ is reviewing the data to understand the underlying reasons for the increase in certain rates of recidivism and other factors that could impact the contractual measure.

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

We endeavor to ensure our acquisition strategy and alignment of resources serves to enhance shareholder value, which could result in changes to our strategy or to the way in which we deploy resources across Providence. We have made, and anticipate that we will continue to make, acquisitions. The Company typically incurs costs related to acquisitions and integrations, including third-party costs, whether or not the acquisition or integration is completed, which can have a material adverse impact on our operating results. The success of an acquisition depends in part on our ability to integrate an acquired company into our business operations. Integration of any acquired companies will place significant demands on our management, systems, internal controls and financial and physical resources. This could require us to incur significant expense for, among other things, hiring additional qualified personnel, retaining professionals to assist in developing the appropriate control systems and expanding our information technology infrastructure. The nature of our business is such that qualified management personnel can be difficult to find. Our inability to manage growth effectively could have a material adverse effect on our financial results.

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

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

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

We cannot assure you that we will be successful in overcoming problems encountered in connection with any acquisition or integration and our inability to do so could disrupt our operations and adversely affect our business. Our failure to address these risks or other problems encountered in connection with past or future acquisitions and investments could cause us to fail

to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and harm our business generally.

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

From time to time we may launch strategic initiatives in order to enhance shareholder value. For example, in 2017, NET Services pursued a strategic initiative to enhance member satisfaction and drive greater operational efficiencies. The implementation of the initiative is expected to be substantially completed by the end of 2018. Also in 2017, in order to build upon its leadership position in the UK employment services industry, enhance client satisfaction and drive greater operational efficiencies, WD Services substantially completed the Ingeus Futures program. In addition, we are actively evaluating the optimal industry sectors, such as the non-emergency medical transportation industry and others in which businesses complementary to our NET Services business operate, around which to focus our go-forward merger and acquisition activity, in an attempt to direct our capital towards those areas most likely to drive long-term value creation and generate the highest levels of return for our shareholders. The outcome of this active evaluation may impact the extent and manner in which we deploy resources across Providence, including strategic and administrative resources between Corporate and Other and our operating segments. There can be no assurance as to whether any strategic initiatives will be adopted as a result of this evaluation, and the outcome of any current or future strategic initiatives is uncertain.

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

We currently hold a noncontrolling interest in Matrix, which constitutes 24.0% of our consolidated assets. We do not have unilateral power to direct the activities that most significantly impact such business' economic performance. Our future growth may depend, in part, on future similar arrangements, any of which could be material to our financial condition and results of operations. These arrangements involve risks not present with respect to our wholly-owned subsidiaries, which may negatively impact our financial condition and results of operations or make the arrangements less successful than anticipated, including the following:

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

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

We generate a significant amount of the revenues in our segments from a few payers under a small number of contracts. For example, for the years ended December 31, 2017, 2016 and 2015, we generated 46.7%, 47.9% and 54.6%, respectively, of our consolidated revenue from ten payers. Additionally, five payers related to NET Services represented, in the aggregate, 36.1%, 35.6% and 39.2%, respectively, of NET Services revenue for the years ended December 31, 2017, 2016 and 2015. A single payer related to WD Services represented 27.1%, 28.9% and 40.0% of our WD Services revenue for the years ended December 31, 2017, 2016 and 2015, respectively. Additionally, a single payer related to Matrix represented 30.9%, 27.8% and 31.1% of Matrix revenue for the years ended December 31, 2017, 2016 and 2015, respectively. The loss of, reduction in amounts generated by, or changes in methods or regulations governing payments for our services under these contracts could have a material adverse impact on our

revenue and results of operations. In addition, any consolidation of any of our private payers could increase the impact that any such risks would have on our revenue and results of operations.

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

During 2017, 2016 and 2015, 77.9%, 78.3% and 83.6% of our NET Services revenue, respectively, was generated under capitated contracts with the remainder generated through FFS and flat fee contracts. WD Services also provides services under FFS and flat fee contracts. Under most of NET Services' capitated contracts, we assume the responsibility of managing the needs of a specific geographic population by contracting out transportation services to local transportation companies on a per ride or per mile basis. We use "pricing models" to determine applicable contract rates, which take into account factors such as estimated utilization, state specific data, previous experience in the state or with similar services, the medically covered programs outlined in the contract, identified populations to be serviced, estimated volume, estimated transportation provider rates and availability of mass transit. The amount of the fixed per-member, monthly fee is determined in the bidding process, but is predicated on actual historical transportation data for the subject geographic region as provided by the payer, actuarial work performed in-house as well as by third party actuarial firms and actuarial analysis provided by the payer. If the utilization of our services is more than we estimated, the contract may be less profitable than anticipated, or may not be profitable at all. Under our FFS contracts, we receive fees based on our interactions with government-sponsored clients. To earn a profit on these contracts, we must accurately estimate costs incurred in providing services. Our risk relating to these contracts is that our client population is not large enough to cover our fixed costs, such as rent and overhead. Our FFS contracts are not reimbursed on a cost basis and therefore, if we fail to estimate our costs accurately, we may experience reduced margins or losses on these contracts. Revenue under certain contracts may be adjusted prospectively if client volumes are below expectations. If the Company is unable to adjust its costs accordingly, our profitability may be negatively impacted. In addition, certain contracts with state Medicaid agencies are renewable at the state's option without an adjustment to pricing terms. If such renewed contracts require us to incur higher costs, including inflation or regulatory changes, than originally anticipated, our results of operations and financial condition may be adversely affected.

In WD Services, we often provide services to a client based on a unit price for delivery of a service or achievement of a defined outcome. If we fail to estimate costs accurately, we may have minimal ability to change the unit price to ensure profitability. While we may be able to alter our cost structure to reflect lower than anticipated volumes and other changes in service needs, there are certain fixed costs which are difficult to alter while still ensuring we can meet our contractual obligations. Further, many contracts require us to undertake significant onboarding projects, including making redundancies and changes to properties and IT. If we fail to anticipate the cost of these change programs, we may be unable to recover startup costs throughout the life of the contract. During the fourth quarter of 2016, WD Services recorded asset impairment charges of $19.6 million, which related, in part, to lower revenue and unanticipated costs for a recent contract. If WD Services continues to experience lower than expected volumes and unfavorable service mix shifts, it could result in additional impairment charges. For more information on the risks related to impairment of goodwill, see "Risk Factors—Risks Related to Our Business—Our reported financial results could suffer if there is an impairment of long-lived assets."

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

When we are awarded a contract to provide services, we may incur expenses before we receive any contract payments. These expenses include leasing office space, purchasing office equipment, instituting information technology systems, development of supply chains, hiring personnel and releasing certain personnel. As a result, in certain contracts where the government does not fund program start-up costs, we may be required to make significant investments before receiving any related contract payments or payments sufficient to cover start-up costs. For example, WD Services incurred start-up costs in 2017 related to the UK's Work and Health Programme, and in 2016 related to the offender rehabilitation program in the UK and start-up costs in France. In addition, payments due to us from payers may be delayed due to billing cycles or as a result of failures to approve government budgets in a timely manner, which may adversely affect our liquidity. Moreover, any resulting mismatch in expenses and revenue, especially under FFS arrangements, could be exacerbated if we fail either to invoice the payer correctly or to collect our fee in a timely manner. Such amounts may exceed our available cash, and any resulting liquidity shortages may require additional financing, which may not be available on satisfactory terms, or at all. This could have a material adverse impact on our ongoing operations and our financial position.

Our business is subject to risks of litigation.

The services we provide are subject to lawsuits and claims. A substantial award payable by the Company could have a material adverse impact on our operations and cash flows, and could adversely impact our ability to continue to purchase appropriate liability insurance. We can be subject to claims for negligence or intentional misconduct (in addition to professional liability type claims) by an employee or a third party we engage to assist with the provision of services, including but not limited to claims arising out of accidents involving vehicle collisions, workforce development placements or CHAs and various claims that could

result from employees or contracted third parties driving to or from interactions with clients or while providing direct client services. We can be subject to employee-related claims such as wrongful discharge, discrimination or a violation of equal employment laws and permitting issues. While we attempt to insure against for these types of claims, damages exceeding our insurance limits or outside our insurance coverage, such as a claim for fraud, certain wage and hour violations or punitive damages, could adversely affect our cash flow and financial condition.

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

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

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

The performance of each of our business segments also depends on the talents and efforts of our highly skilled information technology professionals. For example, technological improvement is a key component of the strategic initiative at NET Services to enhance member satisfaction and drive greater operational efficiencies and as NET Services expands our transportation network capacity beyond its traditional transportation provider network, increases on-time and on-demand performance, provides real time analytics and minimizes cancellations. Competition for skilled intellectual technology professionals can be intense. Our success depends on our ability to recruit, retain and motivate these individuals.

Effective succession planning is also important to our future success. If we fail to ensure the effective transfer of senior management knowledge and smooth transitions involving senior management, including the appointment of a new chief executive officer for the Company (as our chief executive officer terminated his role during the fourth quarter of 2017) and the transition of several key management positions, including the chief technology officer, in our NET Service business, our ability to execute short and long-term strategic, financial and operating goals, as well as our business, financial condition and results of operations generally, could be adversely affected.

In addition, our businesses rely on maintaining strong relationships with our employees and avoiding labor disputes. Certain of our UK employees are members of the NAPO and Unison unions and certain of our employees in France are members of the Confederation Generale du Travail. Unionized employees in both countries have collective bargaining rights. Participation in unions is confidential under European employment laws. While we believe we have good relationships with our employees, both unionized and non-unionized, in the U.S. and internationally, including the unions that represent some of our employees, a work stoppage due to our failure to renegotiate union contracts or for other reasons could have a significant negative effect on us. In addition, should additional portions of our workforce be subject to collective bargaining agreements, this could result in increased costs of doing business as we may be subject to mandatory, binding arbitration of labor scheduling, costs and standards and we may therefore have reduced operating flexibility.

We may have difficulty successfully completing divestitures or exiting businesses.

As demonstrated in 2017 with the sale of our interests in Mission Providence Pty Ltd to Konekt Limited, in 2016 with the Matrix Transaction and in 2015 with the Human Services Sale, we may dispose of all or a portion of our investments or exit businesses based on a variety of factors, including availability of alternative opportunities to deploy capital or otherwise maximize shareholder value as well as other strategic considerations. A divestiture or business termination could result in difficulties in the separation of operations, services, products and personnel, the diversion of management's attention, the disruption of our business and the potential loss of key employees and customers. A divestiture or business termination may be subject to the satisfaction of pre-closing conditions as well as to obtaining necessary regulatory and government approvals, which, if not satisfied or obtained,

may prevent us from completing the disposition or business termination, whether or not the disposition or business termination has been publicly announced. A divestiture or business termination may also involve continued financial involvement in the divested assets and businesses, such as indemnities or other financial obligations, including continuing obligations to employees, in which the performance of the divested assets or businesses could impact our results of operations. From time to time the Company guarantees the contractual payment or performance obligations of its segments. An inability to obtain waiver or termination of such guarantees may prevent us from completing a disposition or business termination, or may result in continued financial involvement in divested assets and businesses. Further, such divestitures may result in proceeds to us in an amount less than we expect or less than our assessment of the value of those assets. Any sale of our assets could result in a loss on divestiture. Any of the foregoing could adversely affect our financial condition and results of operations.

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

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

In addition, we have provided certain indemnifications in connection with the Human Services Sale in 2015 and the Matrix Transaction in 2016. To the extent we choose to divest other operations of our businesses in the future, we expect to provide certain indemnifications in connection with these divestitures. We may face liabilities in connection with these current or future indemnification obligations that may adversely affect our consolidated results of operation, financial condition and cash flows. We have entered into a settlement with Molina Healthcare Inc. (“Molina”), the purchaser of our former Human Services segment, regarding the settlement of certain potential indemnification claims. As of December 31, 2017, the accrual is $15.0 million with respect to an estimate of loss for such potential indemnification claims. Litigation is inherently uncertain, and the losses incurred in the event that the legal proceedings related to such claims were to result in unfavorable outcomes could have a material adverse effect on the Company’s business and financial performance. For more information on these potential indemnification obligations, see Note 18, *Commitments and Contingencies*, to our consolidated financial statements.

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

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

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

In conjunction with our initiatives to improve cost-efficiency, we incur substantial costs to develop technology, which may not ultimately serve our business purposes or lower costs. For example, in 2016, WD Services incurred a write-off of in-process technology of $3.1 million related to our legal offender rehabilitation services, as it was determined the system would not meet our business needs. As of December 31, 2017, NET Services has incurred $11.9 million of development in progress costs related to its LCAD NextGen technology system, which is a critical component of its initiative to progress towards an industry-leading call center and reservation scheduling platform, improve member communication, accessibility, and satisfaction, optimize the utilization of our extensive network of transportation providers and build the foundation for additional analytical capabilities.

The system has not been placed into service, and a review of the project is ongoing. In addition, we made a cost-method investment of $3.0 million during 2017, in Circulation, a technology-based transportation services provider.

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

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

Our information technology systems are critically important to our operations and we must implement and maintain appropriate and sufficient infrastructure and systems to support growth and business processes. We provide services to individuals, including services that require us to maintain sensitive and personal client information, including information relating to their health, social security numbers and other identifying data. Therefore, our information technology systems store client information protected by numerous federal, state and foreign regulations. We also rely on our information technology systems (some of which are outsourced to third parties) to manage the data, communications and business processes for all other functions, including our marketing, sales, logistics, customer service, accounting and administrative functions. Further, our systems include interfaces to third-party stakeholders, often connected via the Internet. In addition, certain of our services or information related to our services are carried out or hosted within our customers' IT systems, and any failure or weaknesses in their IT systems may negatively impact our ability to deliver the services, for which we may not receive relief from contractual performance obligations or compensation for services provided. As a result of the data we maintain and third-party access, we are subject to increasing cybersecurity risks. The nature of our business, where services are often performed outside a secured location, adds additional risk.

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

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

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

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

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

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

There are risks associated with our international operations that are different from the risks associated with our operations in the U.S., and our exposure to the risks of a global market could hinder our ability to maintain and expand international operations.

We have operation centers in Australia, Canada, France, Germany, Saudi Arabia, Singapore, South Korea, Switzerland, the UK and the U.S. and a noncontrolling interest in a joint venture in Spain. In implementing our international strategy, we may face barriers to entry and competition from local companies and other companies that already have established global businesses, as well as the risks generally associated with conducting business internationally. The success and profitability of international operations are subject to numerous risks and uncertainties, many of which are outside of our control, such as:

- political or economic instability;
- changes in governmental regulation or taxation;
- currency exchange fluctuations;
- difficulties and costs of staffing and managing operations in certain foreign countries, including potential pension and social plan liabilities;
- work stoppages or other changes in labor conditions; and
- taxes and other restrictions on repatriating foreign profits back to the U.S.

In addition, changes in policies or laws of the U.S. or foreign governments resulting in, among other changes, higher taxation, tariffs or similar protectionist laws could reduce the anticipated benefits of international operations and could have a material adverse effect on our results of operations and financial condition. We have currency exposure arising from both sales and purchases denominated in foreign currencies, including intercompany transactions outside the U.S., and we currently do not conduct hedging activities. The value of the U.S. dollar against other foreign currencies has seen significant volatility recently. Our financial condition and results of operations are reported in multiple currencies, and are then translated into U.S. dollars at the applicable exchange rate for inclusion in our consolidated financial statements. Appreciation of the U.S. dollar against these other currencies will have a negative impact on our reported net revenue and operating income while depreciation of the U.S. dollar against such currencies will have a positive effect on reported net revenue and operating income. We cannot predict with precision the effect of future exchange-rate fluctuations on our business and operating results, and significant rate fluctuations could have a material adverse effect on our results of operations and financial condition.

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

NET Services operating results and operating cash flows normally fluctuate as a result of seasonal variations in our business. Due to higher demand in the summer months and lower demand in the winter months, coupled with 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 season. WD Services typically does not experience seasonal fluctuations in operating results. However, volatility in revenue and earnings is common in the case of WD Services due to the timing of commencement and expiration of certain major contracts as well as fluctuations in referrals provided by its customers.

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

Goodwill may be impaired if the estimated fair value of one or more of our reporting units is less than the carrying value of the respective reporting unit. As a result of our growth, in part through acquisitions, goodwill and other intangible assets represent a significant portion of our assets. We perform an analysis on our goodwill balances to test for impairment on an annual basis. Interim impairment tests may also be required in advance of our annual impairment test if events occur or circumstances change that would more likely than not reduce the fair value, including goodwill, of one or more of our reporting units below the reporting unit's carrying value. Such circumstances could include but are not limited to: (1) loss of significant contracts, (2) a significant adverse change in legal factors or in the climate of our business, (3) unanticipated competition, (4) an adverse action or assessment by a regulator or (5) a significant decline in our stock price. In the fourth quarter of 2016, we recorded asset impairment charges of $19.6 million related to WD Services and an asset impairment of $1.4 million for Corporate and Other related to the sale of a building, as discussed below in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates". As of December 31, 2017, the carrying value of goodwill, intangibles and property and equipment, net is $121.7 million, $43.9 million and $50.4 million, respectively. In addition, property and equipment as of December 31, 2017 includes $13.4 million of construction and development in progress, primarily related to NET Services' LCAD NextGen technology system, as discussed above. We continue to monitor the carrying value of these long-lived assets. Any future impairment charges could have a material adverse impact on our results of operations and financial position.

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

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

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

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

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

There is sometimes media coverage regarding services that we or our competitors provide or contracts that we or our competitors are a party to. Inaccurate, misleading or negative media coverage about us could harm our reputation and, accordingly, our ability to maintain our existing contracts or procure new contracts. In addition, negative media coverage could influence government officials to slow the pace of privatizing or retendering government services.

Regulatory Risks

Our U.S. Healthcare Segments conduct business in a heavily regulated healthcare industry. Compliance with existing Laws is costly, and changes in Laws or violations of Laws may result in increased costs or sanctions that could reduce our segments' revenue and profitability.

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

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

Both federal and state government agencies have increased coordinated civil and criminal enforcement efforts related to the healthcare industry. Regulations related to the healthcare industry are extremely complex and, in many instances, the industry does not have the benefit of significant regulatory or judicial interpretation of those laws. The Patient Protection and Affordable Care Act, as well as the anticipated attempts to repeal all or portions of those laws by the President and Congress, has also introduced some degree of regulatory uncertainty as the industry does not know how the changes it introduced or changes to it will affect many aspects of the industry. Medicare and Medicaid anti-fraud and abuse laws prohibit certain business practices and relationships related to items and services reimbursable under Medicare, Medicaid and other governmental healthcare programs, including the payment or receipt of remuneration to induce or arrange for referral of patients or recommendation for the provision of items or services covered by Medicare or Medicaid or any other federal or state healthcare program. Federal and state Laws prohibit the submission of false or fraudulent claims, including claims to obtain reimbursement under Medicare and Medicaid. Our U.S. Healthcare Segments have implemented compliance policies to help assure their compliance with these regulations as they become effective; however, different interpretations or enforcement of these laws and regulations in the future could subject our practices to allegations of impropriety or illegality or could require such segments to make changes in their facilities, equipment, personnel, services or the manner in which they conduct our business.

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

Our segments' revenue is largely derived from contracts that are directly or indirectly paid or funded by government agencies. All of these contracts are subject to legislative appropriations and state or national budget approval. The availability of funding under NET Services' contracts with state governments is dependent in part upon federal funding to states. Changes in Medicaid methodology may further reduce the availability of federal funds to states in which our U.S. Healthcare Segments provide services. The President of the United States and Congress have proposed various changes to the Medicaid program, including considering converting the Medicaid program to a block grant format or capping the federal contribution to state Medicaid programs to a fixed amount per beneficiary. The Centers for Medicare and Medicaid Services ("CMS") has the ability to grant waivers to states relative to the parameters of their Medicaid programs. Such changes, individually or in the aggregate could have a material adverse effect on our U.S. Healthcare Segments operations.

Among the alternative Medicaid funding approaches that states have explored are provider assessments as tools for leveraging increased Medicaid federal matching funds. Provider assessment plans generate additional federal matching funds to the states for Medicaid reimbursement purposes, and implementation of a provider assessment plan requires approval by CMS in order to qualify for federal matching funds. These plans usually take the form of a bed tax or a quality assessment fee, which were historically required to be imposed uniformly across classes of providers within the state, except that such taxes only applied to Medicaid health plans.

Changes to provider assessment opportunities, the Medicaid programs in states in which our U.S. Healthcare Segments operate or in the structure of the federal government's support for those programs can impact the amount of funds available in the programs our U.S. Healthcare Segments support. Such segments cannot make any assurances that these Medicaid changes will not negatively affect the funding under their contracts. As funding under U.S. Healthcare Segments' contracts is dependent in part upon federal funding, such funding changes could have a significant effect upon such segments' businesses.

Currently, many of the U.S. states and overseas countries in which our segments operate are facing budgetary shortfalls or changes in budgetary priorities. While many of these states are dealing with budgetary concerns by shifting costs from institutional care to home and community based care such as we provide, there is no assurance that this trend will continue.

Likewise, in many of the overseas countries addressed by WD Services, particularly the UK, a continued focus following the global financial crisis on austerity measures to reduce national and local budget deficits could lead to further spending cuts or changes to welfare arrangements. This may make availability of funding for outsourcing of such services more difficult to obtain from relevant government departments, which may lead to more challenging terms and conditions, including pressure on prices or volumes of services provided.

In the UK, the low unemployment rate has led to a change in the government prioritizing employability services, and a consequent reduction in scale of the Work and Health Programme, the successor program to the Work Programme. While we have the ability to alter a portion of our cost structure to reflect the decreasing volume of these contracts during their term, there may be significant redundancy costs and management time additionally invested to reflect these changes, particularly if programs are discontinued.

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

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

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

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

Compliance with state and federal laws and regulations is costly and requires our segment management to expend substantial time and resources which could negatively impact our segments' results of operations. Further, the HIPAA regulations and state privacy laws expose our segments to increased regulatory risk, as the penalties associated with a failure to comply or with information security breaches, even if unintentional, could have a material adverse effect on our segments' results of operations.

Our WD Services segment has operations in many countries in Europe, and internationally, and these operations have access to significant amounts of sensitive personal information about individuals. In Europe, these operations are subject to European and national data privacy legislation which imposes significant obligations on data processors and controllers with respect to such personal information. Similar regimes exist in other WD Service jurisdictions such as Australia, Canada and South Korea. Some countries, such as Spain, France and Germany, have particularly strong privacy laws which impose even greater obligations on people handling personal information. Data protection and privacy law within the EU is changing effective May 25, 2018, from which date the EU General Data Protection Regulation ("GDPR") must be complied with. Amongst other changes the GDPR brings about an increase in the potential fines for certain breaches of the GDPR, of up to the higher of 4% of an undertaking's global turnover or €20,000,000. In addition to fining powers, data protection authorities in Europe have significant powers to require organizations that breach regulations to put in place measures to ensure that such breaches do not occur again, and require businesses to stop processing personal information until the required measures are in place. Such orders could significantly impact our business given that we are required to handle personal information as part of our service delivery model. The GDPR and other similar laws and regulations, as well as any associated inquiries or investigations or any other government actions, may be costly to comply with, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to remedies that may harm our business, including fines or demands or orders that we modify or cease existing business practices.

Our segments could be subject to actions for false claims or recoupment of funds pursuant to certain audits if they do not comply with government coding and billing rules, which could have a material adverse impact on our segments' operating results.

If our segments fail to comply with federal and state documentation, coding and billing rules, our segments could be subject to criminal or civil penalties, loss of licenses and exclusion from the Medicare and Medicaid programs, which could have a material adverse impact on our segments' operating results. In billing for our segments' services to third-party payers, our segments must follow complex documentation, coding and billing rules. These rules are based on federal and state laws, rules and regulations, various government pronouncements, and industry practice. In the U.S., failure to follow these rules could result in

potential criminal or civil liability under the federal False Claims Act, under which extensive financial penalties can be imposed or under various state statutes which prohibit the submission of false claims for services covered. Compliance failure could further result in criminal liability under various federal and state criminal or civil statutes. Our segments may be subject to audits conducted by our clients or their proxies that may result in recoupment of funds. In addition, our segments' clients may be subject to certain audits that may result in recoupment of funds from our clients that may, in turn, implicate our segments' services. Our segments' businesses could be adversely affected in the event such an audit results in negative findings and recoupment from or penalties to their customers.

Our segment contracts are subject to stringent claims and invoice processing regimes which vary depending on the customer and nature of the payment mechanism. Government entities in the U.S. may take the position that if a transport cannot be matched to a healthcare event, or is conducted inconsistently with contractual, regulatory or even policy requirements, payment for such transport may be recouped by such customer. Under European procurement legislation which has been implemented in each EU member state, any conviction for fraud can result in a ban from participating in public procurement tenders for up to five years, or until the organization in question has put in place "self clean" measures to the satisfaction of the procuring authority. This could significantly affect our business given that most of our customers in Europe are governmental organizations. Any such breaches or deficiencies in paperwork associated with billing may also be subject to contractual clawback regimes and penalties, which can be enforced many years after the revenue has been paid by the relevant authority.

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

Our segments' business could be subject to civil penalties and loss of business if we fail to comply with applicable bribery, corruption and other regulations governing business with governments.

Our U.S. Healthcare Segments are subject to the federal Anti-Kickback Statute, which prohibits the offer, payment, solicitation or receipt of any form of remuneration in return for referring, ordering, leasing, purchasing or arranging for or recommending the ordering, purchasing or leasing of items or services payable by a federally funded healthcare program. Any of our U.S. Healthcare Segments' financial relationships with healthcare providers will be potentially implicated by this statute to the extent Medicare or Medicaid referrals are implicated. Violations of the Anti-Kickback Statute could result in substantial civil or criminal penalties, including criminal fines of up to $25,000 per violation, imprisonment of up to five years, civil penalties under the Civil Monetary Penalties Law of up to $50,000 per violation, plus three times the remuneration involved, civil penalties under the False Claims Act of up to $11,000 for each claim submitted, plus three times the amounts paid for such claims and exclusion from participation in the Medicaid and Medicare programs. Any such penalties could have a significant negative effect on our U.S. Healthcare Segments' operations. Furthermore, the exclusion, if applied to such segments, could result in significant reductions in our revenues, which could materially and adversely affect such segments' businesses, financial condition and results of their operations. In addition, many states have adopted laws similar to the federal Anti-Kickback Statute with similar penalties.

As an international business whose customers are largely in the public sector, the WD Services segment generally wins work through public tender processes. Various statutes, such as the UK's Bribery Act and the Foreign Corrupt Practices Act in the U.S., generally require organizations to prohibit bribery by or for the organization and demand the implementation of systems to counter bribery, including risk management, training and guidance and the maintenance of adequate record-keeping and internal accounting practices. These statutes also, among other things, prohibit us from providing anything of value to foreign officials for the purposes of influencing official decisions or obtaining or retaining business or otherwise obtaining favorable treatment. In addition, many countries in which we operate have antitrust or competition regulations which, among other things, prohibit collusive tendering or bid-rigging behavior. Policies and procedures we implement to prevent bribery, corruption and anti-competitive conduct may not effectively prevent us from violating these regulations in every transaction in which we may engage, and such a violation could adversely affect our reputation, business, financial condition and results of operations. Any breach of bribery, corruption and collusive tendering laws could also expose our operations in Europe to a ban from participating in public procurement tenders for up to 5 years, or until the organization in question has put in place "self clean" measures to the satisfaction of the procuring authority.

In WD Services, we conduct business in several countries, each with its own system of regulation. Compliance with existing regulations is costly, and changes in regulations or violations of regulations may result in increased costs or sanctions that could reduce our revenue and profitability.

As of December 31, 2017, our WD Services segment operated in the U.S and 10 countries outside the U.S. Each of these countries has its own national and municipal laws and regulations, and some countries such as Australia, Germany and Switzerland,

have both federal and state regulations. In the UK, certain law making powers are being devolved to Scotland, Wales and Northern Ireland. These laws can differ significantly from country to country. In addition, in Europe, countries (including the UK) are subject to European Union ("EU") laws and rules. We have implemented compliance policies to help assure our compliance with these laws and regulations as they become effective; however, different interpretations or enforcement of these laws and regulations in the future could subject our practices to allegations of impropriety or illegality or could require us to make changes in our facilities, equipment, personnel, services or the manner in which we conduct our business.

Our segments' businesses could be adversely affected by future legislative changes that hinder or reverse the privatization of non-emergency transportation services or workforce development services.

The market for certain of our segments' services depends largely on government sponsored programs. These programs can be modified or amended at any time. Moreover, part of our growth strategy includes aggressively pursuing opportunities created by government initiatives to privatize the delivery of non-emergency transportation services and workforce development services. However, there are opponents to the privatization of these services and, as a result, future privatization is uncertain. In the UK, opposition to the government's outsourcing of the services provided by WD Services to private companies may increase in light of recent events in the UK, including the liquidation of the UK government contractor Carillion plc. In 2017, legislation was proposed in the U.S. Congress, but not passed, which would reduce or eliminate certain non-emergency medical transportation services provided by NET Services as a required Medicaid benefit. If additional privatization initiatives are not proposed or enacted, or if previously enacted privatization initiatives are challenged, repealed or invalidated, there could be a material adverse impact on our segments' operating results.

Our business could be adversely affected by the referendum on the UK's exit from the European Union.

On June 23, 2016, the UK held a referendum in which eligible persons voted in favor of a proposal that the UK leave the EU, also known as "Brexit". The result of the referendum increases political and economic uncertainty in the UK for the foreseeable future, in particular during any period where the terms of any UK exit from the EU are negotiated. In turn, Brexit could cause disruptions to and create uncertainty surrounding our business, including affecting our relationships with our existing and future payers and employees, which could have an adverse effect on our financial results, operations and prospects, including being adversely affected in ways that cannot be anticipated at present. The impact of Brexit on our business is not yet clear, and will depend on any agreements the UK makes to retain access to EU markets. Such agreements could potentially disrupt and/or destabilize the markets we serve and the tax jurisdictions in which we operate and adversely change tax benefits or liabilities in these or other jurisdictions. The terms of any UK exit from the EU could generate restriction on the movement of capital and the mobility of personnel. Depending on the outcome of negotiations between the UK and the European Union regarding the terms of Brexit (which will be negotiated over a period which may extend at least until March 2019), we may decide to alter the group's European operations to respond to new business, legal, regulatory, tax and trade environments that may result. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace, modify or replicate.

Following the referendum, there was significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. The strengthening of the U.S. dollar relative to the British pound and other currencies may adversely affect our results of operations as we translate sales and other results denominated in foreign currency into U.S. dollars for our financial statements. During periods of a strengthening dollar, our reported international sales and earnings could be reduced because foreign currencies may translate into fewer U.S. dollars. For the year ended December 31, 2017, revenue denominated in British pound represented 11.6% of our revenue.

Brexit may also create global economic uncertainty, which may cause our payers to closely monitor their costs and reduce their spending budget on our services. Additionally, changes in governmental personnel may impact our current relationships with our payers. Any of these effects and the uncertainties of Brexit, among others, could materially adversely affect our business, business opportunities, results of operations, financial condition, future growth and cash flows.

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

The CHA services industry is primarily regulated by federal and state healthcare Laws and the requirements of participation and reimbursement of the MA Program established by CMS. From time to time, CMS considers changes to regulatory guidelines with respect to prospective CHAs or the risk adjusted payment system applicable to Matrix's Medicare Advantage plan customers. CMS could adopt new requirements or guidelines that may, for example, increase the costs associated with CHAs, limit the opportunities and settings available to administer CHAs, or otherwise change the risk adjusted payment system in a way that would

adversely impact our business. Further, changes in or adoption of new state laws governing the scope of practice of mid-level practitioners, or more restrictive interpretations of such laws, may restrict Matrix's ability to provide services using nurse practitioners. Any such implementation of additional regulations on the CHA industry by CMS or other regulatory bodies or further regulation of mid-level practitioners could have a material adverse impact on Matrix's revenues and margins, which could have a material adverse impact on our consolidated results of operations.

If our U.S. Healthcare Segments fail to comply with physician self-referral laws, to the extent applicable to our operations, they could experience a significant loss of reimbursement revenue.

Our U.S. Healthcare Segments may be subject to federal and state statutes and regulations banning payments for referrals of patients and referrals by physicians to healthcare providers with whom the physicians have a financial relationship and billing for services provided pursuant to such referrals if any occur. Violation of these federal and state laws and regulations, to the extent applicable to our U.S. Healthcare Segments' operations, may result in prohibition of payment for services rendered, loss of licenses, fines, criminal penalties and exclusion from Medicaid and Medicare programs. To the extent such segments do maintain such financial relationships with physicians, they rely on certain exceptions to self-referral laws that they believe will be applicable to such arrangements. Any failure to comply with such exceptions could result in the penalties discussed above.

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

As government contractors, our segments are subject to an increased risk of investigation, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities that are not as frequently experienced by companies that do not provide government sponsored services. Companies providing government sponsored services can also become involved in public inquiries which can lead to negative media speculation or potential cancellation or termination of contracts. In WD Services in Europe, European procurement regulations in force in each European Union member state require public procurement authorities to impose a ban from participating in public procurement tenders for up to five years, or until the organization in question has put in place "self clean" measures to the satisfaction of the procuring authority, where companies are found guilty of fraud or certain other criminal offenses. Authorities can also exercise their discretion to blacklist companies for up to two years where they believe they have been involved in acts of gross misconduct or until the organization in question has put in place "self clean" measures to the satisfaction of the procuring authority. The occurrence of any of these actions, regardless of the outcome, could disrupt our operations and result in increased costs, and could limit our ability to obtain additional contracts in other jurisdictions. Further, government tenders in the U.S., the European Union and other countries can be subject to challenge where the procurer has not followed the correct processes, or where they seek to make material amendments to contracts after award. Consequently, it can be very difficult to convince government customers to amend their contracts, even where circumstances have changed significantly, because they are concerned that if challenged they may have to re-procure the entire service. This can pose significant risks in terms of cost management and profitability.

Our segments' businesses are subject to licensing regulations and other regulatory provisions, including provisions governing surveys and audits. Changes to, or violations of, these regulations could negatively impact our segments' revenues.

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

Our segments' contracts are subject to audit and modification by the payers with whom our segments contract, at their sole discretion.

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

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

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

Contract profitability may decline due to actions by governmental agencies or penalties that are based on government generated statistical information that may not be known to us in advance.

WD Services' operating costs and profitability may be significantly impacted by actions required by a government agency, such as the availability of information systems maintained by the government to streamline enrollment into our service programs. Government generated performance statistics, such as the MOJ reoffending report, may not be known to us prior to its release by the government agencies. WD Services may be subject to penalties that are based on such government generated statistics, and we could be required to make material payments, the amounts of which we may not be able to estimate and which could have an adverse effect on our financial condition and results of operations.

In addition, certain contracts may require that we hire former government employees, in relation to offering our service programs, or develop new information technology systems which would serve to replace legacy systems operated by the government. Lastly, revenue under certain contracts may be adjusted prospectively if client volumes are below expectations or client profiles change materially, which may also lead to cost or productivity changes. If the Company is unable to adjust its costs accordingly, profitability is negatively impacted.

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

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

Our annual tax rate is based on our income and the tax laws in the various jurisdictions in which we operate. Significant judgment and estimation is required in determining our annual income tax expense and in evaluating our tax positions and related matters. In the ordinary course of our business, there are many transactions and calculations for which the ultimate tax determinations are uncertain or otherwise subject to interpretation. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related disputes could be materially different from our historical income tax provisions and accruals. In addition, we make judgments regarding the applicability of tax treaties and the appropriate application of transfer pricing regulations. In the event one taxing jurisdiction disagrees with another taxing jurisdiction with respect to the amount or applicability of a particular type of tax, or the amount or availability of a particular type of tax refund or credit, we could experience temporary or permanent double taxation and increased professional fees to resolve such taxation matters. Our determination of our income tax liability is always subject to review by applicable tax authorities, and we have been audited by various jurisdictions in prior years. Although we believe our income tax estimates and related determinations are reasonable and appropriate, relevant taxing authorities may disagree. The ultimate outcome of any such audits and reviews could be materially different from the estimates and determinations reflected in our historical income tax provisions and accruals. Any adverse outcome of any such audit or review could have an adverse effect on our financial condition and the results of our operations.

The Tax Cuts and Jobs Act ("Tax Reform Act"), which was signed into law on December 22, 2017, significantly affected U.S. income tax law by changing how the U.S. imposes income tax on multinational corporations. We have recorded in our consolidated financial statements provisional amounts based on our current estimates of the effects of the Tax Reform Act in

accordance with our current understanding of the Tax Reform Act and currently available guidance. For additional information regarding the Tax Reform Act and the provisional tax amounts recorded in our consolidated financial statements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies". The final amounts may be significantly affected by regulations and interpretive guidance expected to be issued by the tax authorities, clarifications of the accounting treatment of various items, our additional analysis, and our refinement of our estimates of the effects of the Tax Reform Act and, therefore, such final amounts may be materially different than our current provisional amounts, which could materially affect our tax obligations and effective tax rate.

Risks Related to Our Indebtedness

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

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

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

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

Loss of available financing or an inability to renew, repay or refinance our debt could have an adverse effect on our financial condition and results of operations.

At December 31, 2017, our available credit under the Credit Facility was $188.9 million. The Credit Facility matures on August 2, 2018. If our cash on hand is insufficient, or we are unable to generate sufficient cash flows in the future, to cover our cash flow and liquidity needs and service our debt, we may be required to seek additional sources of funds, including refinancing all or a portion of our existing or future debt, incurring additional debt to maintain sufficient cash flow to fund our ongoing operating needs, pay interest and fund anticipated expenditures. There can be no assurance that any refinancing will be possible or that any additional financing could be obtained on acceptable terms. If we are unable to obtain additional financing, we may (i) be unable to satisfy our obligations under our outstanding indebtedness, (ii) be unable to pursue future business opportunities or fund acquisitions, (iii) find it more difficult to fund future operating costs, tax payments or general corporate expenditures and (iv) become vulnerable to adverse general economic, capital markets and industry conditions. Any of these circumstances could have a material adverse effect on our financial position, liquidity and results of operations.

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

We may incur substantial additional indebtedness in the future to fund activities including but not limited to share repurchases, acquisitions, cash dividends and business expansion. Any existing and future indebtedness increases the risk that we may be unable to generate cash sufficient to pay amounts due in respect of such indebtedness. Future substantial indebtedness could have other important consequences on our business. For example, it could:

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

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

Risks Related to Our Capital Stock

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

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

- changes in rates or coverage for services by payers;
- changes in Medicaid, Medicare or other U.S. federal or state rules, regulations, policies or applicable foreign regulations, policies and technical guidance, including UK health, employment and criminal justice legislation and guidance, Saudi Arabian licensing and Saudization rules, as well as other foreign laws applicable to our business;
- price and volume fluctuations in the overall stock market;
- market conditions or trends in our industry or the economy as a whole;
- increased competition in any of our segments, including through insourcing of services by our clients and new entrants to the market;
- other events or factors, including those resulting from war, incidents of terrorism, natural disasters or responses to these events;
- changes in tax law; and
- changes in accounting principles.

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

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

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

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

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

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

Sales of substantial amounts of our Common Stock in the public market, or the perception that these sales could occur, could cause the market price of our Common Stock to decline. As of March 5, 2018, we had 12,866,551 outstanding shares of Common Stock which are freely transferable without restriction or further registration under the Securities Act of 1933, as amended (the "Securities Act"), unless held by or purchased by our "affiliates" as that term is defined in Rule 144 under the Securities Act. Shares of our Common Stock held by or purchased by our affiliates are restricted securities within the meaning of Rule 144 under the Securities Act, but will be eligible for resale subject to applicable volume, means of sale, holding period and other limitations of Rule 144 under the Securities Act.

As of March 5, 2018, shares of our convertible preferred stock were convertible into 2,014,042 shares of Common Stock, all of which are subject to registration rights. In addition, as of March 5, 2018, 1,653,755 shares of Common Stock are beneficially owned by entities for which Coliseum Capital Management acts as investment adviser.

In August 2016, we filed a registration statement under the Securities Act to register additional shares of Common Stock to be issued under our equity compensation plans and, as a result, all shares of Common Stock acquired upon exercise of stock options granted under our plans will also be freely tradable under the Securities Act, unless purchased by our affiliates. As of December 31, 2017, there were stock options outstanding to purchase a total of 606,695 shares of our Common Stock and there were 111,157 shares of our Common Stock subject to restricted stock awards. In addition, 1,938,666 shares of our Common Stock are reserved for future issuances under the plan.

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

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

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

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

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

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

If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected. Preparing our consolidated financial statements involves a number of complex manual and automated processes, which are dependent upon individual data input or review and require significant management judgment. One or more of these elements may result in errors that may not be detected and could result in a material misstatement of our consolidated financial statements. If a material misstatement occurs in the future, we may fail to meet our future reporting obligations. For example, we may fail to file periodic reports in a timely manner or may need to restate our financial results, either of which may cause the price of our common stock to decline. In addition, our WD Services business is subject to the European Union's and other countries' data security and protection laws and regulations, which may make it more difficult for the Company to maintain the records and internal accounting practices necessary to ensure the appropriate operation of our internal controls or to detect corruption or increasing the Company's costs to maintain appropriate controls.

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

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these financial statements requires us to make estimates and judgments about, among other things, taxes, revenue recognition, contingent obligations, NET Services transportation expense, recoverability of long-lived assets and doubtful accounts. In addition, our foreign operations report their results pursuant to International Financial Reporting Standards, or IFRS, or local accounting standards, which requires judgment to convert into GAAP. Lastly, the implementation of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which is effective for the Company beginning January 1, 2018, requires a significant level of judgment and estimation, especially in regards to contingent or success-based payments, such as those prevalent at WD Services. These estimates and judgments affect the reported amounts of our assets, liabilities, revenue and expenses, the amounts of charges accrued by us, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances and at the time they are made. If our estimates or the assumptions underlying them are not correct, we may need to accrue additional charges or reduce the value of assets that could adversely affect our results of operations, leading to a loss in investor confidence in our ability to manage our business and our stock price could decline.

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

Our second amended and restated certificate of incorporation and amended and restated bylaws include a number of provisions that may be deemed to have anti-takeover effects, which include when and by whom special meetings of our stockholders may be called, and may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Such provisions may prevent our stockholders from receiving the benefit from any premium to the market price of our Common Stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our Common Stock if the provisions are viewed as discouraging takeover attempts in the future. Our second amended and restated certificate of incorporation and amended and restated by-laws may also make it difficult for stockholders to replace or remove our management. These provisions may facilitate management entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our stockholders.

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

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

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

None.

Item 2. ***Properties.***

Our principal executive office is located in Stamford, Connecticut, and we lease additional office space in Tucson, Arizona. As of March 2, 2018, NET Services leases space in approximately 40 locations, WD Services leases space in approximately 220 locations, and Matrix leases space in five locations. The lease terms vary and we believe are generally at market rates. We believe that our properties are adequate for our current business needs, and believe that we can obtain adequate space, if needed, to meet our foreseeable business needs.

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

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

On August 31, 2015, after arms’ length negotiations, the parties reached an agreement in principle and executed a Memorandum of Understanding (“MOU”) providing for the settlement of claims concerning the dividend rate increase term and stockholder vote and related disclosure. The MOU stated that the Defendants had entered into the partial settlement of the litigation solely to eliminate the distraction, burden, expense, and potential delay of further litigation involving claims that have been settled. Pursuant to the partial settlement, the Company agreed to supplement the disclosures in its definitive proxy statement on Schedule

14A (the "2015 Proxy Statement"), Coliseum Capital Management and certain of its affiliates and the Company entered into an amendment to that certain Series A Preferred Stock Exchange Agreement, by and among Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Coliseum Capital Co-Invest, L.P., Blackwell Partners, LLC, and The Providence Service Corporation dated as of February 11, 2015 described in the 2015 Proxy Statement, and the Board agreed to adopt a policy related to the Board's determination each quarter as to whether the Company should pay cash dividends or allow dividends to be paid in the form of PIK dividends on the Preferred Stock, as further described in the supplemental proxy disclosures. On September 2, 2015, Providence issued supplemental disclosures through a supplement to the 2015 Proxy Statement. On September 16, 2015, Providence stockholders approved the removal of the Caps. The Company provided notice of the proposed partial settlement to Providence's stockholders by December 11, 2015. At a hearing on February 9, 2016, the court denied approval of the settlement. The Court indicated that plaintiff's counsel could petition the Court for a mootness fee, and that defendants would have the opportunity to oppose any such application.

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

On May 6, 2016, the plaintiff filed a verified second amended class action and derivative complaint (the "second amended complaint"). In addition to the defendants named in the earlier complaint, the second amended complaint named Paul Hastings LLP ("Paul Hastings") and Bank of America, N.A. ("BofA") as additional defendants. In addition to previously asserted claims, the second amended complaint purported to assert direct and derivative claims for breach of fiduciary duties against Coliseum Capital Management, in its capacity as the controlling stockholder of the Company, in connection with the subordinated note, the Company's rights offering of Preferred Stock and the standby purchase agreement with Coliseum Capital Management (the "Financing Transactions"). The second amended complaint also alleged that Paul Hastings breached their fiduciary duties as counsel to the Company in connection with the Financing Transactions and that BofA and Paul Hastings aided and abetted certain of the Amended Individual Defendants in breaching their fiduciary duties in connection with the Financing Transactions. The second amended complaint sought, among other things, revision or rescission of the terms of the subordinated note and Preferred Stock, corporate governance reforms, disgorgement of fees paid to RBC Capital Markets, Paul Hastings and BofA for work relating to the Financing Transactions, unspecified damages and other relief.

On May 20, 2016, the Court granted a six-month stay of the proceeding (which was subsequently extended) to allow a special litigation committee, created by the Board, sufficient time to investigate, review and evaluate the facts, circumstances and claims asserted in or relating to this action and determine the Company's response thereto. On January 20, 2017, the special litigation committee advised the Court that the parties to the litigation and the special litigation committee had reached an agreement in principle to settle all of the claims in the litigation. The parties then entered into a proposed settlement agreement which was submitted to the Court for approval. On September 28, 2017, the Court approved the proposed settlement agreement among the parties that provided for a settlement amount of $10 million 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. On November 16, 2017, the Company, as a nominal defendant, received a payment of $5.4 million from the Settlement Amount.

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

Not applicable.

PART II

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

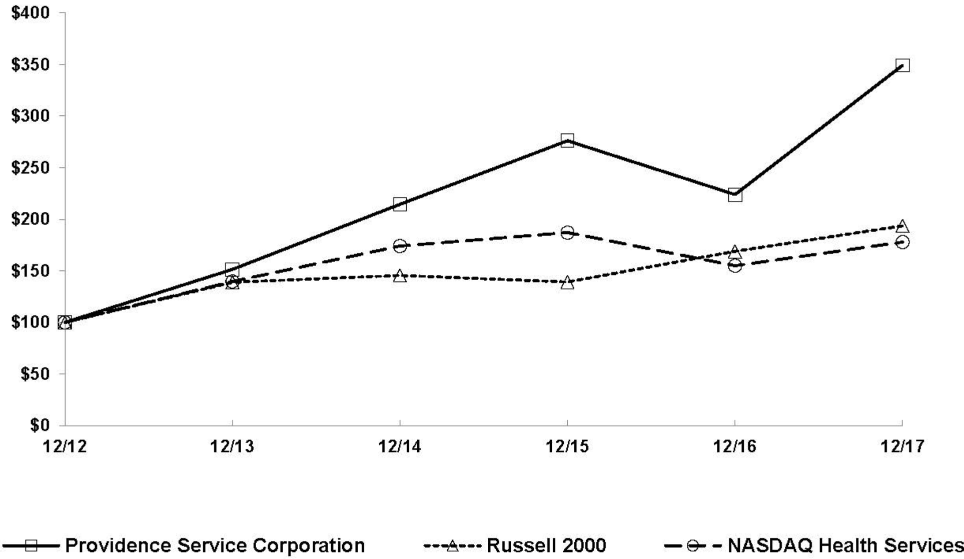
Market for our Common Stock

Our Common Stock, our only class of common equity, has been quoted on NASDAQ under the symbol "PRSC" since August 19, 2003. Prior to that time there was no public market for our Common Stock. As of March 5, 2018, there were 22 holders of record of our Common Stock. The following table sets forth the high and low sales prices per share of our Common Stock for the period indicated, as reported on NASDAQ Global Select Market:

	High	Low
2017		
Fourth Quarter	$ 60.59	$ 53.84
Third Quarter	$ 54.99	$ 49.77
Second Quarter	$ 47.47	$ 43.73
First Quarter	$ 41.80	$ 37.65
2016		
Fourth Quarter	$ 49.97	$ 34.89
Third Quarter	$ 50.30	$ 43.01
Second Quarter	$ 53.38	$ 43.77
First Quarter	$ 55.28	$ 42.03

Stock Performance Graph

The following graph shows a comparison of the cumulative total return for our Common Stock, NASDAQ Health Services Index and Russell 2000 Index assuming an investment of $100 in each on December 31, 2012.



*$100 invested on 12/31/12 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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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.

Issuer Purchases of Equity Securities

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 Program (2)		Maximum Dollar Value of Shares of Common Stock that May Yet Be Purchased Under Program (2) (in thousands)
Fourth quarter:						
October 1, 2017 to October 31, 2017	—	$	—	—	$	69,640
November 1, 2017 to November 30, 2017	247	$	56.74	—	$	69,640
December 1, 2017 to December 31, 2017	181,714	$	58.27	180,270	$	59,137
Total	181,961	$	58.26	180,270		

(1) Includes (i) shares that were acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from vesting in restricted stock awards; and (ii) the repurchase of shares under the repurchase program authorized by the Board on November 2, 2017. For more information on these repurchases, see Note 11, *Stockholders' Equity*, to our consolidated financial statements.

(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. Through October 26, 2017, a total of 770,808 shares were purchased through this plan for $30.4 million, excluding commission payments.

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. Purchases under the repurchase program may be made from time-to-time through a combination of open market repurchases (including Rule 10b5-1 plans), privately negotiated transactions, and accelerated share repurchase transactions, at the discretion of the Company's officers, and as permitted by securities laws, covenants under existing bank agreements, and other legal requirements. As of December 31, 2017, a total of 180,270 shares were purchased through the extended plan approved on November 2, 2017, for $10.5 million, excluding commission payments. For additional information, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and capital resources".

Equity Compensation Plan Information

The following table provides certain information as of December 31, 2017 with respect to our equity based compensation plans.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	(b) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	606,695	$ 48.70	1,938,666
Equity compensation plans not approved by security holders	—	—	—
Total	606,695	48.70	1,938,666

(1) The number of shares shown in column (b) represents the number of shares available for issuance pursuant to stock options and other stock-based awards that could be granted in the future under the Company's 2006 Long-Term Incentive Plan, as amended (the "2006 Plan").

Item 6. ***Selected Financial Data.***

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

Significant transactions which occurred during the periods presented include the acquisition of Ingeus effective May 30, 2014, which primarily comprises our WD Services segment, the investment in Mission Providence, a joint venture in Australia, which commenced operations in 2014 but was sold on September 29, 2017, and our equity interest in Matrix effective October 19, 2016. Matrix, which was originally acquired on October 23, 2014, comprised our HA Services segment through October 19, 2016. The operations of HA Services and Human Services, which was sold effective November 1, 2015, have been presented as discontinued operations for all periods presented.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(1)(2)(3)(4)(8)(9)	(3)(5)(6)(8)(9)	(7)(8)(9)(11)	(8)(10)(11)	
	(dollars and shares in thousands, except per share data)				
Statement of operations data:					
Service revenue, net	$ 1,623,882	$ 1,578,245	$ 1,478,010	$ 1,092,880	$ 798,766
Operating expenses:					
Service expense	1,489,044	1,452,110	1,381,154	988,600	736,669
General and administrative expense	72,336	69,911	70,986	44,080	25,590
Asset impairment charge	—	21,003	—	—	—
Depreciation and amortization	26,469	26,604	23,998	17,213	9,331
Total operating expenses	1,587,849	1,569,628	1,476,138	1,049,893	771,590
Operating income	36,033	8,617	1,872	42,987	27,176
Non-operating expense:					
Interest expense, net	1,278	1,583	1,853	10,224	6,921
Other income	(5,363)	—	—	—	—
Loss on extinguishment of debt	—	—	—	—	525
Equity in net (gain) loss of investees	(12,054)	10,287	10,970	—	—
Gain on sale of investment	(12,377)	—	—	—	—
Loss (gain) on foreign currency transactions	345	(1,375)	(857)	(37)	—
Income (loss) from continuing operations, before income taxes	64,204	(1,878)	(10,094)	32,800	19,730
Provision for income taxes	4,401	17,036	14,583	8,289	6,625
Income (loss) from continuing operations, net of tax	59,803	(18,914)	(24,677)	24,511	13,105
Discontinued operations, net of tax	(5,983)	108,760	107,871	(4,236)	6,333
Net income	53,820	89,846	83,194	20,275	19,438
Net (gain) loss attributable to noncontrolling interests	(451)	2,082	502	—	—
Net income attributable to Providence	$ 53,369	$ 91,928	$ 83,696	$ 20,275	$ 19,438
Diluted earnings (loss) per common share:					
Continuing operations	$ 3.50	$ (1.45)	$ (1.83)	$ 1.63	$ 0.95
Discontinued operations	(0.44)	6.52	6.09	(0.28)	0.46
Total	$ 3.06	$ 5.07	$ 4.26	$ 1.35	$ 1.41
Weighted-average number of common shares outstanding:					
Diluted	13,673	14,667	15,961	15,019	13,810

	As of December 31,				
	2017	2016	2015	2014	2013
	(9)	(5)(6)			
	(dollars in thousands)				
Balance sheet data:					
Cash and cash equivalents	$ 95,310	$ 72,262	$ 79,756	$ 121,538	$ 75,156
Total assets	704,090	685,279	1,050,202	1,168,934	425,954
Long-term obligations, including current portion	2,984	3,611	300,071	574,613	123,500
Other liabilities	287,543	306,428	382,423	372,907	151,817
Convertible preferred stock	77,546	77,565	77,576	—	—
Total stockholders' equity	336,017	297,675	290,132	221,414	150,637

(1) Other income for the year ended December 31, 2017 includes the receipt of the Haverhill Litigation settlement of $5.4 million, see Item 3. *Legal Proceedings* for further information on the settlement.

(2) Gain on sale of equity investment of $12.4 million relates to the sale of the Company's equity interest in Mission Providence in 2017. The investment in Mission Providence was part of the WD Services segment.

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

(4) The year ended December 31, 2017 includes a net tax benefit of $16.0 million related to the enactment of the Tax Reform Act during the fourth quarter of 2017 due to the re-measurement of deferred tax liabilities by Providence as a result of the reduction in the U.S. corporate tax rate. Providence realized a benefit of $19.4 million, partially offset by $3.4 million of increased tax expense resulting from additional equity in net gain of Matrix, due to Matrix's re-measurement of its deferred tax liabilities. In addition, the tax provision was adversely impacted by tax expense of $3.6 million related to the Company's 2015 Holding Company LTI Program (the "HoldCo LTIP"), for which expense was incurred for financial reporting purposes, but no shares were issued due to the market condition of the award not being satisfied and thus no tax deduction was realized.

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

(6) During the fourth quarter of 2016, WD Services recorded long-lived asset impairment charges of $10.0 million, $4.4 million and $5.2 million to its property and equipment, intangible assets and goodwill, respectively, primarily due to lower than expected volumes and unfavorable service mix shifts under a large contract in the UK impacting future projections; additional clarity into the anticipated size and structure of the Work and Health Programme in the UK; and the absence of additional details regarding the restructuring of the offender rehabilitation contract in the UK.

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

(8) The Company incurred $20.9 million of accelerated expense in 2015 related to restricted shares and cash placed into escrow at the time of the Ingeus acquisition. The shares and cash were placed into escrow concurrent with the payments of the acquisition consideration paid in 2014 for Ingeus; however, because two sellers of Ingeus remained employees post acquisition, the value of the shares and cash was recognized as compensation expense over the escrow term. Acceleration was triggered in 2015 when the two sellers separated from the Company. In addition, in 2015 and 2014, respectively, the Company incurred $5.9 million and $4.5 million of expense related to the separation of these two employees. Benefits of $2.0 million, $2.5 million and $16.1 million associated with the favorable resolution of acquisition contingencies and reductions in the fair value of Ingeus contingent consideration are included in general and administrative expenses for 2017, 2015 and 2014, respectively. 2017, 2016 and 2015 expenses also include $2.6 million, $8.5 million and $12.2 million, respectively, of WD Services' redundancy costs.

(9) Equity in net (gain) loss of investees primarily relates to our investment in Mission Providence during 2015, 2016 and 2017 and Matrix for the period of October 19, 2016 through December 31, 2017. Matrix became an equity investment upon the completion of the Matrix Transaction. For Mission Providence, we recorded net loss in investee of $1.4 million, $8.5 million and $11.0 million in 2017, 2016 and 2015, respectively. For Matrix, we recorded $13.4 million in equity in net gain of investee and $1.8 million in equity in net loss of investee related to our equity method investment in Matrix in 2017 and for the period of October 19, 2016 through December 31, 2016, respectively. The equity in net gain from Matrix for the year ended December 31, 2017 includes a benefit of $13.6 million related to the re-measurement of deferred tax liabilities arising from a lower U.S. corporate tax rate as a result of the Tax Reform Act. As a result of the increased equity income, Providence incurred higher tax expense of $3.4 million, which is reflected as a component of "Provision for income taxes" in the table above. The investment in Matrix at December 31, 2017 of $169.7 million is included in "Equity investments" in our consolidated balance sheet.

(10) 2014 includes $4.5 million of financing fees that were deferred and fully expensed within interest expense in the fourth quarter of 2014 in relation to bridge financing commitments and $3.0 million of third-party financing fees that are included in general and administrative expense.

(11) 2015 includes $2.4 million in Ingeus transaction-related expenses and 2014 includes $11.8 million in acquisition costs primarily related to the acquisitions of Ingeus and Matrix.

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

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

Overview of Our Business

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

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 we hold interests comprise the following segments:

- NET Services – Nationwide manager of non-emergency medical transportation 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, a nationwide provider of in-home care optimization and management solutions, including CHAs, to members of managed care organizations, accounted for as an equity method investment. On February 16, 2018, Matrix acquired HealthFair, expanding its service offerings to include mobile health assessments, advanced diagnostic testing, and additional care optimization services.

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 actively monitoring these activities as they relate to our capital allocation and acquisition strategy to ensure alignment with Providence's overall strategic objectives and its goal of enhancing shareholder value.

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 provision, driven by cost pressures on traditional reimbursement models and technological advances enabling remote engagement;
- technological advancements, which may be utilized by us to improve service and lower costs, but also by others which may increase industry competitiveness;
- 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 and Congress to change the Medicaid program, including considering converting the Medicaid program to a block grant format or 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. 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.

Historically, our segments have grown through organic expansion into new markets and service lines, organic expansion within existing markets and service lines, increases in the number of members served under contracts we have been awarded, the securing of new contracts, and acquisitions. With respect to acquisitions, we are actively evaluating the optimal industry sectors, such as the non-emergency medical transportation industry and others in which businesses complementary to our NET Services business operate, around which to focus our merger and acquisition activity. This ongoing evaluation takes into consideration and balances a number of factors, including the strategic goals, competitive landscape, and growth opportunities of our current segments, in an attempt to direct our capital towards those areas most likely to drive long-term value creation and generate the highest levels of return for our shareholders. In addition, as evidenced by the 2016 Matrix Transaction, we may also enter into strategic partnerships if we feel this provides the best opportunity to maximize shareholder value. The pursuit of our strategy may also result in the disposition of current businesses, as demonstrated in 2017 with our sale of our equity investment in Mission Providence and in 2015 with the sale of our Human Services segment. In making these determinations, we base our decisions on a variety of factors, including the availability of alternative opportunities to deploy capital, maximize shareholder value or other strategic considerations. The outcome of our active evaluation of the optimal industry sectors around which to focus our merger and acquisition activity as well as the potential future entry into strategic partnerships or potential disposition of businesses may impact the extent and manner in which we deploy resources across Providence, including strategic and administrative resources between Corporate and Other and our operating segments, and we may incur incremental costs in pursuing these efforts.

Revenues and Expenses

NET Services

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

WD Services

WD Services primarily provides workforce development and offender rehabilitation services on a global basis that include employment preparation and placement, legal offender rehabilitation services, youth community service programs and certain health related services to eligible participants of government sponsored programs. Populations served by WD Services are broad and include the disabled, recently and long-term unemployed and individuals seeking new skills, as well as individuals that are coping with medical illnesses, are newly graduated from educational institutions, or are being released from incarceration. We contract primarily with national and regional government entities that seek to reduce the unemployment and recidivism rates.

The revenue earned by WD Services under its contracts is often derived through a combination of different revenue channels including, but not limited to, fees contingent upon: (1) the volume of WD end-users referred to or admitted into a specific program, (2) the achievement of defined outcomes for specific individuals, such as a job placement or continued employment, and (3) the achievement of defined outcomes for a population of individuals over a specific time period, such as aggregate employment or recidivism rates. The relative contributions of different revenue channels under a specific contract can fluctuate meaningfully over the life of a contract and thus contribute to significant earnings volatility. Revenue recognition related to our NCS youth programs can be particularly volatile due to the timing of services provided, which typically occur in the second and third quarters of each year. WD Services also earns revenue under fixed FFS arrangements, based upon contractual rates established at the outset of the applicable contract year, although the rate may be prospectively adjusted during the contract year based upon actual volumes. Volume levels are typically not guaranteed under contracts. We bill according to contractual terms, typically after proof of services have been demonstrated, although certain contracts allow for ratable billings based upon expected levels of services, and require reconciliation at the conclusion of the contract year.

As described above, when WD Services enters into new markets and service lines, it often experiences significant costs, which are expensed as incurred, whereas revenue may not be realized until a later date. As a result, WD Services experiences significant variability in its financial results and we therefore believe the results of WD Services are best viewed over a multi-year period.

Classification of Operating Expenses

Our "Service expense" line item includes the majority of the operating expenses of NET Services and WD Services as well as our captive insurance company, with the exception of certain costs which are classified as "General and administrative expense". Service expense also excludes asset impairment charges and depreciation and amortization expenses. In the discussion below, we present the breakdown of service expense by the following major categories: purchased services, payroll and related costs, other operating expenses and stock-based compensation. Purchased services includes the amounts we pay to third-party service providers and are typically dependent upon service volume. Payroll and related costs include all personnel costs of our segments. Other operating expenses include general overhead costs, excluding facilities and related charges, of our segments. Stock-based compensation represents the stock-based compensation expense associated with stock grants to employees of our segments as well as the expense related to restricted stock placed into escrow at the time of the Ingeus acquisition.

Our "General and administrative expense" primarily includes the operating expenses of our corporate office, excluding depreciation and amortization, as well as facilities and related charges of our segments and contingent consideration and acquisition related adjustments, as applicable.

Critical Accounting Policies and Estimates

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

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

- it requires us to make an assumption because information was not available at the time or it included matters that were highly uncertain at the time the estimate is made; and
- changes in the estimate or different estimates that could have been selected may have had a material impact on our financial condition or results of operations.

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

Transportation Accrual

We accrue the cost of transportation expense within NET Services based on request for services and the amount we expect to be billed by transportation providers, as we generally only pay transportation providers for completed trips based upon documentation submitted after services have been provided. The transportation accrual requires significant judgment, as the accrual is based upon contractual rates and mileage estimates, as well as an estimated rate for unknown cancellations, as members may have requested transportation but not notified us of cancellation. Based upon historical experience and contract terms, we estimate the amount of expense incurred for invoices which have not yet been submitted as of period end. Actual expense could be greater or less than the amounts estimated due to changes in member or transportation provider behavior.

Business Combinations

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

Recoverability of Goodwill and Definite-Lived Intangible Assets

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

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

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

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

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

During the fourth quarter of 2016, the Company reviewed WD Services for impairment, as there were several negative factors impacting the segment, primarily due to lower than expected volumes and unfavorable service mix shifts under a large contract in the UK impacting future projections; additional clarity into the anticipated size and structure of the Work and Health Programme in the UK; the absence of additional details regarding the restructuring of the offender rehabilitation contract in the UK; and a change in senior management at WD Services during the fourth quarter. As a result, the Company performed a quantitative test comparing the fair value of the asset groupings comprising WD Services with their carrying amounts and recorded an asset impairment charge of $10.0 million to property and equipment and $4.4 million to definite-lived customer relationship intangible assets, which is recorded in "Asset impairment charge" on the Company's consolidated statement of operations for the year ended December 31, 2016. In addition, the Company reviewed the carrying value of goodwill of WD Services, noting the carrying value exceeded the fair value. Therefore, the Company performed the second step of the impairment test, in which the fair value of the reporting unit is allocated to all of the assets and liabilities, on a fair value basis, with any excess representing the implied value of goodwill of the reporting unit. The fair value was determined using an income approach, which estimates the present value of future cash flows based on management's forecast of revenue growth rates and operating margins, working capital requirements and capital expenditures. Based on this analysis, the carrying value of goodwill of the WD Services reporting unit exceeded the implied fair value and the Company recorded an impairment charge of $5.2 million, which is included in "Asset impairment charge" on the Company's consolidated statement of operations for the year ended December 31, 2016. No impairment charges were incurred during the year ended December 31, 2017.

Income Taxes

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

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

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

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. We have recognized the provisional tax impacts related to deemed repatriated earnings and the benefit for the revaluation of deferred tax assets and liabilities, and included these amounts in our consolidated financial statements for the year ended December 31, 2017. The final impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions we made, additional regulatory guidance that may be issued, and actions we may take as a result of the Tax Reform Act. In accordance with SAB 118, the financial reporting impact of the Tax Reform Act will be completed no later than the fourth quarter of 2018.

Reinsurance and Self-Insurance Liabilities

We historically reinsured a substantial portion of our automobile, general and professional liability and workers’ compensation costs under reinsurance programs through our wholly-owned subsidiary, Social Services Providers Captive Insurance Company (“SPCIC”), a licensed captive insurance company domiciled in the State of Arizona. In conjunction with the policy renewals on May 16, 2017, SPCIC did not renew the expiring policies. However, SPCIC continues to resolve claims under the historical policy years. In addition, under the current policies, the Company retains liability up to the policy deductibles. In addition, we maintain self-funded health insurance programs for U.S. based employees with a stop-loss umbrella policy with a third party insurer to limit the maximum potential liability for individual claims and for a maximum potential claim liability based on member enrollment. We utilize independent actuarial reports to determine the expected losses and in order to record the appropriate entries associated with our historical reinsurance programs, our retained exposure for the deductibles under our current policies, and self-funded health insurance programs. We regularly analyze our reserves for incurred but not reported claims, and for reported but not paid claims related to our reinsurance and self-funded insurance programs. We believe our reserves are adequate. However, significant judgment is involved in assessing these reserves such as evaluating historical paid claims, average lag times between the claims’ incurred date, reported dates and paid dates, and the frequency and severity of claims. There may be differences between actual settlement amounts and recorded reserves and any resulting adjustments are recorded once a probable amount is known.

Revenue Recognition

NET Services

Capitated contracts. The majority of NET Services revenue is generated under capitated contracts with customers where we assume the responsibility of meeting the covered transportation requirements of a specific geographic population based on per-member per-month fees for the number of members in the customer's program. Revenue is recognized based on the population served during the period. In some capitated contracts, partial payment is received as a prepayment during the month service is provided. These partial payments may be due back to the customer, or additional payments may be due to the Company, after each reconciliation period, based on a reconciliation of actual utilization and cost compared to the prepayment made.

FFS contracts. Revenues earned under FFS contracts are based upon contractually established billing rates. Revenues are recognized when the service is provided based upon contractual amounts.

Flat fee contracts. Revenues earned under flat fee contracts are recognized ratably over the covered service period based upon contractually established rates which do not fluctuate with any changes in the membership population who are eligible to receive the transportation services.

For most contracts, we arrange for transportation of members through our network of independent transportation providers, whereby we remit payment to the transportation providers; however, for certain contracts, we only provide administrative management services to support the customers efforts to serve its clients. The amount of revenue recognized is based upon the management fee earned.

WD Services

WD Services revenues are primarily generated from providing workforce development and offender rehabilitation services which include employment preparation and placement, apprenticeship and training, and certain health related services to clients on behalf of governmental and private entities. While the specific terms vary by contract and country, we primarily receive four types of revenue streams under contracts with government entities: referral/attachment fees, job placement and job outcome fees, sustainment fees and incentive fees. Referral/attachment fees are typically upfront payments that are payable when a client is referred by the contracting government entity or that client enters the program. Job placement fees are typically payable when a client is employed. Job outcome fees are typically payable when a client attains and holds employment for a specified minimum period of time. Sustainment fees are typically payable when clients maintain a job outcome past specified employment tenure milestones. Incentive fees are generally based upon a calculation that includes a variety of factors and inputs, such as average sustainment rates and client referral rates. Incentive fees vary greatly by contract.

Referral/attachment fee revenue is recognized ratably over the period of service, based upon an estimated period of time general services will be provided (i.e., the person is placed in a job or reaches the maximum time period for the program). The estimated period of time for which services will be rendered is based upon historical data. Job placement, job outcome and sustainment fee revenue is recognized when certain milestones are achieved, and amounts become billable. Incentive fee revenue is generally recognized when fixed and determinable, frequently at the end of the cumulative calculation period, unless contractual terms allow for earned payments on a fixed or ratable basis.

Revenue is also earned under fixed FFS arrangements, based upon contractual rates established at the outset of the contract or the applicable contract year, although the rate may be prospectively adjusted during the contract year based upon actual volumes.

If the rate is adjusted but the Company is unable to adjust its costs accordingly, or if the volume or types of referrals are lower than estimated, our profitability may be negatively impacted. Volume levels are typically not guaranteed under contracts.

Deferred Revenue

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

Stock Based Compensation

Our primary forms of employee stock-based compensation are stock option awards and restricted stock awards, including certain awards which vest based upon performance conditions. We measure the value of stock option awards on the date of grant at fair value using the appropriate valuation techniques, including the Black-Scholes and Monte Carlo option-pricing models. We

recognize the fair value as stock-based compensation expense on a straight-line basis over the requisite service period, which is typically the vesting period. The pricing models require various highly judgmental assumptions including volatility and expected option term. If any of the assumptions used in the models change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

As a result of the adoption of Accounting Standards Update ("ASU") No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"), effective January 1, 2017, we no longer record stock-based compensation expense net of estimated forfeitures and the tax effects of awards are treated as discrete items in the period in which tax windfalls or shortfalls occur. The adoption also impacted the presentation of cash flows and the computation of earnings per share.

The adoption of ASU 2016-09 will subject our tax rate to quarterly volatility from the effects of stock award exercises and vesting activities, including the adverse impact on our income tax provision for awards which result in a tax deduction less than the amount recorded for financial reporting purposes based upon the fair value of the award at the grant date. See additional discussion included in Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, to our consolidated financial statements.

Restructuring, Redundancy and Related Reorganization Costs

We have engaged in employee headcount optimization actions within WD Services which require management to estimate the timing and amount of severance and other employee separation costs for workforce reduction. We accrue for severance and other employee separation costs under these actions when it is probable that a liability has been incurred and the amount is reasonably estimable. The amounts used in determining severance accruals are based on an estimate of the salaries and related benefit costs payable under existing plans for the number of employees impacted, but the final determination of the actual employees to be terminated is subject to a customary consultation process. The estimate of costs that will ultimately be paid requires significant judgment and to the extent that actual results or updated results differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period such amounts are determined.

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 division on behalf of the segment, which primarily relate to insurance and stock-based compensation allocations. Indirect expenses, including unallocated corporate functions and expenses, such as executive, finance, accounting, human resources, information technology and legal, as well as the results of our captive insurance company (the "Captive") and elimination entries recorded in consolidation are reflected in "Corporate and Other".

Discontinued operations. Effective October 19, 2016, we completed the Matrix Transaction resulting in our ownership of a noncontrolling interest in our historical HA Services segment. The HA Services segment results of operations for the periods through October 19, 2016 are separately discussed in the "Discontinued operations, net of tax" section set forth below. For periods subsequent to the transaction, the results of the Matrix Investment are separately discussed in the "Equity in net loss of investees" section set forth below. Additionally, effective November 1, 2015, we completed the sale of our Human Services segment. The Human Services segment results of operations are separately discussed in the "Discontinued operations, net of tax" section set forth below.

Year ended December 31, 2017 compared to year ended December 31, 2016

The following table sets forth results of operations and the percentage of consolidated total revenues represented by items in our consolidated statements of income for 2017 and 2016 (in thousands):

	Year ended December 31,			
	2017		2016	
	$	Percentage of Revenue	$	Percentage of Revenue
Service revenue, net	1,623,882	100.0 %	1,578,245	100.0 %
Operating expenses:				
Service expense	1,489,044	91.7 %	1,452,110	92.0 %
General and administrative expense	72,336	4.5 %	69,911	4.4 %
Asset impairment charge	—	— %	21,003	1.3 %
Depreciation and amortization	26,469	1.6 %	26,604	1.7 %
Total operating expenses	1,587,849	97.8 %	1,569,628	99.5 %
Operating income	36,033	2.2 %	8,617	0.5 %
Non-operating expense:				
Interest expense, net	1,278	0.1 %	1,583	0.1 %
Other income	(5,363)	(0.3)%	—	— %
Equity in net (gain) loss of investees	(12,054)	(0.7)%	10,287	0.7 %
Gain on sale of equity investment	(12,377)	(0.8)%	—	— %
Loss (gain) on foreign currency transactions	345	— %	(1,375)	(0.1)%
Income (loss) from continuing operations before income taxes	64,204	4.0 %	(1,878)	(0.1)%
Provision for income taxes	4,401	0.3 %	17,036	1.1 %
Income (loss) from continuing operations	59,803	3.7 %	(18,914)	(1.2)%
Discontinued operations, net of tax	(5,983)	(0.4)%	108,760	6.9 %
Net income	53,820	3.3 %	89,846	5.7 %
Net (gain) loss attributable to noncontrolling interest	(451)	— %	2,082	0.1 %
Net income attributable to Providence	53,369	3.3 %	91,928	5.8 %

Service revenue, net. Consolidated service revenue, net for 2017 increased $45.6 million, or 2.9%, compared to 2016. Revenue for 2017 compared to 2016 includes an increase in revenue of NET Services of $84.5 million, which was partially offset by a decrease in revenue of WD Services of $38.7 million. Excluding the effects of changes in currency exchange rates, consolidated service revenue increased 3.4% in 2017 compared to 2016.

Total operating expenses. Consolidated operating expenses for 2017 increased $18.2 million, or 1.2%, compared to 2016. Operating expenses for 2017 compared to 2016 included an increase in expenses attributable to NET Services of $95.8 million and Corporate and Other of $2.5 million. Partially offsetting these expense increases was a decrease in WD Services' operating expenses of $80.2 million. 2016 operating expenses include asset impairment charges of $19.6 million at WD Services and $1.4 million at Corporate and Other.

Operating income. Consolidated operating income for 2017 increased $27.4 million compared to 2016 due to a decrease in the operating loss of WD Services in 2017 of $41.4 million, as compared to 2016. This change was partially offset by a decrease in operating income of NET Services in 2017 as compared to 2016 of $11.3 million and an increase in the operating loss for Corporate and Other of $2.7 million in 2017 as compared to 2016.

Interest expense, net. Consolidated interest expense, net for 2017 decreased $0.3 million, or 19.3%, compared to 2016, and remained consistent as a percentage of revenue.

Other income. Other income in 2017 of $5.4 million represents the settlement received from the Haverhill Litigation, see Item 3. *Legal Proceedings* for further information on the settlement.

Equity in net (gain) loss of investees. Our equity in net (gain) loss of investees for 2017 of $12.1 million includes an equity in net loss for Mission Providence of $1.4 million through the sale date on September 29, 2017, and an equity in net gain for Matrix of $13.4 million. Our equity in net loss of investees for 2016 of $10.3 million includes an equity in net loss for Mission Providence of $8.5 million and Matrix of $1.8 million. We began reporting Matrix as an equity investment effective October 19, 2016, upon the completion of the Matrix Transaction, and we record our ownership percentage of Matrix's profit or loss in net loss or gain of investees. Included in Matrix's 2017 full standalone net income of $26.7 million (which is not consolidated with Providence's) are depreciation and amortization of $33.5 million, interest expense of $14.8 million, transaction bonuses and other transaction related costs of $3.5 million, equity compensation of $2.6 million, management fees paid to Matrix's shareholders of $2.3 million, merger and acquisition diligence related costs of $0.7 million and income tax benefit of $29.6 million. Matrix's significant income tax benefit in 2017 primarily related to the re-measurement of deferred tax liabilities arising from a lower U.S. corporate tax rate as a result of the Tax Reform Act. Included in Matrix's 2016 full standalone net loss of $4.2 million (which is not consolidated with Providence's) are depreciation and amortization of $6.4 million, interest expense of $2.9 million, transaction bonuses and other transaction related costs of $6.4 million, equity compensation of $0.4 million, management fees paid to Matrix's shareholders of $0.4 million and income tax benefit of $2.8 million.

Gain on sale of equity investment. The gain on sale of equity investment of $12.4 million relates to the sale of the Company's equity interest in Mission Providence in 2017. The investment in Mission Providence was part of the WD Services segment. The sale of Mission Providence is not included as a discontinued operation as the disposition did not represent a strategic shift that has a major effect on our operations and financial results.

Loss (gain) on foreign currency transactions. The foreign currency loss of $0.3 million and gain of $1.4 million for 2017 and 2016, respectively, were primarily due to translation adjustments of our foreign subsidiaries.

Provision for income taxes. Our effective tax rate from continuing operations for 2017 was 6.9%. The effective tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the impact of the Tax Reform Act. The tax provision includes a benefit of $16.0 million related to the enactment of the Tax Reform Act during the fourth quarter of 2017, consisting of a net tax benefit of $19.4 million from the re-measurement of deferred tax liabilities from the lower U.S. corporate tax rate, partially offset by additional tax expense of $3.4 million due to an increase in our equity in net gain of Matrix as a result of Matrix's re-measurement of deferred tax liabilities. In addition, the Company incurred tax expense of $3.6 million related to the HoldCo LTIP, for which expense was recorded for financial reporting purposes based upon fair value of the award at the grant date, but no shares will be issued due to the market condition of the award not being satisfied. This tax expense was the result of the adoption of ASU 2016-09, which subjects our tax rate to quarterly volatility from the effects of stock award exercises and vesting activities, including the adverse impact on our income tax provision for awards which result in a tax deduction less than the amount recorded for financial reporting purposes.

During 2016, we recognized an income tax provision despite having a loss from continuing operations before income taxes. Because of foreign net operating losses (including equity investee losses) for which the future income tax benefit could not be recognized, and non-deductible expenses, the Company recognized taxable income for this year upon which the income tax provision for financial reporting is calculated.

Discontinued operations, net of tax. Discontinued operations, net of tax, includes the activity of our former Human Services segment and our former HA Services segment, composed entirely of our 100% ownership in Matrix until the completion of the Matrix Transaction on October 19, 2016. For 2017, discontinued operations, net of tax for our Human Services segment was a loss of $6.0 million, which primarily related to the accrual of a contingent liability of $9.0 million related to the settlement of indemnification claims and associated legal costs of $0.7 million, partially offset by a related tax benefit. Discontinued operations, net of tax for our Human Services segment was a loss of $5.6 million in 2016, which included an accrual of $6.0 million with respect to potential indemnification claims, legal costs of $1.1 million related to these potential claims and transaction related expenses of $0.8 million, partially offset by a related tax benefit. Discontinued operations, net of tax for our HA Services segment was income of $114.3 million for 2016, which included a gain on disposition, net of tax, of $109.4 million. See Note 20, *Discontinued Operations,* to our consolidated financial statements for additional information.

Net (income) loss attributable to noncontrolling interests. Net (income) 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.

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

NET Services

NET Services financial results are as follows for 2017 and 2016 (in thousands):

	Year Ended December 31,			
	2017		2016	
	$	Percentage of Revenue	$	Percentage of Revenue
Service revenue, net	1,318,220	100.0%	1,233,720	100.0%
Service expense	1,227,426	93.1%	1,132,857	91.8%
General and administrative expense	11,779	0.9%	11,406	0.9%
Depreciation and amortization	13,275	1.0%	12,375	1.0%
Operating income	65,740	5.0%	77,082	6.2%

Service revenue, net. Service revenue, net for NET Services in 2017 increased $84.5 million, or 6.8%, compared to 2016. The increase was related to net increased revenue from existing contracts, including successfully renewed contracts, of $82.5 million, due to the net impact of membership and rate changes. Included within net rate changes are the positive impacts of final agreements on rate adjustments related to existing contracts that experienced increased utilization in 2017 as well as the release of previously accrued revenue hold-backs based on certain contract performance requirements on a significant contract. Additionally, the impact of new contracts, including new managed care organization contracts in Florida and New York, contributed $93.8 million of revenue for 2017. These increases were partially offset by the $91.8 million impact on revenue of contracts we no longer serve, including a contract with the state of New York.

Service expense. Service expense is comprised of the following for 2017 and 2016 (in thousands):

	Year Ended December 31,			
	2017		2016	
	$	Percentage of Revenue	$	Percentage of Revenue
Purchased services	1,009,518	76.6%	927,321	75.2%
Payroll and related costs	165,666	12.6%	162,000	13.1%
Other operating expenses	51,720	3.9%	42,478	3.4%
Stock-based compensation	522	—%	1,058	0.1%
Total service expense	1,227,426	93.1%	1,132,857	91.8%

Service expense for 2017 increased $94.6 million, or 8.3%, compared to 2016. The increase in service expense was primarily attributable to the impact of new managed care organization contracts in California, Florida and New York. Purchased services as a percentage of revenue increased from 75.2% in 2016 to 76.6% in 2017 primarily attributable to an increase in utilization across multiple contracts. The higher utilization was in part driven by increased Medicaid reimbursement in New Jersey for certain medical services, increasing the demand for transportation services, and increased utilization across multiple managed care contracts in California. Additionally, due to milder winter weather conditions during the first quarter of 2017, we experienced above expected utilization; however, we experienced lower utilization for contracts in the third quarter of 2017 due in part to the impact of Hurricane Irma. The increase in purchased services as a percentage of revenue caused by increased utilization was partially offset by the successful implementation of initiatives aimed at lowering transportation costs on a per trip and per mile basis as well as the release of a reserve based upon the finalization of a contract amendment with a state customer.

Payroll and related costs as a percentage of revenue decreased from 13.1% in 2016 to 12.6% in 2017 due to efficiencies gained from multiple process improvement initiatives, including those aimed at lowering payroll expense across our reservation

and operation center networks, as well as a decrease in chief executive officer compensation expense due to the transition of the chief executive officer position during 2017. Other operating expenses increased for 2017 as compared to 2016 primarily attributable to an incremental $4.1 million of value enhancement and related costs incurred for external resources used in the design and implementation of NET Services member experience and value enhancement initiatives in 2017, as well as increased software and hardware maintenance costs associated with increased use of information technology.

General and administrative expense. General and administrative expenses in 2017 increased $0.4 million, or 3.3%, as compared to 2016, due to increased facility costs resulting from the overall growth of our operations. As a percentage of revenue, general and administrative expense remained constant at 0.9%.

Depreciation and amortization expense. Depreciation and amortization expenses increased $0.9 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%. At December 31, 2017, NET Services has $11.9 million of construction and development in progress related to its LCAD NextGen technology system, which is expected to be placed into service in 2018.

WD Services

WD Services financial results are as follows for 2017 and 2016 (in thousands):

	Year Ended December 31,			
	2017		2016	
	$	Percentage of Revenue	$	Percentage of Revenue
Service revenue, net	305,662	100.0%	344,403	100.0 %
Service expense	265,417	86.8%	320,147	93.0 %
General and administrative expense	25,438	8.3%	30,300	8.8 %
Asset impairment charge	—	—%	19,588	5.7 %
Depreciation and amortization	12,851	4.2%	13,824	4.0 %
Operating income (loss)	1,956	0.6%	(39,456)	(11.5)%

Service revenue, net. Service revenue, net in 2017 decreased $38.7 million, or 11.2%, compared to 2016. Excluding the effects of changes in currency exchange rates, service revenue decreased 8.9% in 2017 compared to 2016, which was primarily related to the anticipated decline of referrals under the segment's Work Programme contracts in the UK, as well as decreased revenue under our offender rehabilitation program. While WD Services has successfully secured contracts under the UK's new Work and Health Programme, the successor program to the Work Programme, with a combined total value of approximately $195 million over 5 years, revenues under these new contracts were negligible in 2017 and did not offset declines in revenue experienced under the Work Programme contracts. These decreases were partially offset by increases across various employability contracts outside the UK, including in Australia, France, Germany and the U.S., as well as increased revenue from our health services contract in the UK. 2017 includes the impact of $5.2 million of revenue recognized under the offender rehabilitation program related to the finalization of a contractual adjustment for the contract year ended March 31, 2017, whereas 2016 includes $5.4 million of revenue recognized under the offender rehabilitation program related to the finalization of a contractual adjustment for the prior contract years ended March 31, 2015 and 2016.

Service expense. Service expense is comprised of the following for 2017 and 2016 (in thousands):

	Year Ended December 31,			
	2017		2016	
	$	Percentage of Revenue	$	Percentage of Revenue
Payroll and related costs	177,195	58.0%	210,293	61.1 %
Purchased services	49,491	16.2%	65,363	19.0 %
Other operating expenses	38,675	12.7%	44,502	12.9 %
Stock-based compensation	56	—%	(11)	— %
Total service expense	265,417	86.8%	320,147	93.0 %

Service expense in 2017 decreased $54.7 million, or 17.1%, compared to 2016. Payroll and related costs decreased primarily as a result of declining referrals under the segment's primary employability program in the UK as well as redundancy plans that better aligned headcount with service delivery volumes, resulting in a decrease of payroll and related costs as a percentage of revenue. Payroll and related costs include $2.6 million and $8.5 million in 2017 and 2016, respectively, of termination benefits related to redundancy plans. Purchased services decreased in 2017 compared to 2016 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. Other operating expenses decreased in 2017 compared to 2016 primarily as a result of a decline in consulting related costs and information technology maintenance costs.

General and administrative expense. General and administrative expense in 2017 decreased $4.9 million compared to 2016. The decrease was due to office closures associated with the restructuring of the UK operations, as well as lower rent for certain offices. Additionally, $2.0 million of the decrease related to the impact of acquisition related contingencies that were favorably resolved in 2017, resulting in a benefit to general and administrative expense.

Asset impairment charge. During the fourth quarter of 2016, WD Services recorded asset impairment charges of $10.0 million, $4.4 million and $5.2 million to its property and equipment, intangible assets and goodwill, respectively, primarily due to lower than expected volumes and unfavorable service mix shifts under a large contract in the UK impacting future projections; additional clarity into the anticipated size and structure of the Work and Health Programme in the UK; and the absence of additional details regarding the restructuring of the offender rehabilitation contract in the UK. No impairment charges were incurred in 2017.

Depreciation and amortization expense. Depreciation and amortization expense for 2017 decreased $1.0 million compared to 2016, primarily due to the asset impairment charges incurred during the fourth quarter of 2016, which decreased the value of our intangible assets and certain property and equipment.

Corporate and Other

Corporate and Other includes the headcount and professional service costs incurred at the Providence corporate level, our captive insurance company, and elimination entries to account for inter-segment transactions. Corporate and Other financial results are as follows for 2017 and 2016 (in thousands):

	Year Ended December 31,	
	2017	2016
	$	$
Service revenue, net	—	122
Service expense (a)	(3,799)	(894)
General and administrative expense	35,119	28,205
Asset impairment charge	—	1,415
Depreciation and amortization	343	405
Operating loss	(31,663)	(29,009)

(a) Negative amounts are present for this line item due to changes in estimate for claims incurred but not reported, as well as elimination entries that are included in Corporate and Other. Certain offsetting amounts are reflected in the financial results of our operating segments.

Operating loss. Corporate and Other operating loss in 2017 increased by $2.7 million, or 9.1%, as compared to 2016 primarily due to an increase in cash settled stock-based compensation expense of $3.6 million, primarily as a result of an increase in the Company's stock price in 2017 as compared to a decrease in 2016, an increase in share settled stock-based compensation expense of $2.7 million, primarily related to an increase in expense for the HoldCo LTIP despite this program expiring with no shares due to any employees, expense for stock options issued to a former chief executive officer upon separation from the Company, and a benefit recorded in 2016 for performance based units, with no corresponding benefit in 2017, as well as an increase of $3.8 million of professional costs due to activities associated with our increased focus on strategic initiatives. This increase was partially offset by a reduction in insurance loss reserves of $3.5 million in 2017, versus $2.5 million in 2016, due to favorable claims history of our Captive reinsurance programs, as well as decreased costs of the Captive operations due to no longer writing new policies as of May 2017, which is included in "Service expense", decreased accounting, legal and professional fees included in "General and administrative expense", and decreased asset impairment charges, as $1.4 million was recorded in 2016 in relation to the sale of a building.

General and administrative expense includes stock-based compensation for the HoldCo LTIP of $4.7 million and $3.3 million for 2017 and 2016, respectively. No shares will be distributed under the HoldCo LTIP as the volume weighted average of Providence's stock price over the 90-day trading period ended on December 31, 2017 was less than $56.79. As such, as of December 31, 2017, we accelerated all remaining unrecognized compensation expense for the Holdco LTIP as there was no further requisite service period associated with the award resulting in an acceleration of expense of $1.1 million. General and administrative expense also includes $0.4 million and $1.6 million for 2017 and 2016, respectively, related to a shareholder lawsuit.

Costs associated with the resignation of Mr. Lindstrom during the year ended December 31, 2017 include cash compensation related items of $0.9 million, stock-based compensation of $0.7 million, and other costs of $0.2 million. These costs are recorded as part of "General and administrative expense".

Year ended December 31, 2016 compared to year ended December 31, 2015

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

	Year ended December 31,			
	2016		2015	
	$	Percentage of Revenue	$	Percentage of Revenue
Service revenue, net	1,578,245	100.0 %	1,478,010	100.0 %
Operating expenses:				
Service expense	1,452,110	92.0 %	1,381,154	93.4 %
General and administrative expense	69,911	4.4 %	70,986	4.8 %
Asset impairment charge	21,003	1.3 %	—	— %
Depreciation and amortization	26,604	1.7 %	23,998	1.6 %
Total operating expenses	1,569,628	99.5 %	1,476,138	99.9 %
Operating income	8,617	0.5 %	1,872	0.1 %
Non-operating expense:				
Interest expense, net	1,583	0.1 %	1,853	0.1 %
Equity in net loss of investees	10,287	0.7 %	10,970	0.7 %
Gain on foreign currency transactions	(1,375)	(0.1)%	(857)	(0.1)%
Income (loss) from continuing operations before income taxes	(1,878)	(0.1)%	(10,094)	(0.7)%
Provision for income taxes	17,036	1.1 %	14,583	1.0 %
Income (loss) from continuing operations	(18,914)	(1.2)%	(24,677)	(1.7)%
Discontinued operations, net of tax	108,760	6.9 %	107,871	7.3 %
Net income	89,846	5.7 %	83,194	5.6 %
Net loss attributable to noncontrolling interest	2,082	0.1 %	502	— %
Net income attributable to Providence	91,928	5.8 %	83,696	5.7 %

Service revenue, net. Consolidated service revenue, net for 2016 increased $100.2 million, or 6.8%, compared to 2015. Revenue for 2016 compared to 2015 included an increase in revenue of NET Services of $150.7 million, which was partially offset by a decrease in revenue of WD Services of $50.7 million. Excluding the effects of changes in currency exchange rates, consolidated service revenue increased 8.8% in 2016 compared to 2015.

Total operating expenses. Consolidated operating expenses for 2016 increased $93.5 million, or 6.3%, compared to 2015. Operating expenses for 2016 compared to 2015 included an increase in expenses attributable to NET Services of $144.8 million and Corporate and Other of $2.2 million. Partially offsetting these expense increases was a decrease in WD Services' operating expenses of $53.6 million. Operating expenses included asset impairment charges of $19.6 million at WD Services and $1.4 million at Corporate and Other during 2016, while no such charges were incurred in 2015.

Operating income. Consolidated operating income for 2016 increased $6.7 million compared to 2015 due to an increase in operating income of NET Services in 2016 as compared to 2015 of $5.9 million and a decrease in the operating loss of WD Services in 2016 as compared to 2015 of $2.9 million, although WD Services' new offender rehabilitation program incurred an operating loss in 2016 as compared to operating income in 2015. In addition, France continued to experience a significant operating loss in 2016, consistent with 2015. These changes were partially offset by an increase in the operating loss for Corporate and Other of $2.0 million, driven primarily by the asset impairment charge of $1.4 million in 2016.

Interest expense, net. Consolidated interest expense, net for 2016 decreased $0.3 million, or 14.6%, compared to 2015. The decrease is primarily related to the repayment of the related party note during 2015, which was partially offset by higher commitment fees on our Credit Facility for 2016 as compared to 2015.

Equity in net loss of investees. Equity in net loss of investees primarily relates to our investments in Mission Providence and Matrix. Mission Providence, which is part of WD Services, began providing services in July 2015. We record 75% of Mission Providence’s profit or loss in equity in net loss of investees. We began reporting Matrix as an equity investment effective October 19, 2016, upon the completion of the Matrix Transaction. Our equity in net loss of investees related to WD Services and Matrix totaled $8.5 million and $1.8 million, respectively, for 2016. Included in Matrix’s results (which are not consolidated with Providence's) is interest expense of $2.9 million and transaction related expenses of $6.0 million, which includes $4.0 million of transaction incentive compensation payable to the Matrix management team.

Gain on foreign currency transactions. The foreign currency gains of $1.4 million and $0.9 million for 2016 and 2015, respectively, were primarily due to translation adjustments of our foreign subsidiaries.

Provision for income taxes. We recognized an income tax provision for 2016 and 2015 despite having losses from continuing operations before income taxes. Because of foreign net operating losses (including equity investee losses) for which the future income tax benefit currently cannot be recognized, and non-deductible expenses such as amortization of deferred consideration related to the Ingeus acquisition, the Company recognized taxable income for these years upon which the income tax provision for financial reporting is calculated.

Discontinued operations, net of tax. Discontinued operations, net of tax, includes the activity of our former Human Services segment and our former HA Services segment, composed entirely of our 100% equity interest in Matrix until the completion of the Matrix Transaction on October 19, 2016. Discontinued operations, net of tax for our Human Services segment was a loss of $5.6 million in 2016 and income of $101.8 million in 2015, respectively. 2016 Human Services results include an accrual of $6.0 million with respect to potential indemnification claims, legal costs of $1.1 million related to these potential claims and transaction related expenses of $0.8 million. 2015 Human Services segment results include a gain on disposition, net of tax, of $100.3 million. Discontinued operations, net of tax for our HA Services segment was income of $114.3 million and $6.1 million for 2016 and 2015, respectively. 2016 HA Services segment results include a gain on disposition, net of tax, of $109.4 million. See Note 20, *Discontinued Operations,* to our consolidated financial statements for additional information.

Net loss attributable to noncontrolling interest. Net loss attributable to noncontrolling interests primarily relates to the minority interest associated with our company servicing the offender rehabilitation contract in our WD Services segment. As this contract is currently experiencing losses, as further discussed below, we have a net loss attributable to noncontrolling interests.

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

NET Services

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

	Year Ended December 31,			
	2016		2015	
	$	Percentage of Revenue	$	Percentage of Revenue
Service revenue, net	1,233,720	100.0%	1,083,015	100.0%
Service expense	1,132,857	91.8%	991,659	91.6%
General and administrative expense	11,406	0.9%	10,704	1.0%
Depreciation and amortization	12,375	1.0%	9,429	0.9%
Operating income	77,082	6.2%	71,223	6.6%

Service revenue, net. Service revenue, net for NET Services in 2016 increased $150.7 million, or 13.9%, compared to 2015. The increase related to the impact of new contracts which contributed $76.4 million of revenue in 2016, including contracts in California and Florida, and an increase in revenue associated with existing contracts of $119.8 million due to the net impact of membership and rate changes, partially offset by the loss of certain contracts that resulted in a decrease in revenue of $45.5 million.

Service expense. Service expense is comprised of the following for 2016 and 2015 (in thousands):

	Year Ended December 31,			
	2016		2015	
	$	Percentage of Revenue	$	Percentage of Revenue
Purchased services	927,321	75.2%	814,632	75.2%
Payroll and related costs	162,000	13.1%	141,669	13.1%
Other operating expenses	42,478	3.4%	34,634	3.2%
Stock-based compensation	1,058	0.1%	724	0.1%
Total service expense	1,132,857	91.8%	991,659	91.6%

Service expense for 2016 increased $141.2 million, or 14.2%, compared to 2015. The increase in service expense was primarily attributable to an increase in purchased transportation services due primarily to higher transportation volume. Purchased services as a percentage of revenue remained constant at 75.2%. Additionally, our payroll and related costs increased for 2016 as compared to 2015 primarily due to the hiring of employees to support new contracts and increased call volume associated with increased utilization, as well as an increase of $1.2 million in expense for the long-term incentive plan for management put into place in the fourth quarter of 2015 and separation related charges for NET Services' former chief executive officer during 2016 of $0.8 million. Our other operating expenses also increased for 2016 as compared to 2015. The increase was primarily attributable to increased bad debt expense, including $2.1 million of expense related to one specific customer, and costs incurred for external resources used in the design and implementation of NET Services member experience and value enhancement initiatives of $2.0 million. Stock-based compensation increased $0.3 million in 2016 as compared to 2015 primarily due to the expense associated with new stock-based compensation awards granted in 2016 that vested in January 2017.

General and administrative expense. General and administrative expenses in 2016 increased $0.7 million, or 6.6%, as compared to 2015, due to increased facility costs resulting from the overall growth of our operations. As a percentage of revenue, general and administrative expense decreased slightly from 1.0% for 2015 to 0.9% for 2016.

Depreciation and amortization expense. Depreciation and amortization expenses increased $2.9 million primarily due to the addition of long-lived assets in our call centers. As a percentage of revenue, depreciation and amortization increased slightly from 0.9% for 2015 to 1.0% for 2016.

WD Services

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

	Year Ended December 31,			
	2016		2015	
	$	Percentage of Revenue	$	Percentage of Revenue
Service revenue, net	344,403	100.0 %	395,059	100.0 %
Service expense	320,147	93.0 %	393,803	99.7 %
General and administrative expense	30,300	8.8 %	29,846	7.6 %
Asset impairment charge	19,588	5.7 %	—	— %
Depreciation and amortization	13,824	4.0 %	13,776	3.5 %
Operating income (loss)	(39,456)	(11.5)%	(42,366)	(10.7)%

Service revenue, net. Service revenue, net in 2016 decreased $50.7 million, or 12.8%, compared to 2015. Excluding the effects of changes in currency exchange rates, service revenue decreased 5.1% in 2016 compared to 2015, which was primarily related to revenue declines associated with declining referrals and an altered pricing structure under the segment's primary employability program in the UK and a revised bidding strategy in certain markets. Implemented in late 2015, the overhauled bidding process emphasized the pursuit of only those contracts that meet certain investment criteria, including risk-weighted return

on capital thresholds, and involve the provision of services where we believe our experience will allow us to deliver differentiated and improved outcomes for our clients. As a result of this enhanced criteria and a challenging UK outsourcing industry, new contracts have been more infrequent and smaller in nature. The decrease was partially offset by two new contracts in France that began in 2015 and growth of NCS youth programs in 2016. WD Services additionally recognized revenue of $5.4 million for 2016 under its offender rehabilitation program related to the finalization of a contractual adjustment for contract years ended March 31, 2015 and 2016, which partially offset the decline in revenue under this contract for 2016.

Service expense. Service expense is comprised of the following for 2016 and 2015 (in thousands):

	Year Ended December 31,			
	2016		2015	
	$	Percentage of Revenue	$	Percentage of Revenue
Payroll and related costs	210,293	61.1 %	249,130	63.1%
Purchased services	65,363	19.0 %	78,498	19.9%
Other operating expenses	44,502	12.9 %	45,418	11.5%
Stock-based compensation	(11)	— %	20,757	5.3%
Total service expense	320,147	93.0 %	393,803	99.7%

Service expense in 2016 decreased $73.7 million, or 18.7%, compared to 2015. Payroll and related costs decreased primarily as a result of the redundancy plans implemented in the fourth quarter of 2015 that were designed to better align headcount with service delivery volumes as well as declining referrals under the segment's primary employability program in the UK. Partially offsetting these decreases was increased payroll and related costs associated with a significant new offender rehabilitation program that began in 2015 and higher payroll expenses in France associated with new programs implemented in 2015 and 2016. As referenced above, both the segment's new offender rehabilitation program and operations in France had significant operating losses in 2016. In addition, $8.5 million in termination benefits related to three redundancy plans contributed to losses in 2016. Purchased services decreased in 2016 compared to 2015 primarily as a result of a decline in client referrals under our primary employability program in the UK which required less use of outsourced services. Stock-based compensation decreased $20.8 million in 2016 as compared to 2015 primarily due to expenses totaling $16.1 million related to the settlement of outstanding awards in the fourth quarter of 2015 in relation to the separation of two executives, who were also sellers of Ingeus to Providence, as further described in Note 13, *Stock-Based Compensation and Similar Arrangements,* to our consolidated financial statements.

General and administrative expense. General and administrative expense in 2016 increased $0.5 million compared to 2015. $2.5 million of the increase relates to the impact of the reduction in the fair value of contingent consideration that was recorded in 2015. Offsetting this increase were decreased facility costs of $2.0 million primarily due to the closure of numerous sites in the UK, partially offset by the opening of new sites in France during 2016.

Asset impairment charge. During the fourth quarter of 2016, WD Services recorded asset impairment charges of $10.0 million, $4.4 million and $5.2 million to its property and equipment, intangible assets and goodwill, respectively, primarily due to lower than expected volumes and unfavorable service mix shifts under a large contract in the UK impacting future projections; additional clarity into the anticipated size and structure of the Work and Health Programme in the UK; and the absence of additional details regarding the restructuring of the offender rehabilitation contract in the UK. No impairment charges were incurred in 2015.

Depreciation and amortization expense. Depreciation and amortization expense for 2016 was flat compared to 2015.

Corporate and Other

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

	Year Ended December 31,	
	2016	2015
	$	$
Service revenue, net (a)	122	(64)
Service expense (a)	(894)	(4,308)
General and administrative expense	28,205	30,436
Asset impairment charge	1,415	—
Depreciation and amortization	405	793
Operating loss	(29,009)	(26,985)

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

Operating loss. Corporate and Other operating loss in 2016 increased by $2.0 million, or 7.5%, as compared to 2015 primarily due to a $4.5 million decrease in benefits associated with favorable claims experiences on our reinsurance and self-insured programs, an asset impairment charge of $1.4 million in 2016 and a $0.4 million net increase in compensation related expenses. The $0.4 million net increase in compensation expenses in 2016 was primarily due to an increase in short-term incentives and $1.0 million of compensation related to the sale of the Company's Human Services segment in 2015. Also included in 2016 were $1.6 million of expenses related to a shareholder lawsuit, an increase of $0.8 million from 2015. These increases in expense were partially offset by a decrease in various professional fees of $4.0 million. The Company anticipates continued reductions in multiple Corporate and Other expense categories in 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 invest significant sums of money in personnel, leased office space, purchased or developed technology, and other costs, and generally incur these costs prior to commencing services and receiving payments. This results in significant variability in financial performance and cash flows between quarters and for comparative periods. It is expected that future contracts will be structured in a similar fashion. However, the Company does not expect a large variability in financial performance upon the commencement of WD Service's 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 workforce 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).

Cash flow from operating activities was our primary source of cash during 2017, and included $5.4 million received from the settlement of the Haverhill Litigation. Additionally, 2017 included $15.6 million in proceeds from the sale of our equity investment in Mission Providence which is included in cash provided by investing activities. Our balance of cash and cash equivalents was $95.3 million and $72.3 million at December 31, 2017 and 2016, respectively, including $40.1 million and $21.4 million held in foreign countries, respectively. The December 31, 2017 foreign cash balance includes the proceeds from the sale of Mission Providence of $15.6 million. 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. As of March 5, 2018, the Company transferred $13.9 million from its foreign operations to its domestic operations since December 31, 2017.

We had restricted cash of $6.3 million and $14.1 million at December 31, 2017 and 2016, respectively, primarily related to contractual obligations and activities of our captive insurance subsidiary. Given expiring policies under our captive insurance subsidiary were not renewed upon expiration in May 2017, we expect our restricted cash balances to decline over time. These restricted cash amounts are not included in our balance of cash and cash equivalents. At both December 31, 2017 and 2016, 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. Our current credit facility expires on August 2, 2018. On November 2, 2017, the Company’s Board approved the extension of the Company’s existing 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. Through December 31, 2017, the Company repurchased 180,270 shares, for $10.5 million, and $59.1 million was available under the plan to repurchase shares. During the period January 1, 2018 to March 5, 2018, the Company repurchased an additional 527,825 shares for $33.3 million, and $25.8 million was available under the plan to repurchase shares.

The cash flow statement for all periods presented includes both continuing and discontinued operations. Discontinued operations includes the activity of our Human Services and HA Services segments. The loss from discontinued operations totaled $6.0 million for the year ended December 31, 2017, while income from discontinued operations totaled $108.8 million and $107.9 million for the years ended December 31, 2016 and 2015, respectively. For 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 significant income from discontinued operations during the years ended December 31, 2016 and 2015 related to the gains on sale of our HA Services segment and Human Services segment, respectively. Significant non-cash items of our discontinued operations in 2016 and 2015 included $3.7 million and $5.7 million of depreciation expense, respectively, $17.5 million and $28.6 million of amortization expense, respectively, and $52.3 million and negative $5.0 million of deferred taxes, respectively. Our discontinued operations also purchased property and equipment totaling $9.2 million and $10.3 million during 2016 and 2015.

2017 cash flows compared to 2016

Operating activities. Cash provided by operating activities was $55.0 million for 2017, an increase of $13.3 million compared with 2016. 2017 and 2016 cash flow from operations was driven by net income of $53.8 million and $89.8 million, respectively, non-cash adjustments to reconcile net income to net cash provided by operating activities of negative $11.1 million and negative $32.9 million, respectively, and changes in working capital of $12.3 million and negative $15.2 million, respectively.

The change in non-cash adjustments to reconcile net income to net cash provided by operating activities was due primarily to the impact of:

- the disposition of HA Services, resulting in decreased gain on sale of business, depreciation, amortization and deferred taxes in 2017 as compared to 2016;
- the asset impairment charge incurred in 2016 of $21.0 million;
- the impact on deferred taxes as a result of the Tax Reform Act passed in 2017;
- the gain on sale of Mission Providence of $12.4 million in 2017; and
- the impact of the change in equity in net (gain) loss of investees, which was a gain of $12.1 million in 2017 as compared to a loss of $10.3 million in 2016.

The change in working capital was primarily driven by the following:

- Accounts receivable generated a cash inflow in 2017 of $5.7 million as compared to an outflow of $19.3 million in 2016. The increase in cash inflow of $25.0 million was primarily attributable to NET Services due to the timing of collections as well as an outflow of $3.1 million of HA Services in 2016. These changes were partially offset by cash outflows in 2017 related to an increase in WD Services' receivables in Germany, Saudi Arabia, South Korea and the UK.
- Prepaid expenses and other generated a cash inflow of $15.5 million in 2017, as compared to a cash outflow of $4.1 million in 2016. The increase in cash inflow of $19.5 million was primarily attributable to a decrease in other receivables related to amounts receivable from insurance carriers in respect to certain claims paid by the Company, but reimbursable from the respective insurance carrier, decreased receivables related to our captive insurance company insurance policy rewrite, decreased prepaid value added taxes in the UK, decreased prepayments in WD Services in relation to certain contracts and changes in income tax payments.
- Accounts payable and accrued expenses generated a cash outflow of $9.1 million in 2017, as compared to a cash inflow of $33.4 million in 2016. The decrease in cash inflow of $42.4 million is due primarily to the impact of NET Services accrued contract payments of $21.5 million, as well as the disposition of HA Services, which generated a cash inflow of $10.6 million in 2016. Partially offsetting these impacts is the impact of the increase in the accrued settlement related to our former Human Services segment of $9.0 million during 2017 as compared to an increase of $6.0 million in 2016.
- Accrued transportation costs of NET Services generated a cash inflow of $11.2 million in 2017, as compared to a cash inflow of $8.7 million in 2016. The increase in cash inflow of $2.6 million is due primarily to the timing of payments to NET Services transportation providers and increased volume.
- Income taxes payable on sale of business for 2016 includes a cash outflow of $30.2 million related to the sale of our Human Services segment.

Investing activities. Net cash provided by investing activities of $0.8 million in 2017 decreased by $323.1 million as compared to 2016. The decrease was primarily attributable to $371.6 million of proceeds on the Matrix Transaction recorded in 2016, which was partially offset by the impact of $15.6 million in proceeds from the sale of our equity investment in Mission Providence in 2017. Additionally in 2017, we made a cost method investment in Circulation, a technology-based service provider, for $3.0 million. There was also a decrease in funding of our equity investment in Mission Providence of $13.7 million and a decrease in the purchase of property and equipment of $21.3 million. 2016 included purchases of property and equipment of $9.2 million by our discontinued operations.

Financing activities. Net cash used in financing activities of $33.8 million in 2017 decreased $343.0 million as compared to 2016. During 2016, there was a net repayment of debt of $305.0 million, primarily related to the repayment of debt upon the completion of the Matrix Transaction. Additionally, during 2017, we repurchased $41.0 million less of our Common Stock than in 2016. In addition, there was a decrease in proceeds from Common Stock issued pursuant to stock option exercises of $2.2 million.

2016 cash flows compared to 2015

Operating activities. Cash provided by operating activities was $41.8 million for 2016, an increase of $25.7 million compared with 2015. 2016 and 2015 cash flow from operations was driven by net income of $89.8 million and $83.2 million, respectively, non-cash adjustments to reconcile net income to net cash provided by operating activities of negative $32.9 million and negative $1.2 million, respectively, and changes in working capital of negative $15.2 million and negative $65.9 million, respectively. The change in adjustments to reconcile net income to net cash provided by operating activities was due primarily to the impact of the disposition of HA Services in 2016 and Human Services in 2015, as well as, significant stock-based compensation in 2015 and an asset impairment charge in 2016. The change in working capital is primarily driven by the following:

- Accounts receivable generated a cash outflow for 2016 of $19.3 million as compared to an outflow of $86.6 million for 2015. The decrease in cash outflow of $67.3 million was primarily attributable to timing of significant receivable collections of NET Services, increases in WD Services accounts receivable in 2015 related to additional revenue contracts in place during 2015 as compared to 2014, and a cash outflow related to Human Services in 2015.
- Accounts payable and accrued expenses generated a cash inflow of $33.4 million in 2016, as compared to a cash outflow of $21.9 million in 2015. The increase in cash flow of $55.3 million was primarily attributable to our Human Services segment activity included in 2015, but not in 2016, due to the sale effective November 1, 2015, as well as a decreased change in accrued compensation between periods.
- Deferred revenue generated a cash outflow of $4.0 million in 2016, as compared to a cash inflow of $19.0 million in 2015. The significant cash inflow in 2015 primarily related to WD Services in association with cash received in advance of services being rendered for two large contracts.

- Income taxes payable on sale of business for 2016 includes a cash outflow of $30.2 million related to the sale of our Human Services segment.

Investing activities. Net cash provided by investing activities of $323.9 million in 2016 increased by $180.6 million as compared to 2015. The increase was primarily attributable to $371.6 million of proceeds on the Matrix Transaction recorded in 2016, which was partially offset by the impact of $199.9 million in proceeds from the sale of our Human Services segment in 2015. There was also an increase in the purchase of property and equipment of $6.1 million from 2015 to 2016.

Financing activities. Net cash used in financing activities of $376.8 million in 2016 increased $142.7 million as compared to 2015. During 2016, there was a net repayment of debt of $305.0 million, primarily related to the repayment of debt upon the completion of the Matrix Transaction, compared to a net repayment of debt of $271.1 million in 2015 upon the sale of our Human Services segment. Additionally, during 2016, we repurchased $33.5 million more of our Common Stock than in 2015. 2015 includes $80.7 million received from the issuance of preferred stock as well as a contingent consideration payment of $7.5 million associated with our purchase of Ingeus UK Holdings Limited and its wholly and partly-owned subsidiaries and associates.

Obligations and commitments

Current Credit Facility

The Credit Agreement provides for a revolving credit facility of $200.0 million, $25.0 million of which is available for letters of credit. As of December 31, 2017 we had no borrowings outstanding under the Credit Facility and seven letters of credit in the aggregate amount of $11.1 million outstanding. At December 31, 2017, our available credit under the Credit Facility was $188.9 million. The Credit Facility matures on August 2, 2018.

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

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

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

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

The Credit Agreement contains customary affirmative and negative covenants and events of default. The negative covenants include restrictions on our ability to, among other things, incur additional indebtedness, create liens, make investments, give guarantees, pay dividends, repurchase shares, sell assets, and merge and consolidate. We are subject to financial covenants, including consolidated net leverage and consolidated interest coverage covenants. The Company's consolidated net leverage ratio may not be greater than 3.00:1.00 as of the end of any fiscal quarter and the Company's consolidated interest coverage ratio may not be less than 3.00:1.00 as of the end of any fiscal quarter. We were in compliance with all covenants as of December 31, 2017.

Our obligations under the Credit Facility are guaranteed by all of our present and future domestic subsidiaries, excluding certain domestic subsidiaries, which includes our insurance captive. Our obligations under, and each guarantor's obligations under its guaranty of, the Credit Facility are secured by a first priority lien on substantially all of our respective assets, other than our

equity investment in Matrix, including a pledge of 100% of the issued and outstanding stock of our domestic subsidiaries, excluding our insurance captive, and 65% of the issued and outstanding stock of our first tier foreign subsidiaries.

Credit Facility Background

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

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

On October 23, 2014, we entered into the Second Amendment to the Credit Agreement (the “Second Amendment”) to (i) add a new term loan tranche in aggregate principal amount of up to $250.0 million to partly finance the acquisition of Matrix and make certain other modifications in connection with the consummation of the acquisition of Matrix and (ii) add an excess cash flow mandatory prepayment provision.

On September 3, 2015, we entered into the Third Amendment to the Credit Agreement (the “Third Amendment”). Pursuant to the Third Amendment, the lenders under the Credit Agreement consented to Providence’s sale of the Human Services segment and certain other amendments to the terms of the Credit Agreement to reflect such consents.

On August 28, 2016, we entered into the Fourth Amendment and Consent (the “Fourth Amendment”) to the Credit Agreement. In accordance with the Fourth Amendment, which provided for the lenders’ consent to the Matrix Transaction, a portion of the net cash proceeds received by the Company in connection with the Matrix Transaction were applied to the prepayment of outstanding term loans and revolving loans. Additionally, effective following the repayment of the outstanding term loans in full on October 20, 2016, the Fourth Amendment further (i) reduced the aggregate revolving commitments under the Credit Agreement to $200.0 million, (ii) amended the consolidated net leverage ratio covenant such that the Company’s consolidated net leverage ratio may not be greater than 3.00:1.00 as of the end of any fiscal quarter and (iii) replaced the existing consolidated fixed charge coverage ratio covenant with a covenant that the Company’s consolidated interest coverage ratio may not be less than 3.00:1.00 as of the end of any fiscal quarter.

Rights Offering

We completed a rights offering on February 5, 2015, allowing all of the Company’s existing common stockholders the non-transferrable right to purchase their pro rata share of $65.5 million of Preferred Stock at a price equal to $100.00 per share (the “Rights Offering”). The Preferred Stock was convertible into shares of our Common Stock at a conversion price equal to $39.88, which was the closing price of our Common Stock on the NASDAQ Global Select Market on October 22, 2014.

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

Additionally, on March 12, 2015, the Standby Purchasers exercised their right to purchase an additional 150,000 shares of the Company’s convertible preferred stock at a $105 per share subscription price.

We may pay a noncumulative cash dividend on each share of convertible preferred stock, when, as and if declared by a committee of our Board, at the rate of 5.5% per annum on the liquidation preference then in effect. Following the issue date of the convertible preferred stock, 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 convertible preferred stock as soon as practicable thereafter.

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

Cash dividends are payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, and, if declared, will begin to accrue on the first day of the applicable dividend period. Payment in kind ("PIK") dividends, if applicable, will accrue and be cumulative on the same schedule as set forth above for cash dividends and will also be compounded at the applicable annual rate on each applicable subsequent dividend date. PIK dividends are paid upon the occurrence of a liquidation event, conversion or redemption in accordance with the terms of the convertible preferred stock. Cash dividends were declared each quarter for the years ended December 31, 2017 and 2016 and totaled $4.4 million each year.

Reinsurance and Self-Funded Insurance Programs

Reinsurance

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

At December 31, 2017, the cumulative reserve for expected losses since inception of these historical automobile, general and professional liability and workers' compensation reinsurance programs was $1.1 million, $0.7 million and $5.0 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 December 31, 2017 was $5.7 million. We recorded a corresponding receivable from third-party insurers and liability at December 31, 2017 for these expected losses, which would be paid by third-party insurers to the extent losses are incurred.

Further, we had restricted cash of $6.3 million and $14.1 million at December 31, 2017 and December 31, 2016, respectively, which was primarily restricted to secure the reinsured claims losses under the historical automobile, general and professional liability and workers' compensation reinsurance programs.

Health Insurance

We offer our NET Services, U.S. based WD Services, and corporate employees an option to participate in self-funded health insurance programs. Additionally, we historically offered this option to our HA Services and Human Services segments' employees. During the year ended December 31, 2017, health claims were self-funded with a stop-loss umbrella policy with a third-party insurer to limit the maximum potential liability for individual claims generally to $275,000 per person, subject to an aggregating stop-loss limit of $400,000. In addition, the program has a total stop-loss limit for total claims, in order to limit our exposure to catastrophic claims.

Health insurance claims are paid as they are submitted to the plan administrator. We maintain accruals for claims that have been incurred but not yet reported to the plan administrator, and therefore, have not been paid. The incurred but not reported reserve is based on an established cap and current payment trends of health insurance claims. The liability for the self-funded health plan of $2.2 million and $3.0 million as of December 31, 2017 and 2016, respectively, was recorded in "Reinsurance liability and related reserve" in our consolidated balance sheets.

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

Contractual cash obligations.

The following is a summary of our future contractual cash obligations as of December 31, 2017:

	At December 31, 2017				
Contractual cash obligations (000's)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
Capital Leases	$ 2,984	$ 2,400	$ 584	$ —	$ —
Interest (1)	467	467	—	—	—
Purchased services commitments (2)	8,448	2,966	5,482	—	—
Guarantees (3)	43,287	42,768	519	—	—
Letters of credit (3)	11,074	11,074	—	—	—
Operating Leases (4)	62,092	20,875	23,114	14,164	3,939
Total	$ 128,352	$ 80,550	$ 29,699	$ 14,164	$ 3,939

(1) Future interest payments have been calculated at the current rates as of December 31, 2017.

(2) Our purchase obligations represent the minimum obligations we have under agreements with certain of our vendors. These minimum obligations are less than our projected use for those periods. Payments may be more than the minimum obligations based on actual use.

(3) Guarantees and letters of credit ("LOCs") are commitments that represent funding responsibilities that may require our performance in the event of third-party demands or contingent events. Guarantees include surety bonds we provide to certain customers to protect against potential non-delivery of our non-emergency transportation services. Of the outstanding balance of our stand-by LOCs, $11.1 million directly reduces the amount available to us from our Credit Facility. The surety bonds and LOC amounts in the above table represent the amount of commitment expiration per period.

(4) The operating leases are for office space and related office equipment. We account for these leases on a monthly basis. Certain leases contain periodic rent escalation adjustments and renewal options.

Other than the items described above, we do not have any off-balance sheet arrangements as of December 31, 2017.

Stock repurchase programs

On November 4, 2015, our Board authorized us to engage in a repurchase program to repurchase up to $70.0 million in aggregate value of our Common Stock during the twelve-month period following November 4, 2015. This plan terminated on November 3, 2016. A total of 1,360,249 shares were purchased through this plan for $63.0 million, excluding commission payments.

On October 26, 2016, our Board authorized us to engage in a repurchase program to repurchase up to $100.0 million in aggregate value of our Common Stock during the twelve-month period following October 26, 2016. As of October 26, 2017, we spent $30.4 million, excluding commission payments, to purchase 770,808 shares of our Common Stock under this plan.

On November 2, 2017, the Board approved the extension of the Company's existing 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. As of December 31, 2017, 180,270 shares were purchased under this plan for $10.5 million, excluding commission payments, after it was extended on November 2, 2017. In addition, during the period January 1, 2018 to March 5, 2018, the Company repurchased an additional 527,825 shares for $33.3 million, and $25.8 million was available under the plan to repurchase shares.

Purchases under the repurchase program may be made from time-to-time through a combination of open market repurchases (including Rule 10b5-1 plans), privately negotiated transactions, and accelerated share repurchase transactions, at the discretion of our officers, and as permitted by securities laws, covenants under existing bank agreements, and other legal requirements.

Off-balance sheet arrangements

As of December 31, 2017 and 2016, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

New Accounting Pronouncements

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

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

Foreign currency risk

As of December 31, 2017, we conducted business in 10 countries outside the U.S. As such, our cash flows and earnings are subject to fluctuations from changes in foreign currency exchange rates. We do not currently hedge against the possible impact of currency fluctuations. For 2017, we generated $288.5 million of our net operating revenues from operations outside the U.S.

A 10% reduction in the foreign currency exchange rate from British Pounds to U.S. dollars would have a $18.8 million negative impact on consolidated revenue, and a negligible impact on net income. A 10% reduction 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 8. ***Financial Statements and Supplementary Data.***

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Management's Report on Internal Control Over Financial Reporting

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

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

The Company, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, based on the criteria set forth in the Internal Control–Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, the Company concluded that its internal control over financial reporting was effective as of December 31, 2017.

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

Report of Independent Registered Public Accounting Firm

To the stockholders and board of directors
The Providence Service Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of The Providence Service Corporation and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement schedule II (collectively, the "consolidated financial statements"). In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 9, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

We did not audit the financial statements of Mercury Parent, LLC, (a 46.6 percent owned investee company) as of and for the year ended December 31, 2017. The Company's investment in Mercury Parent, LLC at December 31, 2017 was $169.7 million, and its equity in net gain of Mercury Parent, LLC was $13.4 million for the year ended December 31, 2017. The financial statements of Mercury Parent, LLC were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mercury Parent, LLC, is based solely on the report of the other auditors.

Basis for Opinion

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

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

/s/ KPMG LLP

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

Stamford, Connecticut
March 9, 2018

Report of Independent Registered Public Accounting Firm

To the stockholders and board of directors
The Providence Service Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited The Providence Service Corporation and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement schedule II (collectively, the "consolidated financial statements"), and our report dated March 9, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

Stamford, Connecticut
March 9, 2018

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

	December 31,	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 95,310	$ 72,262
Accounts receivable, net of allowance of $5,762 in 2017 and $5,901 in 2016	158,926	162,115
Other receivables	5,759	12,639
Prepaid expenses and other	35,243	37,895
Restricted cash	1,091	3,192
Total current assets	296,329	288,103
Property and equipment, net	50,377	46,220
Goodwill	121,668	119,624
Intangible assets, net	43,939	49,124
Equity investments	169,912	161,363
Other assets	12,028	8,397
Restricted cash, less current portion	5,205	10,938
Deferred tax asset	4,632	1,510
Total assets	$ 704,090	$ 685,279
Liabilities, redeemable convertible preferred stock and stockholders' equity		
Current liabilities:		
Current portion of long-term obligations	$ 2,400	$ 1,721
Accounts payable	15,404	22,177
Accrued expenses	103,838	102,381
Accrued transportation costs	83,588	72,356
Deferred revenue	17,381	20,522
Reinsurance and related liability reserves	4,319	8,639
Total current liabilities	226,930	227,796
Long-term obligations, less current portion	584	1,890
Other long-term liabilities	21,386	22,380
Deferred tax liabilities	41,627	57,973
Total liabilities	290,527	310,039
Commitments and contingencies (Note 18)		
Redeemable convertible preferred stock		
Convertible preferred stock, net: Authorized 10,000,000 shares; $0.001 par value; 803,200 and 803,398 issued and outstanding; 5.5%/8.5% dividend rate	77,546	77,565
Stockholders' equity		
Common stock: Authorized 40,000,000 shares; $0.001 par value; 17,473,598 and 17,315,661 issued and outstanding (including treasury shares)	17	17
Additional paid-in capital	313,955	302,010
Retained earnings	204,818	156,718
Accumulated other comprehensive loss, net of tax	(25,805)	(33,449)
Treasury shares, at cost, 4,126,132 and 3,478,676 shares	(154,803)	(125,201)
Total Providence stockholders' equity	338,182	300,095
Noncontrolling interest	(2,165)	(2,420)
Total stockholders' equity	336,017	297,675
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 704,090	$ 685,279

See accompanying notes to the consolidated financial statements

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

	Year ended December 31,		
	2017	**2016**	**2015**
Service revenue, net	$ 1,623,882	$ 1,578,245	$ 1,478,010
Operating expenses:			
Service expense	1,489,044	1,452,110	1,381,154
General and administrative expense	72,336	69,911	70,986
Asset impairment charge	—	21,003	—
Depreciation and amortization	26,469	26,604	23,998
Total operating expenses	1,587,849	1,569,628	1,476,138
Operating income	36,033	8,617	1,872
Other expenses:			
Interest expense, net	1,278	1,583	1,853
Other income	(5,363)	—	—
Equity in net (gain) loss of investees	(12,054)	10,287	10,970
Gain on sale of equity investment	(12,377)	—	—
Loss (gain) on foreign currency transactions	345	(1,375)	(857)
Income (loss) from continuing operations before income taxes	64,204	(1,878)	(10,094)
Provision for income taxes	4,401	17,036	14,583
Income (loss) from continuing operations, net of tax	59,803	(18,914)	(24,677)
Discontinued operations, net of tax	(5,983)	108,760	107,871
Net income	53,820	89,846	83,194
Net (gain) loss attributable to noncontrolling interests	(451)	2,082	502
Net income attributable to Providence	$ 53,369	$ 91,928	$ 83,696
Net income available to common stockholders (Note 14)	$ 41,865	$ 74,374	$ 67,999
Basic earnings (loss) per common share:			
Continuing operations	$ 3.52	$ (1.45)	$ (1.83)
Discontinued operations	(0.44)	6.52	6.09
Basic earnings per common share	$ 3.08	$ 5.07	$ 4.26
Diluted earnings (loss) per common share:			
Continuing operations	$ 3.50	$ (1.45)	$ (1.83)
Discontinued operations	(0.44)	6.52	6.09
Diluted earnings per common share	$ 3.06	$ 5.07	$ 4.26
Weighted-average number of common shares outstanding:			
Basic	13,602,140	14,666,896	15,960,905
Diluted	13,673,314	14,666,896	15,960,905

See accompanying notes to the consolidated financial statements

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

	Year ended December 31,		
	2017	**2016**	**2015**
Net income	$ 53,820	$ 89,846	$ 83,194
Net loss (income) attributable to noncontrolling interest	(451)	2,082	502
Net income attributable to Providence	53,369	91,928	83,696
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax	7,117	(16,618)	(8,075)
Reclassification of translation loss realized upon sale of equity investment	527	—	—
Other comprehensive income (loss)	7,644	(16,618)	(8,075)
Comprehensive income	61,464	73,228	75,119
Comprehensive loss (income) attributable to noncontrolling interest	(255)	1,968	508
Comprehensive income attributable to Providence	$ 61,209	$ 75,196	$ 75,627

See accompanying notes to the consolidated financial statements

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

	Common Stock		Additional Paid-In	Retained Earnings (Accumulated	Accumulated Other Comprehensive Loss, Net of	Treasury Stock		Non-Controlling	
	Shares	Amount	Capital	Deficit)	Tax	Shares	Amount	Interest	Total
Balance at December 31, 2014	16,870,285	$ 17	$ 261,155	$ (13,366)	$ (8,756)	1,014,108	$ (17,686)	$ 50	$ 221,414
Stock-based compensation	—	—	26,622	—	—	—	—	—	26,622
Exercise of employee stock options, including net tax benefit of $2,706	247,333	—	7,899	—	—	5,718	(299)	—	7,600
Restricted stock issued	65,447	—	—	—	—	15,961	(759)	—	(759)
Stock repurchase	—	—	—	—	—	816,468	(34,111)	—	(34,111)
Shares surrendered by employees to pay employee taxes related to shares released from escrow	—	—	—	—	—	43,743	(1,968)	—	(1,968)
Conversion of convertible preferred stock to common stock	3,715	—	150	—	—	—	—	—	150
Beneficial conversion feature related to preferred stock	—	—	1,071	—	—	—	—	—	1,071
Convertible preferred stock dividends	—	—	(2,814)	(1,121)	—	—	—	—	(3,935)
Accretion of convertible preferred stock discount	—	—	(1,071)	—	—	—	—	—	(1,071)
Foreign currency translation adjustments, net of tax	—	—	—	—	(8,075)	—	—	—	(8,075)
Noncontrolling interests	—	—	—	—	—	—	—	(502)	(502)
Net income attributable to Providence	—	—	—	83,696	—	—	—	—	83,696
Balance at December 31, 2015	17,186,780	17	293,012	69,209	(16,831)	1,895,998	(54,823)	(452)	290,132
Stock-based compensation	—	—	5,154	—	—	—	—	—	5,154
Exercise of employee stock options, including net tax benefit of $276	105,788	—	3,832	—	—	—	—	—	3,832
Restricted stock issued	22,793	—	—	—	—	2,736	(130)	—	(130)
Stock repurchase	—	—	—	—	—	1,579,942	(70,248)	—	(70,248)
Conversion of convertible preferred stock to common stock	300	—	12	—	—	—	—	—	12
Convertible preferred stock dividends	—	—	—	(4,419)	—	—	—	—	(4,419)
Foreign currency translation adjustments, net of tax	—	—	—	—	(16,618)	—	—	114	(16,504)
Noncontrolling interests	—	—	—	—	—	—	—	(2,082)	(2,082)
Net income attributable to Providence	—	—	—	91,928	—	—	—	—	91,928
Balance at December 31, 2016	17,315,661	17	302,010	156,718	(33,449)	3,478,676	(125,201)	(2,420)	297,675
Stock-based compensation	—	—	7,619	—	—	—	—	—	7,619
Exercise of employee stock options	91,400	—	2,423	—	—	5,665	(238)	—	2,185
Restricted stock issued	36,623	—	—	—	—	19,556	(878)	—	(878)
Performance restricted stock issued	3,773	—	(96)	—	—	—	—	—	(96)
Shares issued for bonus settlement and director stipends	25,646	—	1,107	—	—	—	—	—	1,107
Stock repurchase	—	—	—	—	—	622,235	(28,486)	—	(28,486)
Conversion of convertible preferred stock to common stock	495	—	20	(1)	—	—	—	—	19
Convertible preferred stock dividends	—	—	—	(4,418)	—	—	—	—	(4,418)
Foreign currency translation adjustments, net of tax	—	—	—	—	7,117	—	—	(196)	6,921
Reclassification of translation loss realized upon sale of equity investments	—	—	—	—	527	—	—	—	527
Noncontrolling interests	—	—	—	—	—	—	—	451	451
Other	—	—	22	—	—	—	—	—	22
Net income attributable to Providence	—	—	—	53,369	—	—	—	—	53,369
Cumulative effect adjustment from change in accounting principle	—	—	850	(850)	—	—	—	—	—
Balance at December 31, 2017	17,473,598	$ 17	$ 313,955	$ 204,818	$ (25,805)	4,126,132	$ (154,803)	$ (2,165)	$ 336,017

See accompanying notes to the consolidated financial statements

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

	Year ended December 31,		
	2017	2016	2015
Operating activities			
Net income	$ 53,820	$ 89,846	$ 83,194
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	18,542	21,699	20,234
Amortization	7,927	26,026	38,067
Provision for doubtful accounts	1,372	3,759	2,539
Stock-based compensation	7,543	5,136	26,622
Deferred income taxes	(22,996)	(14,130)	(10)
Amortization of deferred financing costs and debt discount	682	1,754	2,041
Write-off of deferred financing charges	—	2,302	—
Gains on remeasurement of contingent consideration	—	—	(2,469)
Asset impairment charge	—	21,003	1,593
Equity in net (gain) loss of investee	(12,054)	10,287	10,970
Gain on sale of equity investment	(12,377)	—	—
Gain on sale of business	—	(167,895)	(123,129)
Deferred income taxes and income taxes payable on gain on sale of business	—	58,492	22,797
Other non-cash charges (credits)	296	(1,323)	(419)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	5,715	(19,332)	(86,627)
Prepaid expenses and other	15,457	(4,058)	14,654
Reinsurance liability reserve	(5,731)	(4,110)	(611)
Accounts payable and accrued expenses	(9,064)	33,365	(21,900)
Income taxes payable on gain from sale of business	—	(30,153)	—
Accrued transportation costs	11,232	8,654	9,045
Deferred revenue	(4,691)	(4,019)	19,043
Other long-term liabilities	(629)	4,462	463
Net cash provided by operating activities	55,044	41,765	16,097
Investing activities			
Purchase of property and equipment	(19,923)	(41,216)	(35,072)
Proceeds from sale of property	—	1,039	—
Proceeds from sale of equity investment	15,593	—	—
Acquisitions, net of cash acquired	—	—	(3,433)
Sale of business, net of cash sold	—	371,580	199,943
Purchase of equity investment	—	(13,663)	(16,072)
Purchase of cost method investments	(3,000)	—	—
Restricted cash for reinsured claims losses	7,834	5,926	(2,058)
Other investing activities	310	239	(18)
Net cash provided by investing activities	814	323,905	143,290
Financing activities			
Proceeds from issuance of preferred stock, net of issuance costs	—	—	80,667
Preferred stock dividends	(4,418)	(4,419)	(3,928)
Repurchase of common stock, for treasury	(29,364)	(70,378)	(36,838)
Proceeds from common stock issued pursuant to stock option exercise	1,921	4,108	4,894
Proceeds from long-term debt	—	52,500	34,000
Repayment of long-term debt	—	(357,450)	(305,125)
Payment of contingent consideration	—	—	(7,496)
Other financing activities	(1,927)	(1,182)	(286)
Net cash used in financing activities	(33,788)	(376,821)	(234,112)
Effect of exchange rate changes on cash	978	(1,357)	(911)
Net change in cash	23,048	(12,508)	(75,636)
Cash at beginning of period	72,262	84,770	160,406
Cash at end of period	$ 95,310	$ 72,262	$ 84,770

See accompanying notes to the consolidated financial statements

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

	Year ended December 31,		
Supplemental cash flow information	**2017**	**2016**	**2015**
Cash included in current assets of discontinued operations held for sale	$ —	$ —	$ 5,014
Cash paid for interest	$ 987	$ 9,768	$ 16,699
Cash paid for income taxes	$ 18,128	$ 55,827	$ 21,555
Proceeds receivable from option exercise	$ 562	$ —	$ —
Purchases of equipment in accounts payable and accrued liabilities	$ 1,362	$ 983	$ 930
Accrued unfunded future equity investment capital contributions	$ —	$ —	$ 4,654
Note receivable issued for sale of property	$ —	$ 3,130	$ —
Purchase of equipment through capital lease obligation	$ 1,474	$ 4,547	$ —
Acquisitions:			
Purchase price	$ —	$ —	$ —
Less:			
Working capital adjustments to purchase price	—	—	(3,433)
Acquisitions, net of cash acquired	$ —	$ —	$ 3,433

See accompanying notes to the consolidated financial statements

The Providence Service Corporation
Notes to Consolidated Financial Statements
December 31, 2017
(in thousands except share and per share data)

1. Organization and Basis of Presentation

Description of Business

The Providence Service Corporation ("we", the "Company" or "Providence") 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"), a nationwide provider of in-home care optimization and management solutions, including comprehensive health assessments ("CHAs"), to members of managed care organizations, accounted for as an equity method investment. On February 16, 2018, Matrix acquired HealthFair, expanding its service offerings to include mobile health assessments, advanced diagnostic testing, and additional care optimization services.

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.

Discontinued Operations

During the periods presented, the Company completed the following transactions, which resulted in the presentation of the operations as Discontinued Operations. On November 1, 2015, the Company completed the sale of its Human Services segment. In addition to the results through the sale date, the Company has recorded additional expenses related to legal proceedings as described in Note 18, *Commitment and Contingencies*, related to an indemnified legal matter. On October 19, 2016, affiliates of Frazier Healthcare Partners purchased a 53.2% equity interest in Matrix with Providence retaining a 46.8% equity interest (the "Matrix Transaction"). Prior to the closing of the Matrix Transaction, the financial results of Matrix were included in the Company's Health Assessment Services ("HA Services") segment.

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 a single source of authoritative non-SEC accounting and reporting standards to be applied by non-governmental entities. All amounts are presented in U.S. dollars, unless otherwise noted.

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 significant 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 consolidated financial statements.

Reclassifications

The Company has reclassified certain amounts relating to its prior period results to conform to its current period presentation. See Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, for additional information on other reclassifications.

2. Significant Accounting Policies and Recent Accounting Pronouncements

Principles of Consolidation

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

Accounting Estimates

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

Cash and Cash Equivalents

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

At December 31, 2017 and 2016, $40,127 and $21,411, respectively, of cash was held in foreign countries. Such cash is generally used to fund foreign operations, although it may be used also to repay intercompany indebtedness or similar arrangements. As of December 31, 2017, cash held in foreign countries included approximately $15,593 of proceeds from the sale of the Company's joint venture Mission Providence Pty Ltd ("Mission Providence").

Restricted Cash

At December 31, 2017 and 2016, the Company had $6,296 and $14,130, respectively, of restricted cash:

	December 31,	
	2017	2016
Collateral for letters of credit - Reinsured claims losses	$ —	$ 2,265
Escrow/Trust - Reinsured claims losses	6,296	11,865
Restricted cash for reinsured claims losses	6,296	14,130
Less current portion	1,091	3,192
Restricted cash, less current portion	$ 5,205	$ 10,938

Of the restricted cash amount at December 31, 2017 and 2016:

- $0 and $2,265, respectively, served as collateral for irrevocable standby letters of credit to secure any reinsured claims losses under the Company's reinsurance program;

- the remaining $6,296 and $11,865, respectively, is primarily related to restricted cash held in trusts for reinsurance claims losses under the Company's 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.

Accounts Receivable and Allowance for Doubtful Accounts

The Company records accounts receivable amounts at the contractual amount, less an allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts at an amount it estimates to be sufficient to cover the risk that an account will not be collected. The Company regularly evaluates its accounts 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. The Company also provides a general allowance, based upon historical experience. 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. As of December 31, 2017 and 2016, accounts receivable under these reconciliation contracts totaled $42,054 and $45,287, respectively. In addition, certain government entities which WD Services serves remit payment substantially beyond the payment terms. The Company monitors these amounts due to the aging of receivables, but 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 Company's provision for doubtful accounts expense from continuing operations for the years ended December 31, 2017, 2016 and 2015 was $1,372, $2,892 and $1,369, respectively.

Property and Equipment

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

Recoverability of Goodwill

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

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

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

The Company estimates the fair value of the Company's reporting units using either an income approach, a market valuation approach, a transaction valuation approach or a blended approach. The income approach produces an estimated fair value of a reporting unit based on the present value of the cash flows the Company expects the reporting unit to generate in the future. Estimates included in the discounted cash flow model include the discount rate, which the Company determines based on adjusting an industry-wide weighted-average cost of capital for size, geography, and company specific risk factors, long-term rates of growth and profitability of the Company's business, working capital effects and planned capital expenditures. The market approach produces an estimated fair value of a reporting unit based on a comparison of the reporting unit to comparable publicly traded entities in similar lines of business. The transaction valuation approach produces an estimated fair value of a reporting unit

based on a comparison of the reporting unit to publicly available transactional data involving both publicly traded and private entities in similar lines of business. The Company's significant estimates in both the market and transaction approach include the selected similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and the multiples the Company applies to revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") to estimate the fair value of the reporting unit.

As discussed in Note 6, *Goodwill and Intangibles*, the Company determined that goodwill was impaired for the WD Services segment during the year ended December 31, 2016, and the Company recorded an asset impairment charge related to its goodwill of $5,224. The Company did not record any impairment charges for the year ended December 31, 2017. The Company recorded $1,593 of impairment charges related to its Human Services segment during the year ended December 31, 2015, which is included in "Discontinued operations, net of tax" in the consolidated statements of income.

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

Intangible assets subject to amortization and other long-lived assets are carried at cost and are amortized or depreciated on a straight-line basis over their estimated useful lives of 5 to 15 years. In accordance with ASC 360, *Property, Plant, and Equipment*, the Company reviews the carrying value of long-lived assets or groups of assets to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. Factors that may necessitate an impairment assessment include, among others, significant adverse changes in the extent or manner in which an asset or group of assets is used, significant adverse changes in legal factors or the business climate that could affect the value of an asset or group of assets or significant declines in the observable market value of an asset or group of assets. The presence or occurrence of those events indicates that an asset or group of assets may be impaired. In those cases, the Company assesses the recoverability of an asset or group of assets by determining whether the carrying value of the asset or group of assets exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the asset or the primary asset in the group of assets. If such testing indicates the carrying value of the asset or group of assets is not recoverable, the Company estimates the fair value of the asset or group of assets using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. If the fair value of those assets or groups of assets is less than carrying value, the Company records an impairment loss equal to the excess of the carrying value over the estimated fair value. As discussed in Note 6, *Goodwill and Intangibles*, the Company determined that the WD Services segment's intangible assets and property and equipment were impaired during the year ended December 31, 2016, and the Company recorded asset impairment charges of $9,983 and $4,381 to property and equipment and customer relationship intangible assets, respectively. The Company did not record any impairment charges for the years ended December 31, 2017 and 2015.

Accrued Transportation Costs

Eligible members of our customers schedule transportation through the Company's central reservation system. NET Services generally contracts with third-party providers to provide the transportation. The cost of transportation is recorded in the month the services are rendered, based upon contractual rates and mileage estimates. Transportation providers provide invoices once the trip is completed. Any trips that have not been invoiced require an accrual, based upon the expected cost as well as an estimate for cancellations, as the Company is generally only obligated to pay the transportation provider for completed trips. These estimates are based upon the historical trend associated with each contract's population and the transportation provider network servicing the program. There may be differences between actual invoiced amounts and estimated costs, and any resulting adjustments are included in expense. Accrued transportation costs were $83,588 and $72,356 at December 31, 2017 and 2016, respectively.

Deferred Financing Costs and Debt Discounts

The Company capitalizes direct expenses incurred in connection with its credit facilities and other borrowings, and amortizes such expenses over the life of the respective credit facility or other borrowings. Fees charged by lenders on the revolving facility and all fees charged by third parties are recorded as deferred financing costs and fees charged by lenders on term loans are recorded as a debt discount. Deferred financing costs, net of amortization, totaling $388 and $1,070 as of December 31, 2017 and 2016, respectively, are included in "Prepaid expenses and other" and "Other assets", respectively, on the consolidated balance sheet as there were no borrowings outstanding under the Company's credit facility.

Revenue Recognition

The Company recognizes revenue when it is earned and realizable based on the following criteria: persuasive evidence that an arrangement exists, services have been rendered, the price is fixed or determinable and collectability is reasonably assured.

NET Services

Capitated contracts. The majority of NET Services revenue is generated under capitated contracts with customers where the Company assumes the responsibility of meeting the covered transportation requirements of a specific geographic population based on per-member per-month fees for the number of members in the customer's program. Revenue is recognized based on the population served during the period. In some capitated contracts, partial payment is received as a prepayment during the month service is provided. These partial payments may be due back to the customer, or additional payments may be due to the Company, after each reconciliation period, based on a reconciliation of actual utilization and cost compared to the prepayment made.

Fee for service contracts. Revenues earned under fee for service ("FFS") contracts are based upon contractually established billing rates. Revenues are recognized when the service is provided based upon contractual amounts.

Flat fee contracts. Revenues earned under flat fee contracts are recognized ratably over the covered service period based upon contractually established fees which do not fluctuate with any changes in the membership population who are eligible to receive the transportation services.

For most contracts, the Company arranges for transportation of members through its network of independent transportation providers, whereby it remits payment to the transportation providers. However, for certain contracts, the Company 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.

WD Services

WD Services revenues are primarily generated from providing workforce development and offender rehabilitation services, both of which include employment preparation and placement, apprenticeship and training, youth community service programs and certain health related services to clients on behalf of governmental and private entities. While the specific terms vary by contract and country, the Company 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. Referral/attachment fees are typically upfront payments that are payable when a client is referred by the contracting government entity or that client enters the program. Job placement fees are typically payable when a client is employed. Job outcome fees are typically payable when a client attains and holds employment for a specified minimum period of time. Sustainment fees are typically payable when clients maintain a job outcome past specified employment tenure milestones. Incentive fees are generally based upon a calculation that includes a variety of factors and inputs, such as average sustainment rates and client referral rates. Incentive fees vary greatly by contract.

Referral/attachment fee revenue is recognized ratably over the period of service, based upon an estimated period of time general services will be provided (i.e. the person is placed in a job or reaches the maximum time period for the program). The estimated period of time services will be rendered is based upon historical data. Job placement, job outcome and sustainment fee revenue is recognized when certain milestones are achieved, and amounts become billable. Incentive fee revenue is generally recognized when fixed and determinable, frequently at the end of the cumulative calculation period, unless contractual terms allow for earned payments on a fixed or ratable basis.

Revenue is also earned under fixed FFS arrangements, based upon contractual rates established at the outset of the contract or the applicable contract year, although the rate may be prospectively adjusted during the contract year based upon actual volumes.

If the rate is adjusted but the Company is unable to adjust its costs accordingly, or if the volume or types of referrals are lower than estimated, our profitability may be negatively impacted. Volume levels are typically not guaranteed under contracts.

Deferred Revenue

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

Stock-Based Compensation

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

- The Company calculates the fair value of stock options using the Black-Scholes option-pricing formula. The fair value of non-vested restricted stock grants is determined based on the closing market price of the Company's Common Stock on the date of grant. Stock-based compensation expense charged against income for stock options and stock grants is based on the grant-date fair value. Forfeitures are recorded as they occur. The expense for stock-based compensation awards is amortized on a straight-line basis over the requisite service period, which is typically the vesting period.
- The Company records restricted stock units ("RSUs") that may be settled by the holder in cash, rather than shares, as a liability and remeasures these liabilities at fair value at the end of each reporting period. Upon settlement of these awards, the total compensation expense recorded over the vesting period of the awards will equal the settlement amount, which is based on the Company's stock price on the settlement date.
- Performance-based RSUs vest upon achievement of certain company specific performance conditions. On the date of grant, the Company determines the fair value of the performance-based award using the fair value of the Company's Common Stock at that time and it assesses whether it is probable that the performance targets will be achieved. If assessed as probable, the Company records compensation expense for these awards over the requisite service period. At each reporting period, the Company reassesses the probability of achieving the performance targets and the performance period required to meet those targets. The estimation of whether the performance targets will be achieved and of the performance period required to achieve the targets requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, the cumulative effect on current and prior periods of those changes will be recorded in the period estimates are revised, or the change in estimate will be applied prospectively depending on whether the change affects the estimate of total compensation cost to be recognized or merely affects the period over which compensation cost is to be recognized. The ultimate number of shares issued and the related compensation expense recognized will be based on a comparison of the final performance metrics to the specified targets.
- The Company calculates the fair value of market-based stock awards, including the Company's 2015 Holding Company LTI Program (the "HoldCo LTIP") awards, using the Monte-Carlo simulation valuation model. Forfeitures are recorded as they occur. Compensation expense for market-based awards is recognized over the requisite service period regardless of whether the market conditions are expected to be achieved.

Income Taxes

Deferred income taxes are determined by the liability method in accordance with ASC Topic 740 - *Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The Company considers many factors when assessing the likelihood of future realization of deferred tax assets, including recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available for tax reporting purposes, as well as other relevant factors. The Company establishes a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. Due to inherent complexities arising from the nature of the Company's businesses, future changes in income tax law or variances between the Company's actual and anticipated operating results, the Company makes certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

The Company has recorded a valuation allowance which includes amounts for net operating losses and tax credit carryforwards, as more fully described in Note 17, *Income Taxes,* for which the Company has concluded that it is more likely than not that these net operating loss and tax credit carryforwards will not be realized in the ordinary course of operations.

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

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

On December 22, 2017, the U.S. bill commonly referred to as the Tax Cuts and Jobs Act ("Tax Reform Act") was enacted as more fully described in Note 17, *Income Taxes.*

Foreign Currency Translation

Local currencies generally are considered the functional currencies outside the U.S. Assets and liabilities for operations in local-currency environments are translated at month-end exchange rates of the period reported. Income and expense items are translated at the average exchange rate for each applicable month. Cumulative translation adjustments are recorded as a component of accumulated other comprehensive loss, net of tax, in stockholders' equity within the consolidated balance sheets.

Loss Reserves for Certain Reinsurance and Self-Funded Insurance Programs

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

The Company utilizes a report prepared by an independent actuary to estimate the gross expected losses related to historical automobile, general and professional and workers' compensation liability reinsurance policies, including the estimated losses in excess of SPCIC's insurance limits, which would be reimbursed to SPCIC to the extent such losses were incurred. As of December 31, 2017 and 2016, the Company had reserves of $6,699 and $11,240, respectively, for the automobile, general and professional liability and workers' compensation reinsurance policies, net of expected receivables for losses in excess of SPCIC's historical insurance limits. The gross reserve as of December 31, 2017 and 2016 of $12,448 and $16,505, respectively, is classified as "Reinsurance liability reserves" and "Other long-term liabilities" in the consolidated balance sheets. The estimated amount to be reimbursed to SPCIC as of December 31, 2017 and 2016 was $5,749 and $5,265, respectively, and is classified as "Other receivables" and "Other assets" in the consolidated balance sheets.

The Company also maintains a self-funded health insurance program with a stop-loss umbrella policy with a third-party insurer to limit the maximum potential liability for individual claims generally to $275 per person, subject to an aggregating stop-loss limit of $400. In addition, the program has a total stop-loss limit for total claims, in order to limit the Company's exposure to catastrophic claims. With respect to this program, the Company considers historical and projected medical utilization data when estimating its health insurance program liability and related expense. As of December 31, 2017 and 2016, the Company had $2,229 and $3,022, respectively, in reserve for its self-funded health insurance programs. The reserves are classified as "Reinsurance and related liability reserves" in the consolidated balance sheets.

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

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

Restructuring, Redundancy and Related Reorganization Costs

The Company has engaged in employee headcount optimization actions within the WD Services segment which require management to estimate the timing and amount of severance and other employee separation costs for workforce reduction. The Company accrues for severance and other employee separation costs under these actions when it is probable that benefits will be paid and the amount is reasonably estimable. The amounts used in determining severance accruals are based on an estimate of the salaries and related benefit costs payable under existing plans, and are included in accrued expenses to the extent they have not been paid.

Noncontrolling Interests

Noncontrolling interests represent the noncontrolling holders' percentage share of income or losses from a subsidiary in which the Company holds a majority, but less than 100%, ownership interest and the results of which are consolidated and included in the Company's consolidated financial statements. The Company has a 90% ownership in The Reducing Reoffending Partnership Limited, which commenced operations in 2015.

Discontinued Operations

In determining whether a group of assets disposed (or to be disposed) of should be presented as a discontinued operation, the Company makes a determination of whether the criteria for held-for-sale classification is met and whether the disposition represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results. If these determinations can be made affirmatively, the results of operations of the group of assets being disposed of (as well as any gain or loss on the disposal transaction) are aggregated for separate presentation apart from continuing operating results of the Company in the consolidated financial statements. See Note 20, *Discontinued Operations,* for a summary of discontinued operations.

Earnings Per Share

The Company computes basic earnings per share by taking net income attributable to the Company available to common stockholders divided by the weighted average number of common shares outstanding during the period, including restricted stock and stock held in escrow if such shares are participating securities. Diluted earnings per share includes the potential dilution that may occur from stock-based awards and other stock-based commitments using the treasury stock or the as-if converted methods, as applicable. For additional information on how the Company computes earnings per share, see Note 14, *Earnings Per Share*.

Fair Value of Financial Instruments

The Company discloses the fair value of its financial instruments based on the fair value hierarchy using the following three categories:

Level 1 – Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

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

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

The Company may be required to pay additional consideration in relation to certain acquisitions based on the achievement of certain earnings targets. Acquisition-related contingent consideration is initially measured and recorded at fair value as an element of consideration paid in connection with an acquisition with subsequent adjustments recognized in "General and administrative expense" in the consolidated statements of income. The Company determines the fair value of acquisition-related contingent consideration, and any subsequent changes in fair value using a discounted probability-weighted approach. This approach takes into consideration Level 3 unobservable inputs including probability assessments of expected future cash flows over the period in which the obligation is expected to be settled and applies a discount factor that captures the uncertainties associated with the obligation. Changes in these unobservable inputs could significantly impact the fair value of the obligation recorded in the accompanying consolidated balance sheets and operating expenses in the consolidated statements of income.

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate their fair value because of the relatively short-term maturity of these instruments.

Recent Accounting Pronouncements

The Company adopted the following accounting pronouncements during the year ended December 31, 2017:

In November 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"), which changes how deferred taxes are classified on organizations' balance sheets. The ASU eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments apply to all organizations that present a classified balance sheet. For public companies, the amendments are effective for financial statements issued for annual periods beginning after December 16, 2016, and interim periods within those annual periods. The Company adopted ASU 2015-17 retrospectively on January 1, 2017, which resulted in the reclassification of the December 31, 2016 deferred tax assets-current balance of $6,825 and non-current deferred tax assets of $2,493 to long-term deferred tax liabilities in the amount of $9,318.

In March 2016, the FASB issued ASU No. 2016-07, *Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting* (“ASU 2016-07”). ASU 2016-07 eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. ASU 2016-07 instead specifies that the investor should add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and apply the equity method of accounting as of the date the investment became qualified for equity method accounting. ASU 2016-07 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 and should be applied prospectively. The Company adopted ASU 2016-07 on January 1, 2017. The adoption of ASU 2016-07 had no impact on the Company’s financial statements or disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). ASU 2016-09 is intended to improve the accounting for employee share-based payments and affect all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including income tax consequences, classification of awards as either equity or liabilities and classification in the statement of cash flows. For public companies, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted ASU 2016-09 on January 1, 2017, and elected to recognize forfeitures as they occur. As a result, the Company recorded a cumulative effect adjustment of $850 to retained earnings as of January 1, 2017. Upon adoption, all excess tax benefits and tax deficiencies related to employee share-based payments are recognized through income tax expense prospectively.

The Company excluded the related tax benefits when applying the treasury stock method for computing diluted shares outstanding on a prospective basis resulting in a decrease in diluted weighted average shares outstanding of 4,642 shares for the year ended December 31, 2017.

The adoption of ASU 2016-09 subjects our tax rate to quarterly volatility from the effects of stock award exercises and vesting activities, including the adverse impact on our income tax provision for awards which result in a tax deduction less than the amount recorded for financial reporting purposes based upon the fair value of the award at the grant date. For the year ended December 31, 2017, the Company recorded excess tax deficiencies, net, of $3,604 as an increase to the provision for income taxes. This deficiency primarily related to the Company's Holdco LTIP. As further explained in Note 12, *Stock-Based Compensation and Similar Arrangements*, no shares were distributed under the Company’s HoldCo LTIP as the volume weighted average of Providence’s stock price over the 90-day trading period ended on December 31, 2017 did not exceed $56.79. As this market condition was not satisfied, a related tax deficiency was recognized during the year ended December 31, 2017 of $3,590.

The Company elected to apply the change in classification of cash flows resulting from excess tax benefits or deficiencies on a retrospective basis. This resulted in an increase in cash flows provided by operating activities of $282, offset by an increase of $282 in cash flows used in financing activities in the consolidated statement of cash flows for the year ended December 31, 2016, and an increase in cash flows provided by operating activities of $2,857, offset by an increase of $2,857 in cash flows used in financing activities in the consolidated statement of cash flows for the year ended December 31, 2015. Additionally, ASU 2016-09 requires that employee taxes paid when an employer withholds shares for tax-withholding purposes be reported as financing activities in the consolidated statements of cash flows, which is how the Company has historically classified these amounts.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company adopted ASU 2017-01 on April 1, 2017. The adoption of ASU 2017-01 had no impact on the Company’s financial statements or disclosures.

In January 2017, the FASB issued ASU No. 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323)* (“ASU 2017-03”). ASU 2017-03 expands required qualitative disclosures when registrants cannot reasonably estimate the impact that adoption of an ASU will have on the financial statements. Such qualitative disclosures would include a comparison of the registrant’s new accounting policies, if determined, to current accounting policies, a description of the status of the registrant’s process to implement the new standard and a description of the significant implementation matters yet to be addressed by the registrant. The Company implemented ASU 2016-15 in its consolidated financial statements for the year ended December 31, 2017 resulting in enhanced qualitative disclosures regarding future adoption of new ASUs.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test. As a result, under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the impairment loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective prospectively for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company adopted ASU 2017-04 on April 1, 2017. The adoption of ASU 2017-04 had no impact on the Company's financial statements or disclosures.

Recent accounting pronouncements that were not yet adopted by the Company through December 31, 2017 are as follows:

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 introduced FASB Accounting Standards Codification Topic 606 ("ASC 606"), which will replace most currently applicable existing 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, which is effective for the Company on January 1, 2018.

The Company has substantially completed its adoption plan, under which it performed conceptual and detailed contract reviews to determine the impact of ASC 606 on its financial statements, internal controls and operational processes. The guidance in ASC 606 on the following topics was critical to the Company's analysis:

- the effect of specified clauses on the term of many of the Company's contracts with customers;
- the nature of the promises in many of the Company's contracts with customers to perform integrated services over a period of time;
- whether and how much variable consideration to include when determining the transaction prices for its contracts with customers;
- whether any of the Company's customer contracts require performance over a series of distinct service periods and the impact on determining and allocating the transaction price; and
- the manner in which the Company will measure its progress towards fully satisfying its performance obligations, including a determination of whether the Company may be able to use certain practical expedients.

The impact of adoption on revenue for each segment is as follows:

NET Services – For non-emergency transportation solutions, the Company will primarily use the right-to-invoice practical expedient to account for revenue when the Company has a right to consideration from a customer in an amount that corresponds directly with the value of the entity's performance completed to date. This is consistent with the Company's current revenue recognition policy. The only impact identified for NET Services is the presentation of one contract on a net basis which is currently accounted for on a gross basis, as the Company does not control the service, as defined under the new standard.

WD Services – WD Services has a number of contracts which include variable consideration, whereby it earns revenues if certain contractually defined outcomes occur in the future. When the related performance obligations are satisfied over time, the Company will recognize revenue in the proportion that the outcome has been earned based on services provided. The amount of revenue is based upon the Company's estimate of the final amount of outcome fees to be earned. The Company will evaluate probability using either the expected value method or the most likely amount method, as appropriate. At each reporting period, the Company will update its estimate of outcome fees, based upon actual results as well as refined estimates of future results, and will record an adjustment to revenue, based upon services performed to date. Under the new standard, the Company may recognize revenues for outcome fees earlier under the new standard, as revenue is currently recognized upon the final resolution of the contingency, i.e. the outcome is able to be invoiced. However, under certain contracts the Company receives up-front fees, which may be recognized over a longer period under the new standard as compared to current guidance. As of adoption, such impacts are not material to the consolidated financial statements.

The new standard will require the Company to recognize contract assets and liabilities on its balance sheet as appropriate. Additionally, the Company will be required to make additional disclosures about the nature of its contracts and the related performance obligations.

The Company is in its final stages of quantifying the financial impacts of the new guidance based on the contracts that exist at the date of adoption, as well as evaluating presentation of our revenues and required enhancements to disclosures. We have implemented both process and information systems changes to identify and assess contracts that are impacted by the new revenue recognition criteria and accumulate data to satisfy new disclosure requirements. As discussed above, we expect the new standard will have an immaterial impact on our consolidated financial statements, other than increased disclosures, upon adoption. Changes to revenue recognition as a result of applying the new standard will largely arise from outcome fees as described above, as well as the timing of revenue recognition for up-front fees. The Company will use the modified retrospective adoption method, and plans to adopt the standard on January 1, 2018.

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*. 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 is effective for publicly held entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. Lessees must 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. 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 applying ASC 842 to its lease agreements. It is in the process of developing an adoption plan, assembling a cross-functional project team and assessing the impacts of applying ASC 842 to the Company’s financial statements, information systems and internal controls. The assessment of applying ASU 2016-02 is ongoing and, therefore, the Company has not yet determined whether the impacts 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 has not evaluated the impact of ASU 2016-13 on its consolidated financial statements.

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 will adopt ASU 2016-15 on January 1, 2018. The adoption is not expected to 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 will adopt ASU 2016-15 on January 1, 2018. The adoption will impact the Company's consolidated statements of cash flow as the Company has restricted cash totaling $6,296 at December 31, 2017. Additionally, the Company will be required to make additional disclosures detailing the balance sheet line items that are included in the sum of cash, cash equivalents and restricted cash in the consolidated statements of cash flow.

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 will adopt ASU 2016-15 on January 1, 2018. The adoption of ASU 2017-09 is not expected to have a material impact on the Company's consolidated financial statements.

3. Equity Investment

Matrix

Prior to the closing of the Matrix Transaction on October 19, 2016, the financial results of Matrix were included in the Company's HA Services segment. Subsequent to the closing of the Matrix Transaction, the Company owned a 46.8% noncontrolling interest in Matrix. As of December 31, 2017, the Company owned a 46.6% noncontrolling interest in Matrix. Pursuant to a Shareholder's Agreement, affiliates of Frazier Healthcare Partners hold rights necessary to control the fundamental operations of Matrix. The Company accounts for this investment in Matrix under the equity method of accounting and the Company's share of Matrix's income or losses are recorded as "Equity in net (gain) loss of investees" in the accompanying consolidated statements of income.

The carrying amount of the assets included in the Company's consolidated balance sheet and the maximum loss exposure related to the Company's interest in Matrix as of December 31, 2017 and 2016 totaled $169,699 and $157,202, respectively.

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

	December 31,	
	2017	2016
Current assets	$ 37,563	$ 28,589
Long-term assets	597,613	614,841
Current liabilities	27,718	25,791
Long-term liabilities	240,513	281,348

	Twelve months ended December 31, 2017	October 19, 2016 through December 31, 2016
Revenue	$ 227,872	$ 41,635
Operating income (loss)	11,870	(4,079)
Net income (loss)	26,665	(4,200)

Included in Matrix's standalone net income of $26,665 for the year ended December 31, 2017 is depreciation and amortization of $33,512, transaction related expenses of $3,537, which includes $2,679 of transaction incentive compensation, equity compensation of $2,639, management fees paid to Matrix's shareholders of $2,331, merger and acquisition due diligence related costs of $685, interest expense of $14,818 and an income tax benefit of $29,613. The income tax benefit primarily related to the re-measurement of deferred tax liabilities arising from a lower U.S. corporate tax rate as a result of the Tax Reform Act. Included in Matrix's standalone net loss of $4,200 for the year ended December 31, 2016 is depreciation and amortization of $6,356, transaction related expenses of $6,367, which includes $4,033 of transaction incentive compensation, equity compensation of $407, management fees paid to Matrix's shareholders of $396, interest expense of $2,949 and an income tax benefit of $2,828.

See Note 20, *Discontinued Operations*, for Matrix's January 1, 2016 through October 19, 2016 results of operations, as well as the results of operations for the year ended December 31, 2015.

Mission Providence

The Company entered into a joint venture agreement in November 2014 with Mission Australia ACN ("Mission Australia") to form Mission Providence. Mission Providence delivers employment preparation and placement services in Australia. The

Company had a 60% ownership interest in Mission Providence, and had rights to 75% of Mission Providence's distributions of cash or profit surplus twice per calendar year. The Company accounted for this investment under the equity method of accounting and the Company's share of Mission Providence's income or losses was recorded as "Equity in net (gain) loss of investees" in the accompanying consolidated statements of income. Cash contributions made to Mission Providence in exchange for its equity interests are included in the consolidated statements of cash flows as "Purchase of equity investments".

On September 29, 2017, the Company and Mission Australia completed the sale of 100% of the stock of Mission Providence pursuant to a share sale agreement. Upon the sale of Mission Providence, the Company received AUD 20,184, or $15,823 of proceeds, for its equity interest, net of transaction fees. Subsequently, a working capital adjustment was finalized in December 2017 resulting in the return of $229 of the proceeds. The related gain on sale of Mission Providence totaling $12,377 is recorded as "Gain on sale of equity investment" in the accompanying consolidated statements of income. The carrying amount of the assets included in the Company's consolidated balance sheet related to the Company's interest in Mission Providence was $4,021 at December 31, 2016.

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

	December 31, 2016
Current assets	$ 4,640
Long-term assets	10,473
Current liabilities	12,844
Long-term liabilities	1,655

	Nine months ended September 30, 2017	Twelve months ended December 31, 2016
Revenue	$ 30,125	$ 36,546
Operating loss	(1,765)	(9,664)
Net loss	(1,934)	(8,843)

4. Prepaid Expenses and Other

Prepaid expenses and other were comprised of the following:

	December 31,	
	2017	2016
Prepaid income taxes	$ 1,106	$ 1,467
Escrow funds	10,000	10,000
Prepaid insurance	2,121	3,153
Prepaid taxes and licenses	906	3,570
Note receivable	3,224	3,130
Prepaid rent	2,268	2,013
Deposits held for leased premises and bonds	2,849	2,609
Other	12,769	11,953
Total prepaid expenses and other	$ 35,243	$ 37,895

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 potential indemnification claims, which is included in "Accrued expenses" in the consolidated balance sheet as of December 31, 2017. The escrow funds will be used to satisfy a portion of this settlement. See Note 18, *Commitments and Contingencies*, for further information.

5. Property and Equipment

Property and equipment consisted of the following:

	Estimated Useful Life (years)	December 31, 2017	December 31, 2016
Computer and telecom equipment	3 — 5	$ 35,915	$ 31,854
Software	3 — 5	32,989	26,883
Leasehold improvements	Shorter of 7 years or lease term	17,890	16,720
Furniture and fixtures	5 — 10	6,416	8,070
Automobiles	5	3,797	3,597
Construction and development in progress	N/A	13,384	5,831
		110,391	92,955
Less accumulated depreciation		60,014	46,735
Total property and equipment, net		$ 50,377	$ 46,220

Depreciation expense from continuing operations was $18,542, $18,038 and $14,488 for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company sold the building and land that included holding company office space in Arizona effective December 31, 2016 resulting in an asset impairment charge of $1,415 for the year ended December 31, 2016. The Company recorded an asset impairment charge of $9,983 for the year ended December 31, 2016 related to its WD Services segment based on its review of the carrying value of long-lived assets. The impairment charges are reflected in "Asset impairment charge" in the consolidated statement of income for the year ended December 31, 2016. See Note 6, *Goodwill and Intangibles,* for further discussion of the impairment charges incurred related to the WD Services segment during 2016. Construction in progress as of December 31, 2017 is primarily comprised of NET Services, which has incurred substantial software development costs for its LCAD NextGen technology system. Such amounts are expected to be placed into service during 2018.

6. Goodwill and Intangibles

Impairment

The Company did not record any impairment charges for the year ended December 31, 2017. During the fourth quarter of 2016, the Company reviewed WD Services for impairment, primarily due to lower than expected volumes and unfavorable service mix shifts under a large contract in the United Kingdom ("UK") impacting future projections; additional clarity into the anticipated size and structure of the Work and Health Programme in the UK; the absence of additional details regarding the restructuring of the offender rehabilitation contract in the UK; and a change in senior management at WD Services during the fourth quarter. As a result, the Company performed a quantitative test comparing the fair value of the asset groupings comprising WD Services with the carrying amounts and recorded an asset impairment charge of $4,381 to definite-lived customer relationship intangible assets, which is recorded in "Asset impairment charge" on the Company's consolidated statement of operations. In addition, the Company reviewed the carrying value of goodwill of WD Services, noting the carrying value exceeded the fair value. Therefore, the Company performed the second step of the impairment test, in which the fair value of the reporting unit is allocated to all of the assets and liabilities, on a fair value basis, with any excess representing the implied value of goodwill of the reporting unit. The fair value was determined using an income approach, which estimates the present value of future cash flows based on management's forecast of revenue growth rates and operating margins, working capital requirements and capital expenditures. Based on this analysis, the carrying value of goodwill of the WD Services reporting unit exceeded the implied fair value and the Company recorded an asset impairment charge of $5,224, which is included in "Asset impairment charge" on the Company's consolidated statement of operations. The Company reviewed the carrying value of other long-lived assets and goodwill, and noted no indicators of impairment for NET Services or the Matrix Investment during the year ended December 31, 2016. The Company recorded $1,593 of impairment charges related to its Human Services segment during the year ended December 31, 2015, which is included in "Discontinued operations, net of tax" in the consolidated statements of income.

Goodwill

Changes in goodwill were as follows:

	NET Services	WD Services	Consolidated Total
Balances at December 31, 2015			
Goodwill	$ 191,215	$ 40,784	$ 231,999
Accumulated impairment losses	(96,000)	(6,041)	(102,041)
	95,215	34,743	129,958
Asset impairment charge	—	(5,224)	(5,224)
Foreign currency translation adjustment	—	(5,110)	(5,110)
Balances at December 31, 2016			
Goodwill	191,215	35,674	226,889
Accumulated impairment losses	(96,000)	(11,265)	(107,265)
	95,215	24,409	119,624
Foreign currency translation adjustment	—	2,044	2,044
Balances at December 31, 2017			
Goodwill	191,215	37,718	228,933
Accumulated impairment losses	(96,000)	(11,265)	(107,265)
	$ 95,215	$ 26,453	$ 121,668

The total amount of goodwill that was deductible for income tax purposes related to acquisitions as of December 31, 2017 and 2016 was $4,222.

Intangible Assets

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

		December 31,			
		2017		2016	
	Estimated Useful Life (Yrs)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	15	$ 48,128	$ (33,136)	$ 48,020	$ (29,941)
Customer relationships	10	30,583	(11,871)	27,915	(8,147)
Trademarks and Trade Names	10	14,525	(5,205)	13,282	(3,431)
Developed technology	5	3,228	(2,313)	2,951	(1,525)
Total		$ 96,464	$ (52,525)	$ 92,168	$ (43,044)

The gross carrying amount as of December 31, 2017 and 2016 includes the asset impairment charge of $4,381 to definite-lived customer relationship intangible assets of WD Services recorded during the year ended December 31, 2016. The weighted-average amortization period at December 31, 2017 for intangibles was 12.3 years. No significant residual value is estimated for these intangible assets. Amortization expense from continuing operations was $7,927, $8,566 and $9,510 for the years ended December 31, 2017, 2016 and 2015, respectively.

The total amortization expense is estimated to be as follows for the next five years and thereafter as of December 31, 2017 based upon the applicable foreign exchange rates as of December 31, 2017:

Year		Amount
2018	$	8,126
2019		7,749
2020		7,473
2021		7,387
2022		7,025
Thereafter		6,179
Total	$	43,939

7. Accrued Expenses

Accrued expenses consisted of the following:

	December 31,			
	2017		2016	
Accrued compensation and related	$	33,653	$	23,050
NET Services accrued contract payments		17,487		32,836
Accrued settlement		15,000		6,000
Income taxes payable		3,723		372
Other		33,975		40,123
Total accrued expenses	$	103,838	$	102,381

8. Restructuring, Redundancy and Related Reorganization Costs

WD Services has two active redundancy programs at December 31, 2017. During the year ended December 31, 2017, WD Services had four redundancy programs. Of these four redundancy plans, two were approved in 2015 and have been completed; a plan related to the termination of employees delivering services under an offender rehabilitation program ("Offender Rehabilitation Program") 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 with revenue for certain contracts in the UK and to improve overall operating performance was approved in 2016 and a further redundancy program to align costs with revenue for offender rehabilitation services ("Delivery First Program") was approved in the fourth quarter of 2017. The Company recorded severance and related charges of $2,577 and $8,511 during the years ended December 31, 2017 and 2016, 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 consolidated statements of income.

The initial estimates of severance and related charges for the plans were based upon the employee groups impacted, average salary and benefits, and redundancy benefits pursuant to the existing policies. Additional charges above the initial estimates were incurred for the redundancy plans 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 Severance and Related Charges

	January 1, 2017	Costs Incurred	Cash Payments	Foreign Exchange Rate Adjustments	December 31, 2017
Ingeus Futures' Program	$ 2,486	$ 1,223	$ (3,386)	$ 159	$ 482
Offender Rehabilitation Program	1,380	(40)	(1,357)	17	—
UK Restructuring Program	50	(53)	—	3	—
Delivery First Program	—	1,447	(184)	24	1,287
Total	$ 3,916	$ 2,577	$ (4,927)	$ 203	$ 1,769

	January 1, 2016	Costs Incurred	Cash Payments	Foreign Exchange Rate Adjustments	December 31, 2016
Ingeus Futures' Program	$ —	$ 2,515	$ —	$ (29)	$ 2,486
Offender Rehabilitation Program	6,538	4,865	(8,924)	(1,099)	1,380
UK Restructuring Program	2,059	1,131	(3,031)	(109)	50
Total	$ 8,597	$ 8,511	$ (11,955)	$ (1,237)	$ 3,916

The total of accrued severance and related costs of $1,769 and $3,916 are reflected in "Accrued expenses" in the consolidated balance sheets at December 31, 2017 and 2016, respectively. The amount accrued as of December 31, 2017 for the Ingeus Futures' Program and Delivery First Program is expected to be settled principally during 2018.

9. Long-Term Obligations

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

	December 31, 2017	December 31, 2016
$200,000 revolving loan, LIBOR plus 2.25% - 3.25% with interest payable at least once every three months through August 2018	$ —	$ —
Capital lease obligations	2,984	3,611
	2,984	3,611
Less current portion of capital lease obligations	2,400	1,721
Total long-term obligations, less current portion	$ 584	$ 1,890

Annual maturities of capital lease obligations as of December 31, 2017 are as follows:

Year	Amount
2018	$ 2,400
2019	504
2020	80
Total	$ 2,984

Credit Facility

The Company is a party to the amended and restated credit and guaranty agreement, dated as of August 2, 2013 (as amended, the "Credit Agreement"), with Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, and the other lenders party thereto. The Credit Agreement provides the Company with a $200,000 revolving credit facility (the "Credit Facility"), including a sub-facility of $25,000 for letters of credit. As of December 31, 2017, the Company had no borrowings and seven letters of credit in the amount of $11,074 outstanding under the revolving credit facility. At December 31, 2017, the Company's available credit under the revolving credit facility was $188,926. Under the Credit Agreement, the Company has an option to request an increase in the amount of the revolving credit facility from time to time (on substantially the same terms as apply to the existing facilities) in an aggregate amount of up to $75,000 with either additional commitments from lenders under the Credit Agreement at such time or new commitments from financial institutions acceptable to the administrative agent in its reasonable discretion, so long as no default or event of default exists at the time of any such increase. The Company may not be able to access additional funds under this increase option as no lender is obligated to participate in any such increase under the Credit Facility. The Credit Facility matures on August 2, 2018.

Interest on the outstanding principal amount of 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 leverage ratio as defined in the Credit Agreement. Interest on the loans is payable quarterly in arrears. In addition, the Company is obligated to pay a quarterly commitment fee based on a percentage of the unused portion of each lender's commitment under the Credit Facility and quarterly letter of credit fees based on a percentage of the maximum amount available to be drawn under each outstanding letter of credit. The commitment fee and letter of credit fee range from 0.25% to 0.50% and 2.25% to 3.25%, respectively, in each case, based on the Company's consolidated leverage ratio.

The Company's obligations under the Credit Facility are guaranteed by all of the Company's present and future domestic subsidiaries, excluding certain domestic subsidiaries which include the Company's insurance captive. The Company's obligations under, and each guarantor's obligations under its guaranty of, the Credit Facility are secured by a first priority lien on substantially all of the Company's respective assets, including a pledge of 100% of the issued and outstanding stock of the Company's domestic subsidiaries, excluding the Company's insurance captive, and 65% of the issued and outstanding stock of the Company's first tier foreign subsidiaries.

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.

Capital Leases

NET Services has seven capital leases for information technology hardware and software with termination dates ranging from January 2018 through October 2020. The terms of the leases are between 12 and 36 months, with interest recorded at an incremental borrowing rate of 3.28%. At December 31, 2017, $6,045 represents equipment under capital leases and $1,642 represents accumulated depreciation recognized on this leased equipment.

10. Convertible Preferred Stock, Net

The Company completed a rights offering on February 5, 2015 (the "Rights Offering") providing all of the Company's existing common stock holders the non-transferrable right to purchase their pro rata share of $65,500 of convertible preferred stock at a price equal to $100.00 per share ("Preferred Stock"). The Preferred Stock is convertible into shares of Providence's Company's common stock, $0.001 par value per share ("Common Stock") at a conversion price equal to $39.88 per share, which was the closing price of the Company's Common Stock on the NASDAQ Global Select Market on October 22, 2014.

Stockholders exercised subscription rights to purchase 130,884 shares of the Company's Preferred Stock. Pursuant to the terms and conditions of the Standby Purchase Agreement (the "Standby Purchase Agreement") between Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Coliseum Capital Co-Invest, L.P. and Blackwell Partners, LLC (collectively, the "Standby Purchasers") and the Company, the remaining 524,116 shares of the Company's Preferred Stock were purchased by the Standby Purchasers at the $100.00 per share subscription price. The Company received $65,500 in aggregate gross proceeds from the consummation of the Rights Offering and Standby Purchase Agreement. Additionally, on March 12, 2015, the Standby Purchasers exercised their right to purchase an additional 150,000 shares of the Company's Preferred Stock, at a purchase price of $105.00

per share or a total purchase price of $15,750, of the same series and having the same conversion price as the Preferred Stock sold in the Rights Offering.

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

In the event the Company does not declare and pay a cash dividend, the Company will declare a payment in kind ("PIK") dividend by increasing the liquidation preference of the convertible Preferred Stock to an amount equal to the liquidation preference in effect at the start of the applicable dividend period, plus an amount equal to the liquidation preference then in effect multiplied by eight and one-half percent (8.5%) per annum, computed on the basis of a 365-day year and the actual number of days elapsed from the start of the applicable dividend period to the applicable date of determination. All holders of the Company's Preferred Stock are able to convert their Preferred Stock into shares of Common Stock at a rate of approximately 2.51 shares of Common Stock for each share of Preferred Stock. As of December 31, 2017, 1,800 shares of Preferred Stock have been converted to 4,510 shares of Common Stock.

Cash dividends are payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, and commenced on April 1, 2015, and, if declared, begin to accrue on the first day of the applicable dividend period. PIK dividends, if applicable, accrue cumulatively on the same schedule as set forth above for cash dividends and are also compounded at the applicable annual rate on each applicable subsequent dividend date. Cash dividends on redeemable convertible preferred stock totaling $4,418, or $5.50 per share, $4,419, or $5.50 per share, and $3,928, or $4.88 per share, were distributed to convertible preferred stockholders for the years ended December 31, 2017, 2016 and 2015, respectively.

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

The following table summarizes the Preferred Stock activity for the years ended December 31, 2017 and 2016:

	Dollar Value	Share Count
Balance at December 31, 2015	$ 77,576	803,518
Conversion to common stock	(12)	(120)
Allocation of issuance costs	1	—
Balance at December 31, 2016	$ 77,565	803,398
Conversion to common stock	(20)	(198)
Allocation of issuance costs	1	—
Balance at December 31, 2017	$ 77,546	803,200

As of December 31, 2017 and 2016, the outstanding shares of Preferred Stock were convertible into 2,014,042 and 2,014,538 shares of Common Stock, respectively.

11. Stockholders' Equity

At December 31, 2017 and 2016 there were 17,473,598 and 17,315,661 shares of the Company's Common Stock issued, respectively, including 4,126,132 and 3,478,676 treasury shares at December 31, 2017 and 2016, respectively.

Subject to the rights specifically granted to holders of any then outstanding shares of the Company's Preferred Stock, the Company's common stockholders are entitled to vote together as a class on all matters submitted to a vote of the Company's common stockholders, and are entitled to any dividends that may be declared by the Board. The Company's common stockholders do not have cumulative voting rights. Upon the Company's dissolution, liquidation or winding up, holders of the Company's Common Stock are entitled to share ratably in the Company's net assets after payment or provision for all liabilities and any

preferential liquidation rights of the Company's Preferred Stock then outstanding. The Company's common stockholders do not have preemptive rights to purchase shares of the Company's stock. The issued and outstanding shares of the Company's Common Stock are not subject to any redemption provisions and are not convertible into any other shares of the Company's capital stock. The rights, preferences and privileges of holders of the Company's Common Stock will be subject to those of the holders of any shares of the Company's Preferred Stock the Company may issue in the future.

The following table reflects the total number of shares of the Company's Common Stock reserved for future issuance as of December 31, 2017:

Shares of common stock reserved for:	
Exercise of stock options and restricted stock awards	681,608
Conversion of preferred stock to common stock	2,014,042
Issuance of Performance Restricted Stock Units	18,122
Total shares of common stock reserved for future issuance	2,713,772

Share Repurchases

On October 14, 2015, the Company entered into an agreement to repurchase 707,318 of its Common Stock held by former stockholders of Matrix for an aggregate purchase price of $29,000 (or $41.00 per share). The Company funded this purchase through a combination of borrowing on its Credit Facility and cash on hand. The purchase of these shares was completed on October 30, 2015.

On November 4, 2015, the Board authorized the Company to engage in a repurchase program to repurchase up to $70,000 in aggregate value of the Company's Common Stock during the twelve-month period following November 4, 2015. This plan terminated on November 3, 2016. A total of 1,360,249 shares were purchased through this plan for $62,981, excluding commission payments.

On October 26, 2016, the Board authorized a new repurchase program, under which the Company may repurchase up to $100,000 in aggregate value of the Company's Common Stock during the twelve-month period following October 26, 2016. Through October 26, 2017, a total of 770,808 shares were purchased through this plan for $30,360, excluding commission payments.

On November 2, 2017, the Board approved the extension of the Company's October 26, 2016 stock repurchase program, authorizing the Company to engage in a repurchase program to repurchase up to $69,640 (the amount remaining from the $100,000 repurchase amount authorized in 2016) in aggregate value of our Common Stock through December 31, 2018. As of December 31, 2017, 180,270 shares were purchased under this plan after it was extended on November 2, 2017 for $10,503, excluding commission payments.

During the years ended December 31, 2017, 2016 and 2015, the Company withheld 19,556, 2,736 and 15,961 shares, respectively, from employees to cover the settlement of income tax and related benefit withholding obligations arising from vesting of restricted stock awards. In addition, during the years ended December 31, 2017 and 2015, the Company withheld 5,665 and 5,718 shares, respectively, from employees to cover the settlement of income tax and related benefit withholding obligations and the exercise price upon the exercise of stock options. During the year ended December 31, 2015, the Company withheld 43,743 shares to cover the settlement of income tax and related benefit withholding obligations arising from shares held by employees that were released from escrow related to the Matrix acquisition, which shares are treated as treasury stock.

12. Stock-Based Compensation and Similar Arrangements

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

The following table summarizes the activity under the 2006 Plan as of December 31, 2017:

	Number of shares of the Company's Common Stock authorized for issuance	Number of shares of the Company's Common Stock remaining for future grants	Number of shares of the Company's Common Stock subject to	
			Stock Options	Stock Grants
2006 Plan	5,400,000	1,938,666	606,695	111,157

The following table reflects the amount of stock-based compensation, for share settled awards issued to employees and non-employee directors, recorded in each financial statement line item for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
Service expense	$ 491	$ 830	$ 21,480
General and administrative expense	7,052	4,324	5,027
Equity in net (gain) loss of investees	76	18	—
Discontinued operations, net of tax	—	(18)	115
Total stock-based compensation	$ 7,619	$ 5,154	$ 26,622

Stock-based compensation included in service expense is related to the following segments:

	Year Ended December 31,		
	2017	2016	2015
NET Services	$ 434	$ 841	$ 724
WD Services (a)	57	(11)	20,756
Total stock-based compensation in service expense	$ 491	$ 830	$ 21,480

(a) WD Services includes $16,078 for the year ended December 31, 2015 related to the acceleration of awards pursuant to the separation agreements for two executives.

The amounts above exclude tax benefits of $2,885, $2,072 and $2,322 for the years ended December 31, 2017, 2016 and 2015, respectively.

Stock Options

During the year ended December 31, 2016, the Company did not grant any stock options. The fair value of each stock option awarded to employees is estimated on the date of grant using the Black-Scholes option-pricing formula based on the following assumptions for the years ended December 31, 2017 and 2015:

	Year Ended December 31,					
	2017			2015		
Expected dividend yield		0.0%			0.0%	
Expected stock price volatility	19.45%	—	42.95%	33.8%	—	46.14%
Risk-free interest rate	0.95%	—	2.23%	0.4%	—	1.35%
Expected life of options (years)	0.03	—	6.50	0.03	—	4.00

The risk-free interest rate was based on the U.S. Treasury security rate in effect as of the date of grant which corresponds to the expected life of the award. The expected stock price volatility was based on the Company’s historical data. The expected

lives of options were based on the Company's historical data, a simplified method for plain vanilla options, or the Company's best estimate where appropriate.

During the fourth quarter of 2017, James Lindstrom resigned from the Company as Chief Executive Officer ("CEO") and board member of the Company. As a result of Mr. Lindstrom's resignation as CEO, a separation agreement was entered into between the Company and Mr. Lindstrom. As a result of this separation agreement, Mr. Lindstrom was granted 125,000 stock options with an exercise price of $61.33 per share that were immediately vested. The options are exercisable through December 31, 2018.

During the year ended December 31, 2017, the Company issued 91,400 shares of its Common Stock in connection with the exercise of employee stock options under the Company's 2006 Plan.

The following table summarizes the stock option activity for the year ended December 31, 2017:

	Year ended December 31, 2017						
	Number of Shares Under Option		**Weighted-average Exercise Price**		**Weighted-average Remaining Contractual Term**		**Aggregate Intrinsic Value**
Balance at beginning of period	355,598	$	33.48				
Granted	371,775		57.08				
Exercised	(115,825)		29.77				
Forfeited/Cancelled	(854)		46.44				
Expired	(3,999)		24.59				
Outstanding at end of period	606,695	$	48.70		2.62	$	6,705
Vested or expected to vest at end of period	606,695	$	48.70		2.62	$	6,705
Exercisable at end of period	357,984	$	44.65		2.10	$	5,508

The weighted-average grant-date fair value for options granted, total intrinsic value and cash received by the Company related to options exercised during the years ended December 31, 2017, 2016 and 2015 were as follows:

	Year ended December 31,					
	2017		**2016**		**2015**	
Weighted-average grant date fair value per share	$	9.05	$	—	$	8.77
Options exercised:						
Total intrinsic value	$	2,010	$	979	$	6,659
Cash received	$	1,921	$	4,108	$	4,894

Stock Option Modifications

During the fourth quarter of 2017, as a result of the separation agreement between the Company and Mr. Lindstrom, Mr. Lindstrom's outstanding stock options from his grants of 11,319 on August 6, 2015 and 9,798 on March 15, 2017 were modified to accelerate the vesting date of both awards to November 15, 2017 and allow exercise of the stock options until December 31, 2018. As a result of the modification to the terms of the original stock options granted to Mr. Lindstrom, the Company recognized an accelerated expense of $83 on the award for the year ended December 31, 2017.

During the second quarter of 2015, Warren Rustand terminated his role as CEO and board member of the Company, but remained employed as a Senior Advisor through the end of 2015. As a result of Mr. Rustand's termination as CEO, a separation agreement was entered into between the Company and Mr. Rustand. As a result of this separation agreement, Mr. Rustand's outstanding stock options from his grant of 200,000 stock options on September 11, 2014 were modified to accelerate the vesting date for the second tranche of options from June 30, 2015 to June 5, 2015, and the exercise period for all vested options of 133,332 was lengthened. In addition, the third tranche of options, consisting of 66,668 options, was cancelled. As a result of the modifications

to the terms of the original stock options granted to Mr. Rustand, the Company recognized additional stock-based compensation expense of $737 for the year ended December 31, 2015.

Restricted Stock Awards

During the year ended December 31, 2017, the Company granted 33,420 shares of restricted stock ("RSAs") to non-employee directors of its Board, executive officers and certain key employees. The awards primarily vest in three equal installments on the first, second and third anniversaries of the date of grant.

During the year ended December 31, 2017, the Company issued 36,623 shares of its Common Stock to non-employee directors, executive officers and key employees upon the vesting of certain RSAs granted in 2016, 2015 and 2014 under the Company's 2006 Plan. As of December 31, 2017 and 2016, 10,134 shares were vested but not released due to an additional holding period required by the grant agreement.

The following table summarizes the activity of the shares and weighted-average grant date fair value of the Company's unvested restricted Common Stock during the year ended December 31, 2017:

	Shares	Weighted-average grant date fair value
Non-vested at beginning of period	72,198	$ 44.44
Granted	33,420	$ 43.91
Vested	(36,623)	$ 43.42
Forfeited or cancelled	(4,216)	$ 47.17
Non-vested at end of period	64,779	$ 44.82

As of December 31, 2017, there was $4,331 of unrecognized compensation cost related to unvested share settled stock options and RSAs granted under the 2006 Plan. The cost is expected to be recognized over a weighted-average period of 1.2 years. The total fair value of stock options and RSAs vested was $3,550, $1,383 and $3,709 for the years ended December 31, 2017, 2016 and 2015, respectively.

Other Restricted Stock Award Grants

During the year ended December 31, 2014, the Board approved the grant of 596,915 RSAs to two individuals in connection with the Ingeus acquisition. The grants were made outside of the 2006 Plan, as they were related to the acquisition. However, since the term of the awards provided for vesting based on continued employment, the awards were accounted for as stock-based compensation. The shares necessary to settle these awards were placed in an escrow account in 2014, and were releasable from escrow in accordance with the vesting of the awards. Per the original terms of the agreements, the awards vested upon continued employment of the grantees, in four equal installments on the anniversary date of the grant. However, on October 15, 2015, the Company entered into agreements whereby the executives' employment was terminated by mutual agreement and vesting was no longer based upon continued employment. The Company recognized $16,078 in stock-based compensation expense at the time of the modification, which otherwise would have been recognized over the remainder of the vesting period. Additionally, the Company recognized accelerated deferred compensation expense of $4,714 related to these agreements during the year ended December 31, 2015. As of December 31, 2017, 149,228 underlying shares to settle the awards are held in the escrow account and will be released in 2018, although all expense was recognized as of December 31, 2015.

Restricted Stock Units

During the year ended December 31, 2016, the Company granted 5,930 restricted stock units to a key employee, related to the terms of a separation agreement, that vested on January 3, 2017. The units were settled through a cash payment of $304 during the year ended December 31, 2017. The award was liability classified, and the expense recorded was based upon the Company's closing stock price at the end of each reporting period and the completed requisite service period.

Performance Restricted Stock Units

The Company had 18,122 performance restricted stock units ("PRSUs") outstanding at December 31, 2017. These awards vest upon the Company or its segments meeting certain performance criteria over a set performance period as determined, and subject to adjustment, by the Company's Compensation Committee of the Board. 13,262 of the outstanding PRSUs at December 31, 2017 have a performance criteria tied to the Company's return on equity ("ROE"), with performance periods ending on December 31, 2017. The grantees will earn 33% of PRSUs granted if the ROE is 12% but less than 15%, and 100% of the PRSUs granted if the ROE is 15% or more. If ROE is less than 12%, no PRSUs will be earned. The Company has determined, subsequent to December 31, 2017, that none of these PRSUs, with a performance period ended December 31, 2017, will vest. 4,860 of the outstanding PRSUs at December 31, 2017 have a performance criteria tied to NET Services' EBITDA and the Company's EBITDA performance with performance periods ending on December 31, 2017. The Company expects all of these PRSUs, with a performance period ended December 31, 2017, to vest. Compensation expense (benefit) related to these awards totaled $19, ($270) and $613 for the years ended December 31, 2017, 2016 and 2015, respectively.

Cash Settled Awards

During the years ended December 31, 2017, 2016 and 2015, respectively, the Company issued 3,097, 3,360 and 4,000 stock equivalent units ("SEUs"), which settle in cash upon vesting, to Coliseum Capital Partners, L.P., in lieu of a grant to Christopher Shackelton, Chairman of the Board, for his service on the Board, which vest one-third upon each anniversary of the vesting date. The fair value of the SEUs is based on the closing stock price on the last day of the period and the completed requisite service period. The Company recorded $235, $287 and $588 of expense for SEUs during the years ended December 31, 2017, 2016 and 2015, respectively.

During the year ended December 31, 2014, the Company issued 200,000 stock option equivalent units ("SOEUs"), with an exercise price of $43.81 per share, which settle in cash, to Coliseum Capital Partners, L.P in lieu of a grant to Christopher Shackelton, for other services rendered. All 200,000 SOEUs were outstanding and exercisable at December 31, 2017. This award vested one-third upon grant, one-third on June 30, 2015 and one-third on June 30, 2016. No additional SOEUs were granted during the years ended December 31, 2017, 2016 and 2015. The Company recorded $2,146 and $1,888 of expense for SOEUs during the years ended December 31, 2017 and 2015, respectively, and a benefit of $1,517 during the year ended December 31, 2016. The expenses and benefit are included in "General and administrative expense" in the consolidated statements of income. The fair value of the SOEUs was estimated as of December 31, 2017, 2016 and 2015 using the Black-Scholes option-pricing formula and amortized over the option's graded vesting periods with the following assumptions:

	Year ended December 31,								
	2017			2016			2015		
Expected dividend yield		0.0%			0.0%			0.0%	
Expected stock price volatility	23.36%	—	32.09%	35.71%	—	41.82%	43.75%	—	45.3%
Risk-free interest rate	1.75%	—	1.95%	1.11%	—	1.64%	1.2%	—	1.70%
Expected life of options (in years)	0.75	—	2.75	1.0	—	3.00	2.75	—	4.75

As of December 31, 2017 and 2016, the Company had a short-term liability of $3,938 and $1,764, respectively, in "Accrued expenses" in the consolidated balance sheet related to unexercised vested and unvested cash settled share-based payment awards. The cash settled share-based compensation benefit in total excluded tax expense of $492 for the year ended December 31, 2016. The cash settled share-based compensation expense in total excluded a tax benefit of $908 and $990 for the years ended December 31, 2017 and 2015. The unrecognized compensation cost for SEUs is expected to be recognized over a weighted average period of 0.8 years; however, the total expense for both SEUs and SOEUs will continue to be adjusted until the awards are settled.

Holdco Long-Term Incentive Plan

On August 6, 2015 (the "Award Date"), the Compensation Committee of the Board adopted the HoldCo LTIP under the 2006 Plan. The Holdco LTIP was designed to provide long-term performance based awards to certain executive officers of Providence. Under the program, executives would receive shares of Providence Common Stock based on the shareholder value created in excess of an 8.0% compounded annual return between the Award Date and December 31, 2017 (the "Extraordinary Shareholder Value"). The Award Date value was calculated on the basis of the Providence stock price equal to the volume weighted average of the common share price over the 90-day trading period ending on the Award Date. The Extraordinary Shareholder Value was calculated on the basis of the Providence stock price equal to the volume weighted average of the common share price

over the 90-day trading period ending on December 31, 2017. A pool for use in the allocation of awards was created equal to 8.0% of the Extraordinary Shareholder Value.

Participants in the HoldCo LTIP would receive a percentage allocation of any such pool and, following determination of the size of the pool, would be entitled to a number of shares equal to their pro rata portion of the pool divided by the volume weighted average of the Company's per share price over the 90-day trading period ending on December 31, 2017. Of the shares allocated, 60% would be issued to the participant on or shortly following determination of the pool, 25% would vest and be issued on the one-year anniversary of such determination date, subject to continued employment, and the remaining 15% would be issued on the second anniversary of the determination date, subject to continued employment.

It was determined that no shares would be distributed under the Holdco LTIP as the calculation of the pool amount was zero. $4,738, $3,319 and $1,353 of expense is included in "General and administrative expense" in the consolidated statements of income for the years ended December 31, 2017, 2016 and 2015, respectively. As of December 31, 2017, the Company accelerated all remaining unrecognized compensation expense for the Holdco LTIP as there was no further requisite service period associated with the award, resulting in an acceleration of expense of $1,053.

These awards were equity classified and the fair value of the awards was calculated using a Monte-Carlo simulation valuation model. The fair value of the awards granted in 2016 and 2015 were estimated using the following assumptions:

	Year ended December 31,	
	2016	2015
Forward interest rate	0.24% — 2.71%	0.04% — 2.90%
Expected Volatility	40.0%	45.0%
Dividend Yield	—%	—%
Fair Value of Total Pool	$12,870	$12,590

13. Vertical Long-Term Incentive Plan

The Company established Long-Term Incentive Plans ("Vertical LTIPs") for the Company's operating segments, or verticals, during the fourth quarter of 2015. The Vertical LTIPs are consistent in their basic terms, but each were customized for specific aspects of the associated vertical. The awards pay in cash, however up to 50% of the award may be paid in unrestricted stock if the recipient elects this option when the Vertical LTIP offer letter is received. In addition, at the discretion of the Company, the recipients may be able to elect unrestricted stock in lieu of cash compensation at a later date. The Vertical LTIPs reward participants based on certain measures of free cash flow and EBITDA results adjusted as specified in the plan document. The awards vest in three installments: 60% of the award will pay out immediately following December 31, 2017, 25% one year following the performance period (i.e. December 31, 2018) and 15% two years following the performance period (i.e. December 31, 2019). Payout is subject to the participant remaining employed by the Company.

During 2017, the Company revised the structure of the NET Services long-term incentive plan. As a result, the Company finalized the amount payable under the plan at $2,956. The total value will be paid to the awarded participants per the terms of the original agreement and thus the remaining unamortized expense relating to this plan continues to be recognized over the remaining service period. As of December 31, 2017, unamortized compensation expense is $299. For the years ended December 31, 2017, 2016, and 2015, $816, $1,513 and $328 of expense, respectively, is included in "Service expense" in the consolidated statements of income related to this plan. At December 31, 2017, the liability for long-term incentive plans of the Company's operating segments of $2,657 is reflected in "Accrued expenses" and "Other long-term liabilities" in the consolidated balance sheet. At December 31, 2016, the liability for long-term incentive plans of the Company's operating segments of $1,841 is reflected in "Other long-term liabilities" in the consolidated balance sheet.

14. Earnings Per Share

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

	Year ended December 31,		
	2017	2016	2015
Numerator:			
Net income attributable to Providence	$ 53,369	$ 91,928	$ 83,696
Less dividends on convertible preferred stock	(4,419)	(4,419)	(3,935)
Less accretion of convertible preferred stock discount	—	—	(1,071)
Less income allocated to participating securities	(7,085)	(13,135)	(10,691)
Net income available to common stockholders	$ 41,865	$ 74,374	$ 67,999
Continuing operations	$ 47,848	$ (21,251)	$ (29,181)
Discontinued operations	(5,983)	95,625	97,180
	$ 41,865	$ 74,374	$ 67,999
Denominator:			
Denominator for basic earnings per share -- weighted-average shares	13,602,140	14,666,896	15,960,905
Effect of dilutive securities:			
Common stock options	66,314	—	—
Performance-based restricted stock units	4,860	—	—
Denominator for diluted earnings per share -- adjusted weighted-average shares assumed conversion	13,673,314	14,666,896	15,960,905
Basic earnings (loss) per share:			
Continuing operations	$ 3.52	$ (1.45)	$ (1.83)
Discontinued operations	(0.44)	6.52	6.09
	$ 3.08	$ 5.07	$ 4.26
Diluted earnings (loss) per share:			
Continuing operations	$ 3.50	$ (1.45)	$ (1.83)
Discontinued operations	(0.44)	6.52	6.09
	$ 3.06	$ 5.07	$ 4.26

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

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

	Year ended December 31,		
	2017	2016	2015
Stock options to purchase common stock	362,392	22,638	173,925
Convertible preferred stock	803,323	803,442	700,241

15. Operating Leases

The Company has non-cancelable contractual obligations in the form of operating leases for office space, related office equipment and other facilities. The leases expire in various years and generally provide for renewal options. In the normal course of business, it is expected that these leases will be renewed or replaced by leases on other properties.

Certain operating leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Several of these lease agreements contain provisions for periods in which rent payments are reduced. The total amount of rental payments due over the lease term is being charged to rent expense on a straight-line basis over the term of the lease. The cumulative difference between rent expense recorded and the amount paid, for continuing operations, as of December 31, 2017 and 2016 was $3,957 and $3,253, respectively, and is included in "Accrued expenses" and "Other long-term liabilities" in the consolidated balance sheets.

Future minimum payments under non-cancelable operating leases for equipment and property with initial terms of one year or more consisted of the following at December 31, 2017:

	Operating Leases
2018	$ 20,875
2019	13,376
2020	9,738
2021	8,022
2022	6,142
Thereafter	3,939
Total future minimum lease payments	$ 62,092

Rent expense for continuing operations related to operating leases was $27,511, $29,316 and $31,191, for the years ended December 31, 2017, 2016 and 2015, respectively. Also, the lease agreements generally require the Company to pay executory costs such as real estate taxes, insurance, and repairs, which are recorded to expense as incurred.

16. Retirement Plan

The Company maintains a qualified defined contribution plan under Section 401(k) of the Internal Revenue Code of 1986, as amended, for all employees of its NET Services operating segment and corporate personnel. The Company, at its discretion, may make a matching contribution to the plan. Any matching contributions vest over 5 years. Unvested matching contributions are forfeitable upon employee termination. Employee contributions are fully vested and non-forfeitable. The Company's contributions to the plan for continuing operations were $320, $248 and $221, for the years ended December 31, 2017, 2016 and 2015, respectively.

WD Services' employees are entitled to benefits under certain retirement plans. The WD Services' segment has separate plans in each country it operates. The plans receive fixed contributions from WD Services' companies and the legal or constructive obligation is limited to these contributions, although the benefits the employees ultimately receive are determined by the plan administrators, which includes government entities and third-party administrators. The Company's contributions to these plans were $8,219, $9,139 and $10,331 for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company also maintains a Deferred Compensation Rabbi Trust Plan for highly compensated employees of NET Services. This plan was put in place to compensate for the inability of highly compensated employees to take full advantage of the Company's 401(k) plan. Additional information is included in Note 18, *Commitments and Contingencies*.

17. Income Taxes

The following table summarizes our U.S. and foreign income (loss) from continuing operations before income taxes:

	Year Ended December 31,		
	2017	2016	2015
US	48,719	65,559	43,598
Foreign	15,485	(67,437)	(53,692)
Total	$ 64,204	$ (1,878)	$ (10,094)

The federal, state and foreign income tax provision is summarized as follows:

	Year Ended December 31,		
	2017	2016	2015
Federal:			
Current	$ 18,792	$ 21,202	$ 15,161
Deferred	(19,767)	(6,477)	(1,606)
	(975)	14,725	13,555
State:			
Current	3,975	4,580	2,644
Deferred	723	(938)	(38)
	4,698	3,642	2,606
Foreign:			
Current	1,197	266	523
Deferred	(519)	(1,597)	(2,101)
	678	(1,331)	(1,578)
Total provision for income taxes	$ 4,401	$ 17,036	$ 14,583

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

	Year Ended December 31,		
	2017	2016	2015
Federal statutory rates	35%	35 %	35 %
Federal income tax at statutory rates	$ 22,471	$ (657)	$ (3,533)
Revaluation of net deferred tax liabilities due to U.S. tax reform	(19,397)	—	—
U.S. tax reform impact on equity income of investee	(1,646)	—	—
Change in valuation allowance	2,299	9,480	3,574
Change in uncertain tax positions	7	73	(76)
State income taxes, net of federal benefit	3,203	2,396	1,785
Difference between federal statutory and foreign tax rate	(1,648)	9,427	4,642
Stock compensation	3,400	—	(184)
Meals and entertainment	100	96	81
Amortization of deferred consideration	—	—	9,444
Transaction costs	159	—	(447)
Contingent consideration liability reversal	—	—	(854)
Nontaxable income	(1,203)	—	(965)
Tax credits	(354)	(947)	(456)
Legal expense	(805)	522	284
Depreciation	—	—	649
Equity in net loss of investee	569	624	366
Sale of joint venture	(6,021)	—	—
Asset impairment	—	2,353	—
Foreign exchange	2,925	(7,001)	—
Other	342	670	273
Provision for income taxes	$ 4,401	$ 17,036	$ 14,583
Effective income tax rate	7%	(907)%	(144)%

The Company recognized an income tax provision for the years ended December 31, 2016 and December 31, 2015 despite having losses from continuing operations before income taxes. Because of foreign net operating losses (including equity investee losses) for which the future income tax benefit currently cannot be recognized, and non-deductible expenses such as amortization of deferred consideration related to the Ingeus acquisition, the Company recognized estimated taxable income for these years upon which the income tax provision for financial reporting is calculated.

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

	December 31,	
	2017	2016
Deferred tax assets:		
Net operating loss carryforwards	$ 20,496	$ 17,742
Tax credit carryforwards	486	399
Accounts receivable allowance	1,134	1,341
Accrued items and reserves	14,371	18,669
Stock compensation	1,480	4,224
Deferred rent	572	915
Property and equipment depreciation	300	—
Other	173	180
	39,012	43,470
Deferred tax liabilities:		
Deferred financing costs	38	154
Prepaids	1,440	2,103
Property and equipment depreciation	—	1,238
Goodwill and intangibles amortization	5,809	9,568
Equity investment	42,113	59,244
Other	205	203
	49,605	72,510
Net deferred tax liabilities	(10,593)	(29,040)
Less valuation allowance	(26,402)	(27,423)
Net deferred tax liabilities	$ (36,995)	$ (56,463)
Net noncurrent deferred tax assets, net of valuation allowance of $26,402 and $27,423 for 2017 and 2016, respectively	4,632	1,510
Net noncurrent deferred tax liabilities, net of valuation allowance of $0 and $0 for 2017 and 2016, respectively	(41,627)	(57,973)
	$ (36,995)	$ (56,463)

At December 31, 2017, the Company had no federal or state net operating loss carryforwards. The Company had net operating loss carryforwards in the following countries which can be carried forward indefinitely:

Australia	$ 41,256
Canada	728
France	3,882
Saudi Arabia	82
UK	40,090

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

The net change in the total valuation allowance for the year ended December 31, 2017 was negative $1,021, of which positive $2,299 related to current operations and negative $3,320 related to the adjustment of the beginning balance. The valuation

allowance includes $25,929 primarily for Australia, France and UK net operating loss carryforwards, and $473 for state tax credit carryforwards for which the Company has concluded that it is more likely than not that these net operating loss and tax credit carryforwards will not be realized in the ordinary course of operations. The Company will continue to assess the valuation allowance, and to the extent it is determined that the valuation allowance should be changed, an appropriate adjustment will be recorded.

U.S. Tax Reform

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

As a result of the reduction in the U.S. corporate income tax rate, the Company revalued its ending net deferred tax liabilities as of December 31, 2017 and recognized a provisional tax benefit of $19,397. The Company has projected net accumulated deficits in foreign E&P; therefore, no provisional tax expense for deemed repatriation has been recognized. For any future foreign earnings, the Company will generally be free of additional U.S. tax consequences due to a dividends received deduction implemented as part of the move to a territorial tax system for foreign subsidiary earnings. The Company continues to assert indefinite reinvestment in outside basis differences. Determination of the amount of unrecognized deferred tax liability on outside basis differences is not practicable because of the complexity of laws and regulations, the varying tax treatment of alternative repatriation scenarios, and the variation due to multiple potential assumptions relating to the timing of any future repatriation.

The global intangible low taxed income ("GILTI") provisions of the Tax Reform Act require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. The Company may be subject to incremental U.S. tax on GILTI income beginning in 2018, and has elected to account for GILTI tax in the period in which it is incurred. Therefore, no deferred tax impacts of GILTI have been considered in the Company's consolidated financial statements for the year ended December 31, 2017.

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

Unrecognized Tax Benefits

The Company expects no material amount of the unrecognized tax benefits to be recognized during the next twelve months. The Company recognizes interest and penalties as a component of income tax expense. During the years ended December 31, 2017, 2016 and 2015, the Company recognized approximately $65, $19 and $27, respectively, in interest and penalties. The Company had approximately $83 and $52 for the payment of penalties and interest accrued as of December 31, 2017 and 2016, respectively.

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

	December 31,		
	2017	2016	2015
Unrecognized tax benefits, beginning of year	$ 1,108	$ 271	$ 347
Balance upon acquisition/disposition	—	764	—
Increase (decrease) related to prior year positions	22	37	(47)
Increase related to current year tax positions	101	139	48
Statute of limitations expiration	(116)	(103)	(77)
Unrecognized tax benefits, end of year	$ 1,115	$ 1,108	$ 271

The Company is subject to taxation in the U.S. and various foreign and state jurisdictions. The statute of limitations is generally three years for the U.S., two to five years in foreign countries and between three and four years for the various states in which the Company operates. The Company is subject to the following material taxing jurisdictions: the U.S., UK, Australia, France, Saudi Arabia and Korea. The tax years that remain open for examination by the U.S. and various foreign countries and states principally include the years 2013 to 2017.

18. Commitments and Contingencies

Legal proceedings

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

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

On January 12, 2016, the plaintiff filed a verified amended class action and derivative complaint (the “first amended complaint”). In addition to the defendants named in the earlier complaint, the first amended complaint named David Shackelton,

Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Blackwell Partners, LLC, Coliseum Capital Co-Invest, L.P. (collectively, and together with Coliseum Capital Management, LLC, "Coliseum") and RBC Capital Markets, LLC ("RBC Capital Markets") as additional defendants. The first amended complaint purported to allege direct and derivative claims for breach of fiduciary duty against some or all of the Individual Defendants and David Shackelton (collectively, the "Amended Individual Defendants") regarding the approval of the subordinated note, the rights offering, the standby agreement with Coliseum Capital Management, and the grant to Coliseum Capital Management of certain stock options. The first amended complaint also purported to allege an additional derivative claim for unjust enrichment against Coliseum and further alleged that Coliseum and RBC Capital Markets aided and abetted the Amended Individual Defendants in breaching their fiduciary duties. The first amended complaint sought, among other things, revision or rescission of the terms of the subordinated note and Preferred Stock, corporate governance reforms, unspecified damages and other relief.

On May 6, 2016, the plaintiff filed a verified second amended class action and derivative complaint (the "second amended complaint"). In addition to the defendants named in the earlier complaint, the second amended complaint named Paul Hastings LLP ("Paul Hastings") and Bank of America, N.A. ("BofA") as additional defendants. In addition to previously asserted claims, the second amended complaint purported to assert direct and derivative claims for breach of fiduciary duties against Coliseum Capital Management, in its capacity as the controlling stockholder of the Company, in connection with the subordinated note, the Company's rights offering of Preferred Stock and the standby purchase agreement with Coliseum Capital Management (the "Financing Transactions"). The second amended complaint also alleged that Paul Hastings breached their fiduciary duties as counsel to the Company in connection with the Financing Transactions and that BofA and Paul Hastings aided and abetted certain of the Amended Individual Defendants in breaching their fiduciary duties in connection with the Financing Transactions. The second amended complaint sought, among other things, revision or rescission of the terms of the subordinated note and Preferred Stock, corporate governance reforms, disgorgement of fees paid to RBC Capital Markets, Paul Hastings and BofA for work relating to the Financing Transactions, unspecified damages and other relief.

On May 20, 2016, the Court granted a six-month stay of the proceeding (which was subsequently extended) to allow a special litigation committee, created by the Board, sufficient time to investigate, review and evaluate the facts, circumstances and claims asserted in or relating to this action and determine the Company's response thereto. On January 20, 2017, the special litigation committee advised the Court that the parties to the litigation and the special litigation committee had reached an agreement in principle to settle all of the claims in the litigation. The parties then entered into a proposed settlement agreement which was submitted to the Court for approval. On September 28, 2017, the Court approved the proposed settlement agreement among the parties that provided 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, which is included in "Other income" in the consolidated statement of income for the year ended December 31, 2017.

In addition to the matter described above, 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.

Indemnifications related to Haverhill Litigation

The Company indemnified the Standby Purchasers from and against any and all losses, claims, damages, expenses and liabilities relating to or arising out of (i) any breach of any representation, warranty, covenant or undertaking made by or on behalf of the Company in the Standby Purchase Agreement and (ii) the transactions contemplated by the Standby Purchase Agreement and the 14.0% Unsecured Subordinated Note in aggregate principal amount of $65,500, except to the extent that any such losses, claims, damages, expenses and liabilities are attributable to the gross negligence, willful misconduct or fraud of such Standby Purchaser.

The Company has also indemnified other third parties from and against any and all losses, claims, damages, expenses and liabilities arising out of or in connection with the Company's acquisition of CCHN Group Holdings, Inc. (operating under the tradename Matrix, and formerly included in our HA Services segment) in October 2014 and related financing commitments, except to the extent that any such losses, claims, damages, expenses and liabilities are found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence, bad faith or willful misconduct of such third parties, or a material breach of such third parties' obligations under the related agreements.

The Company recorded $318, $1,282 and $310 of such indemnified legal expenses related to the Haverhill Litigation during the years ended December 31, 2017, 2016 and 2015, respectively, which is included in "General and administrative expenses" in the consolidated statements of income. Of these amounts, $245, $757 and $310 for the years ended December 31, 2017, 2016

and 2015, respectively, were indemnified legal expenses of related parties. 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 expense of $8, $210 and $500 for the years ended December 31, 2017, 2016 and 2015, respectively. 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 $941 and $1,645 in "Other receivables" in the consolidated balance sheets at December 31, 2017 and 2016, 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. All representations and warranties made by the Company in the Membership Interest Purchase Agreement (the "Purchase Agreement") to sell the Human Services segment ended on February 1, 2017. However, claims made prior to February 1, 2017 by the purchaser of the Human Services segment against these representations and warranties may survive until the claims are settled. In addition, certain representations, including tax representations, survive until the expiration of applicable statutes of limitation, and healthcare representations survive until the third anniversary of the closing date. The Company has received indications from the purchaser of the Human Services segment regarding potential indemnification claims. One potential indemnification claim relates 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 "Rodriquez Court"), against Providence Community Corrections, Inc. ("PCC"), an entity sold under the Purchase Agreement. On September 18, 2017, the plaintiffs in the Rodriguez Litigation filed an unopposed motion for preliminary approval of a proposed settlement, pursuant to which PCC would pay $14,000 to the plaintiffs and $350 to co-defendant Rutherford County, Tennessee. On October 5, 2017, the Rodriguez Court denied preliminary approval of the settlement and requested additional information. On October 18, 2017, the plaintiffs filed a second unopposed motion for approval of the proposed settlement. On January 2, 2018, the Rodriguez Court granted preliminary approval of the proposed settlement and authorized notice to class members.

On September 15, 2017, Molina and the Company entered into a memorandum of understanding; and on March 1, 2018, Molina and the Company entered into a settlement agreement, regarding a settlement of an indemnification claim by Molina with respect to the Rodriguez Litigation and other matters. As of December 31, 2017, the accrual is $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.

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.

The Company has provided certain standard indemnifications in connection with its Matrix stock subscription transaction whereby Mercury Fortuna Buyer, LLC ("Subscriber"), Providence and Matrix entered into a stock subscription agreement (the "Subscription Agreement"), dated August 28, 2016. The representations and warranties made by the Company in the Subscription Agreement ended January 19, 2018; however, certain fundamental representations survive through the 36th month following the closing date. The covenants and agreements of the parties to be performed prior to the closing ended January 19, 2018, and all other covenants and agreements survive until the expiration of the applicable statute of limitations in the event of a breach, or for such lesser periods specified therein. The Company is not aware of any indemnification liabilities with respect to Matrix that require accrual at December 31, 2017.

Other Contingencies

On January 25, 2018, the UK Ministry of Justice (the "MOJ") released a report on reoffending statistics for certain offenders who entered probation services during the period October 2015 to March 2016. The report provides statistics for all providers of probation services, including our subsidiary RRP, which is in our WD Services segment. This information is the second data set that is utilized to determine performance payments under the various providers' transforming rehabilitation contracts with the MOJ, as the actual rates of recidivism are compared to benchmark rates established by the MOJ. Performance payments and penalties are linked to two separate measures of recidivism - the binary measure and the frequency measure. The binary measure defines the percentage of offenders within a cohort, formed quarterly, who reoffend in the following 12 months. The frequency measure defines the average number of offenses committed by reoffenders within the same 12-month measurement period. The performance for the frequency measure for most providers has been below the benchmarks established by the MOJ. As a result, RRP could be required to make payments to the MOJ and the amounts of such payments could be material. The amount of potential payments to the MOJ, if any, under RRP's contracts with the MOJ cannot be estimated at this time, as the MOJ is

reviewing the data to understand the underlying reasons for the increase in certain rates of recidivism and other factors that could impact the contractual measure.

Deferred Compensation Plan

The Company has one deferred compensation plan for management and highly compensated employees of NET Services as of December 31, 2017. The deferred compensation plan is unfunded, and benefits are paid from the general assets of the Company. The total of participant deferrals, which is reflected in "Other long-term liabilities" in the consolidated balance sheets, was $1,806 and $1,430 at December 31, 2017 and 2016, respectively.

19. Transactions with Related Parties

The Company incurred legal expenses under an indemnification agreement with the Standby Purchasers as further discussed in Note 18, *Commitments and Contingencies*. Preferred Stock dividends earned by the Standby Purchasers during the years ended December 31, 2017 and 2016 totaled $4,213 each year.

During the year ended December 31, 2017, the Company made a $566 loan to Mission Providence. The loan was also repaid during the year ended December 31, 2017.

20. Discontinued Operations

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

In accordance with ASC 205-20, *Presentation of Financial Statements-Discontinued Operations*, a component of an entity is reported in discontinued operations after meeting the criteria for held for sale classification if the disposition represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results. The Company analyzed the quantitative and qualitative factors relevant to the Matrix stock subscription transaction resulting in the Company no longer owning a controlling interest in Matrix, and determined that those held for sale conditions for discontinued operations presentation were met during the third quarter of 2016. As such, the historical financial results of Matrix, the Company's historical HA Services segment, and the related income tax effects have been presented as discontinued operations for all periods presented in the accompanying consolidated financial statements through October 19, 2016.

The Company has continuing involvement with Matrix through its ownership of 46.6% of the equity interests in Matrix as of December 31, 2017, as well as through a management consulting agreement, not to exceed ten years. Prior to the Matrix Transaction, the Company owned 100% of the equity interest in Matrix. Subsequent to the Matrix Transaction, the Company accounts for its investment in Matrix under the equity method of accounting. The Company's share of Matrix's losses subsequent to the Matrix Transaction, which totaled $13,445 and $1,789, is recorded as "Equity in net (gain) loss of investees" in its consolidated statement of income for the years ended December 31, 2017 and 2016, respectively. Matrix's pretax loss for the year ended December 31, 2017 totaled $2,948 and includes $3,537 of transaction related expenses. Matrix's pretax loss for the period of October 19, 2016 through December 31, 2016 totaled $7,027 and includes $6,367 of transaction related expenses. There have been no cash inflows or outflows from or to Matrix subsequent to the closing of the Matrix Transaction, other than the working capital adjustments discussed above and management fees associated with its ongoing relationship with Matrix, of which $1,103 was received during the year ended December 31, 2017. $247 and $185 are included in "Other receivables" in the consolidated balance sheets at December 31, 2017 and 2016, respectively, related to management fees receivable.

On September 3, 2015, the Company entered into a Purchase Agreement, pursuant to which the Company agreed to sell all of the membership interests in Providence Human Services, LLC and Providence Community Services, LLC, comprising the

Company's Human Services segment, in exchange for cash proceeds of approximately $200,000 prior to adjustments for estimated working capital, certain seller transaction costs, debt assumed by the buyer, and a $20,099 cash payment received for the Providence Human Services cash and cash equivalents on hand at closing. The net proceeds were $230,703, although $10,000 is held in an indemnity escrow and recorded within "Prepaid expenses and other" in the consolidated balance sheet at December 31, 2017. Proceeds include a customary working capital adjustment of $13,246. During the years ended December 31, 2017 and 2016, the Company recorded additional expenses related to the Human Services segment, principally related to legal proceedings as described in Note 18, *Commitment and Contingences*, related to an indemnified legal matter.

Results of Operations

The following table summarizes the results of operations classified as discontinued operations, net of tax, for the years ended December 31, 2017, 2016 and 2015. The HA Services segment column in the table below for the year ended December 31, 2016 reflects the financial results for HA Services from January 1, 2016 through October 19, 2016.

	Year ended December 31, 2017		
	Human Services Segment	**HA Services Segment**	**Total Discontinued Operations**
Operating expenses:			
General and administrative expense	$ 9,674	$ —	$ 9,674
Total operating expenses	9,674	—	9,674
Loss from discontinued operations before income taxes	(9,674)	—	(9,674)
Income tax benefit	3,691	—	3,691
Discontinued operations, net of tax	$ (5,983)	$ —	$ (5,983)

	Year ended December 31, 2016		
	Human Services Segment	**HA Services Segment**	**Total Discontinued Operations**
Service revenue, net	$ —	$ 166,090	$ 166,090
Operating expenses:			
Service expense	—	120,906	120,906
General and administrative expense	7,966	2,148	10,114
Depreciation and amortization	—	21,121	21,121
Total operating expenses	7,966	144,175	152,141
Operating income (loss)	(7,966)	21,915	13,949
Other expenses:			
Write-off of deferred financing fees	—	2,302	2,302
Interest expense, net	—	9,929	9,929
Income (loss) from discontinued operations before gain on disposition and income taxes	(7,966)	9,684	1,718
Gain on disposition	—	167,895	167,895
(Provision) benefit for income taxes	2,401	(63,254)	(60,853)
Discontinued operations, net of tax	$ (5,565)	$ 114,325	$ 108,760

	Year ended December 31, 2015		
	Human Services Segment	HA Services Segment	Total Discontinued Operations
Service revenue, net	$ 291,510	$ 217,436	$ 508,946
Operating expenses:			
Service expense	264,293	163,211	427,504
General and administrative expense	14,975	2,630	17,605
Asset impairment charge	1,593	—	1,593
Depreciation and amortization	4,831	29,472	34,303
Total operating expenses	285,692	195,313	481,005
Operating income	5,818	22,123	27,941
Other expenses:			
Interest expense, net	2,829	14,359	17,188
Income from discontinued operations before gain on disposition and income taxes	2,989	7,764	10,753
Gain on disposition	123,129	—	123,129
Provision for income taxes	(24,318)	(1,693)	(26,011)
Discontinued operations, net of tax	$ 101,800	$ 6,071	$ 107,871

Interest expense, net

The Company allocated interest expense, including amortization of deferred financing fees, to discontinued operations based on the portion of the debt that was required to be paid with the proceeds from the sale of the Human Services segment and the Matrix Transaction. The total allocated interest expense is included in “Interest expense, net” in the tables above. The total allocated interest expense for the years ended December 31, 2016 and 2015 is as follows:

	Year ended December 31,	
	2016	2015
Human Services Segment	$ —	$ 2,871
HA Services Segment	9,939	14,376
Total	$ 9,939	$ 17,247

Cash Flow Information

The following table presents depreciation, amortization, capital expenditures and significant operating noncash items of the discontinued operations for the years ended December 31, 2016 and 2015:

	For the year ended December 31, 2016		
	Human Services Segment	HA Services Segment	Total Discontinued Operations
Cash flows from discontinued operating activities:			
Depreciation	$ —	$ 3,661	$ 3,661
Amortization	—	17,460	17,460
Stock-based compensation	—	(18)	(18)
Deferred income taxes	—	52,338	52,338
Cash flows from discontinued investing activities:			
Purchase of property and equipment	$ —	$ 9,174	$ 9,174

	For the year ended December 31, 2015		
	Human Services Segment	HA Services Segment	Total Discontinued Operations
Cash flows from discontinued operating activities:			
Depreciation	$ 2,376	$ 3,370	$ 5,746
Amortization	2,455	26,102	28,557
Asset impairment charge	1,593	—	1,593
Stock-based compensation	7	108	115
Deferred income taxes	(5,680)	730	(4,950)
Cash flows from discontinued investing activities:			
Purchase of property and equipment	$ 2,224	$ 8,079	$ 10,303

21. Segments

The Providence Service Corporation 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 non-emergency medical transportation 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, a nationwide provider of in-home care optimization and management solutions, including CHAs, to members of managed care organizations, accounted for as an equity method investment as a result of the Matrix Transaction on October 19, 2016, which is further discussed in Note 20, *Discontinued Operations*

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 Company's captive insurance company.

Segment results are based on how the Company's chief operating decision maker ("CODM") manages the Company's business, makes operating decisions and evaluates operating performance. The operating results of the segments include revenue and expenses incurred by the segment, as well as an allocation of direct expenses incurred by Corporate on behalf of the segment. Indirect expenses, including unallocated corporate functions and expenses, such as executive, accounting, finance, internal audit, tax, legal, public reporting, certain strategic and corporate development functions and the results of the Company's captive insurance company as well as elimination entries recorded in consolidation are reflected in Corporate and Other.

The following table sets forth certain financial information from continuing operations attributable to the Company's business segments for the years ended December 31, 2017, 2016 and 2015.

	Year Ended December 31, 2017				
	NET Services	WD Services	Matrix Investment	Corporate and Other	Total
Service revenue, net	$ 1,318,220	$ 305,662	$ —	$ —	$ 1,623,882
Service expense	1,227,426	265,417	—	(3,799)	1,489,044
General and administrative expense	11,779	25,438	—	35,119	72,336
Depreciation and amortization	13,275	12,851	—	343	26,469
Operating income (loss)	$ 65,740	$ 1,956	$ —	$ (31,663)	$ 36,033
Equity in net (gain) loss of investees	$ —	$ 1,391	$ (13,445)	$ —	$ (12,054)
Investment in equity method investee	$ —	$ 213	$ 169,699	$ —	$ 169,912
Total assets	$ 294,127	$ 184,805	$ 169,699	$ 55,459	$ 704,090
Long-lived asset expenditures	$ 15,319	$ 4,527	$ —	$ 77	$ 19,923

	Year Ended December 31, 2016				
	NET Services	WD Services	Matrix Investment	Corporate and Other	Total
Service revenue, net	$ 1,233,720	$ 344,403	$ —	$ 122	$ 1,578,245
Service expense	1,132,857	320,147	—	(894)	1,452,110
General and administrative expense	11,406	30,300	—	28,205	69,911
Asset impairment charge	—	19,588	—	1,415	21,003
Depreciation and amortization	12,375	13,824	—	405	26,604
Operating income (loss)	$ 77,082	$ (39,456)	$ —	$ (29,009)	$ 8,617
Equity in net (gain) loss of investees	$ —	$ 8,498	$ 1,789	$ —	$ 10,287
Investment in equity method investee	$ —	$ 4,161	$ 157,202	$ —	$ 161,363
Total assets	$ 313,371	$ 160,152	$ 157,202	$ 54,554	$ 685,279
Long-lived asset expenditures	$ 10,845	$ 19,810	$ —	$ 1,387	$ 32,042

	Year Ended December 31, 2015			
	NET Services	WD Services	Corporate and Other	Total
Service revenue, net	$ 1,083,015	$ 395,059	$ (64)	$ 1,478,010
Service expense	991,659	393,803	(4,308)	1,381,154
General and administrative expense	10,704	29,846	30,436	70,986
Depreciation and amortization	9,429	13,776	793	23,998
Operating income (loss)	$ 71,223	$ (42,366)	$ (26,985)	$ 1,872
Equity in net (gain) loss of investees	$ —	$ 10,970	$ —	$ 10,970
Long-lived asset expenditures	$ 12,232	$ 11,869	$ 668	$ 24,769

Geographic Information

The following table details the Company's revenue from continuing operations and long-lived assets by geographic location.

	For the year ended December 31, 2017			
	United States	United Kingdom	Other Foreign	Consolidated Total
Service revenue, net	$ 1,335,389	$ 187,655	$ 100,838	$ 1,623,882
Long-lived assets (a)	37,700	9,354	3,323	50,377

	For the year ended December 31, 2016			
	United States	United Kingdom	Other Foreign	Consolidated Total
Service revenue, net	$ 1,250,043	$ 235,061	$ 93,141	$ 1,578,245
Long-lived assets (a)	32,007	9,823	4,390	46,220

	For the year ended December 31, 2015			
	United States	United Kingdom	Other Foreign	Consolidated Total
Service revenue, net	$ 1,099,918	$ 298,386	$ 79,706	$ 1,478,010

(a) Represents property and equipment, net.

Domestic service revenue, net, totaled 82.2%, 79.2% and 74.4% of service revenue, net for the years ended December 31, 2017, 2016 and 2015, respectively. Foreign service revenue, net, totaled 17.8%, 20.8% and 25.6% of service revenue, net for the years ended December 31, 2017, 2016 and 2015, respectively.

At December 31, 2017, $99,071 of the Company's net assets from continuing operations were located in countries outside of the U.S. At December 31, 2016, $76,579 of the Company's net assets from continuing operations were located in countries outside of the U.S.

Customer Information

11.2%, 10.2% and 11.0% of the Company's consolidated revenue was derived from one U.S. state Medicaid program for the years ended December 31, 2017, 2016 and 2015, respectively. 10.7% of the Company's consolidated revenue was derived from one UK governmental agency for the year ended December 31, 2015. In addition, substantially all of the Company's revenues are generated from domestic and foreign governmental agencies or entities that contract with governmental agencies.

22. Quarterly Results (Unaudited)

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

	Quarter ended			
	March 31, 2017 (1)	June 30, 2017	September 30, 2017 (2)	December 31, 2017 (3)(4)(5)
Service revenue, net	$ 399,494	$ 407,983	$ 409,517	$ 406,888
Operating Income	6,788	5,999	6,309	16,937
Income from continuing operations, net of tax	1,915	3,858	14,964	39,066
Discontinued operations, net of tax	(5,866)	(117)	(16)	16
Net income (loss) attributable to Providence	(4,325)	3,915	14,853	38,926
Earnings (loss) per common share (10):				
Basic	$ (0.40)	$ 0.18	$ 0.88	$ 2.43
Diluted	$ (0.40)	$ 0.18	$ 0.88	$ 2.41

	Quarter ended			
	March 31, 2016	June 30, 2016	September 30, 2016 (6)	December 31, 2016 (7)(8)(9)
Service revenue, net	$ 382,036	$ 398,119	$ 412,271	$ 385,819
Operating Income (loss)	8,304	6,712	9,793	(16,192)
Income (loss) from continuing operations, net of tax	1,376	1,624	3,743	(25,657)
Discontinued operations, net of tax	753	2,370	(2,791)	108,428
Net income attributable to Providence	2,235	4,623	650	84,420
Earnings (loss) per common share (10):				
Basic	$ 0.07	$ 0.21	$ (0.05)	$ 4.92
Diluted	$ 0.07	$ 0.21	$ (0.05)	$ 4.92

(1) The Company recorded expenses, net of tax, of $5,866 in Discontinued operations, net of tax, in the quarter ending March 31, 2017 related to the Company's former Human Services segment, which are principally related to an ongoing legal matter.

(2) The Company recorded a gain on sale of equity investment of $12,606, net of tax, related to the sale of its equity interest in Mission Providence during the quarter ended September 30, 2017. During the quarter ended December 31, 2017, the Company recorded a reduction to the gain on sale of $229, related to the finalization of the working capital adjustment per the sale agreement.

(3) Operating income for the quarter ended December 31, 2017 increased as compared to the prior quarters in 2017 as a result of a decrease in service expense as a percentage of revenue for NET Services and WD Services. This was primarily a result of lower operating costs of both segments as well as certain NET Services contractual adjustments recorded in the fourth quarter of 2017.

(4) The quarter ended December 31, 2017 includes the receipt of the Haverhill Litigation settlement of $5,363.

(5) The quarter ended December 31, 2017 includes a net tax benefit of $16,017 related to the enactment of the Tax Reform Act during the fourth quarter of 2017, due to the re-measurement of deferred tax liabilities by Providence as a result of the reduction in the U.S. corporate tax rate. Providence realized a tax benefit of $19,397, partially offset by $3,379 of increased tax expense resulting from additional equity in net gain of Matrix, due to Matrix' re-

measurement of its deferred tax liabilities. The equity in net gain from Matrix for the quarter ended December 31, 2017 includes a tax benefit of $13,610 related to Matrix's re-measurement of deferred tax liabilities as a result of the Tax Reform Act.

(6) The Company recorded expenses, net of tax, of $5,035 in Discontinued operations, net of tax, in the quarter ended September 30, 2016 related to the Company's former Human Services segment, which are principally related to an ongoing legal matter.

(7) Service revenue, net for the quarter ending December 31, 2016 decreased from the quarter ended September 30, 2016 primarily due to decreased revenue associated with the WD Services' National Citizen Service summer youth programs, which are seasonal in nature. Additionally, the quarter ended September 30, 2016 included revenue of $5,367 under the WD Services' offender rehabilitation program related to the finalization of a contractual adjustment for the contract years ended March 31, 2015 and 2016.

(8) The Company recorded an asset impairment charge of $1,415 related to the building and land utilized by the holding company, which was sold effective December 30, 2016. Also, the Company recorded asset impairment charges in its WD Services segment of $9,983, $4,381 and $5,224 to its property and equipment, intangible assets and goodwill, respectively.

(9) The quarter ended December 31, 2016 includes gain on loss of controlling interest in Matrix, net of tax, of $109,403.

(10) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of quarterly earnings per share may not equal the total computed for the year.

23. Subsequent Events

On February 16, 2018, Matrix acquired HealthFair, a leading provider of mobile health assessment and advanced diagnostic testing services for a purchase price of $160,000 plus an earnout payment contingent upon HealthFair's 2018 financial performance. Additionally, Matrix entered into a financing transaction consisting of a $330,000 first lien term loan and a $20,000 revolving line of credit, of which none was drawn, and issued an aggregate of approximately 24,200,000 shares of its common units related to a seller roll-over contribution. As a result of the rollover of certain equity interests in HealthFair, Providence's equity ownership is 43.6% as of February 16, 2018.

On November 2, 2017, the Company's Board approved the extension of the Company's existing stock repurchase program, authorizing the Company to engage in a repurchase program to repurchase up to $69,640 (the amount remaining from the $100,000 repurchase amount authorized in 2016) in aggregate value of our Common Stock through December 31, 2018. During the period January 1, 2018 to March 5, 2018, the Company repurchased 527,825 shares for $33,330, and $25,807 was available under the plan to repurchase shares.

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

None.

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

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management (including its principal executive officer and principal financial officer), evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act as of the end of the period covered by this Annual Report on Form 10-K (December 31, 2017). Based upon this evaluation, the Company's principal executive and financial officers have concluded that such disclosure controls and procedures were effective to provide reasonable assurance that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

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

Report of Independent Registered Public Accounting Firm

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

Changes in Internal Control Over Financial Reporting

The principal executive and financial officers also conducted an evaluation of whether any changes in the Company's internal control over financial reporting occurred during the quarter ended December 31, 2017 that have materially affected or which are reasonably likely to materially affect such control. Such officers have concluded that no such changes have occurred.

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

Effective March 12, 2018, Matthew Umscheid, our current Senior Vice President, Strategic Services, is being transferred to employment in such role at our LogistiCare business, pursuant to an offer letter dated March 6, 2018. In connection with this transfer, Mr. Umscheid is resigning as an officer of the Company. Under the terms of his offer letter with LogistiCare, Mr. Umscheid's annual base salary will remain at $350,000, his target annual bonus for 2018 will remain at 75% of his base salary, and there is no term of employment. In his new role, Mr. Umscheid will also be eligible to participate in other compensation and benefit programs made available to LogistiCare's senior executives, including a long-term incentive plan.

PART III

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

This Item is incorporated by reference from our definitive proxy statement on Schedule 14A to be filed with the SEC and delivered to stockholders in connection with our 2018 annual meeting of stockholders; provided that if such proxy statement is not filed on or before April 30, 2018, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

Code of Ethics

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

Item 11. *Executive Compensation.*

This Item is incorporated by reference from our definitive proxy statement on Schedule 14A to be filed with the SEC and delivered to stockholders in connection with our 2018 annual meeting of stockholders; provided that if such proxy statement is not filed on or before April 30, 2018, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

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

This Item is incorporated by reference from our definitive proxy statement on Schedule 14A to be filed with the SEC and delivered to stockholders in connection with our 2018 annual meeting of stockholders; provided that if such proxy statement is not filed on or before April 30, 2018, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

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

This Item is incorporated by reference from our definitive proxy statement on Schedule 14A to be filed with the SEC and delivered to stockholders in connection with our 2018 annual meeting of stockholders; provided that if such proxy statement is not filed on or before April 30, 2018, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

Item 14. *Principal Accounting Fees and Services.*

This Item is incorporated by reference from our definitive proxy statement on Schedule 14A to be filed with the SEC and delivered to stockholders in connection with our 2018 annual meeting of stockholders; provided that if such proxy statement is not filed on or before April 30, 2018, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

PART IV

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

(a)(1) Financial Statements

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

- Consolidated Balance Sheets at December 31, 2017 and 2016;
- Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015;
- Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015;
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017, 2016 and 2015; and
- Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015.

(2) Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts

		Additions			
	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of period
Year Ended December 31, 2017:					
Allowance for doubtful accounts	$ 5,901	$ 815	$ (466) (1)	$ 488 (2)	$ 5,762
Year Ended December 31, 2016:					
Allowance for doubtful accounts	$ 4,380	$ 3,298	$ 1,058 (1)	$ 2,835 (2)	$ 5,901
Year Ended December 31, 2015:					
Allowance for doubtful accounts	$ 3,198	$ 1,928	$ 1,152 (1)	$ 1,898 (2)	$ 4,380

Notes:

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

(1) Amounts primarily include the allowance for contractual adjustments related to our non-emergency transportation services operating segment that are recorded as adjustments to non-emergency transportation services revenue. Amount additionally includes impact from change in foreign currency rates.

(2) Write-offs, net of recoveries.

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

(3) Exhibits

Exhibit Number	Description
2.1	Share Sale Agreement, dated as of March 31, 2014, by and among The Providence Service Corporation, Pinnacle Australia Holdco Pty Ltd, Thérèse Virginia Rein, Gregory Kenneth Ashmead and GK Ashmead Holdings Pty Limited (as trustee of the GK Ashmead Nominees Trust) (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on April 1, 2014).
2.2	Australian Share Sale Agreement Side Deed, dated as of March 31, 2014, by and among The Providence Service Corporation, Pinnacle Australia Holdco Pty Ltd, Thérèse Virginia Rein, Gregory Kenneth Ashmead, GK Ashmead Holdings Pty Limited (as trustee of the GK Ashmead Nominees Trust) and Deloitte LLP (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on April 1, 2014).
2.3	Membership Interest Purchase Agreement, dated September 3, 2015, by and among The Providence Service Corporation, Ross Innovative Employment Solutions Corp. and Molina Healthcare, Inc. (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on September 8, 2015).
2.4	Amendment to Membership Interest Purchase Agreement, dated October 30, 2015, by and among The Providence Service Corporation, Ross Innovative Employment Solutions Corp. and Molina Pathways, LLC, as assignee of Molina Healthcare, Inc. (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on November 5, 2015).
2.5	Stock Subscription Agreement, dated as of August 28, 2016, by and among The Providence Service Corporation, CCHN Group Holdings, Inc. and Mercury Fortuna Buyer, LLC (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 31, 2016).
2.6	Amendment No. 1, dated as of October 19, 2016, to the Stock Subscription Agreement, dated August 28, 2016, by and among The Providence Service Corporation, CCHN Group Holdings, Inc. and Mercury Fortuna Buyer, LLC (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on October 25, 2016).
3.1	Second Amended and Restated Certificate of Incorporation of The Providence Service Corporation, including Certificate of Designation of Series A Junior Participating Preferred Stock, as filed with the Secretary of State of Delaware on December 9, 2011 (Incorporated by reference from an exhibit to the registrant's annual report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 15, 2012).
3.2	Certificate of Amendment of the Certificate of Incorporation of The Providence Service Corporation, dated as of May 6, 2015 (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on May 7, 2015).
3.3	Amended and Restated Bylaws of The Providence Service Corporation, effective March 10, 2010 (Incorporated by reference from an exhibit to the registrant's annual report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 12, 2010).
4.1	Certificate of Designations of Series A Convertible Preferred Stock of The Providence Service Corporation, dated as of February 6, 2015 (Incorporated by reference from an exhibit to Amendment No. 1 to the registrant's annual report on Form 10-K/A for the year ended December 31, 2014 filed with the SEC on April 30, 2015).
10.1	Amended and Restated Credit and Guaranty Agreement, dated as of August 2, 2013 (the "Credit Agreement"), by and among The Providence Service Corporation and certain of its subsidiaries party thereto, Bank of America, N.A., SunTrust Bank, BMO Harris Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated and SunTrust Robinson Humphrey, Inc. and the lenders party thereto (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 5, 2013).
10.2	Amended and Restated Pledge Agreement, dated as of August 2, 2013, by and among The Providence Service Corporation, certain of its subsidiaries party thereto, and Bank of America, N.A., as administrative agent (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 5, 2013).
10.3	Amended and Restated Security Agreement, dated as of August 2, 2013, by and among The Providence Service Corporation, certain of its subsidiaries party thereto, and Bank of America, N.A., as administrative agent (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 5, 2013).

10.4	First Amendment to Amended and Restated Credit and Guaranty Agreement and Consent, dated as of May 28, 2014, by and among The Providence Service Corporation, the Guarantors named therein, the New Subsidiaries named therein, the Lenders and New Lender named therein and Bank of America, N.A., as administrative agent (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on June 3, 2014).
10.5	Second Amendment to the Amended and Restated Credit and Guaranty Agreement and Consent, dated as of October 23, 2014, by and among The Providence Service Corporation, certain of its subsidiaries party thereto, Bank of America, N.A., SunTrust Bank, Royal Bank of Canada, BMO Harris Bank, N.A., HSBC Bank USA, National Association, the other Lenders party thereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated, SunTrust Robinson Humphrey, Inc., and RBC Capital Markets (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on October 24, 2014).
10.6	Third Amendment and Consent to the Amended and Restated Credit and Guaranty Agreement, dated as of September 3, 2015, by and among The Providence Service Corporation, certain of its subsidiaries party thereto, Bank of America, N.A., Sun Trust Bank, Royal Bank of Canada, BMO Harris Bank, N.A., HSBC Bank USA, National Association, the other lenders party thereto, Merrill Lynch Pierce, Fenner & Smith Incorporated, Sun Trust Robinson Humphrey, Inc. and RBC Capital Markets (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on September 8, 2015).
10.7	Fourth Amendment and Consent to the Amended and Restated Credit and Guaranty Agreement, dated as of August 28, 2016, by and among The Providence Service Corporation, the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as Administrative Agent (Incorporated by reference to an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 31, 2016).
10.8+	Employment Agreement, dated January 14, 2015, by and between The Providence Service Corporation and James Lindstrom (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on January 21, 2015).
10.9+	Employment Agreement, dated August 6, 2015, by and between The Providence Service Corporation and James Lindstrom (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 11, 2015).
10.10+	Separation Agreement and General Release, dated November 15, 2017, between The Providence Service Corporation and James Lindstrom (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on November 15, 2017).
10.11+	Employment Agreement, dated as of September 28, 2015, by and between The Providence Service Corporation and David Shackelton (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on November 20, 2015).
10.12+	Amended & Restated Employment Agreement, dated January 9, 2018, by and between The Providence Service Corporation and David Shackelton (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on January 16, 2018).
10.13+	Employment Agreement, dated April 4, 2016, between The Providence Service Corporation and Sophia Tawil (Incorporated by reference from an exhibit to the registrant's quarterly report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016).
10.14+	Amended & Restated Employment Agreement, dated January 9, 2018, by and between The Providence Service Corporation and Sophia Tawil (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on January 16, 2018).
10.15+	Employment Agreement, dated November 15, 2017, between The Providence Service Corporation and R. Carter Pate (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on November 15, 2017).
10.16+	Letter agreement, dated January 10, 2018, by and between The Providence Service Corporation and William Severance (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on January 16, 2018).
10.17+	The Providence Service Corporation 2006 Long-Term Incentive Plan, as amended and restated, effective June 30, 2015 (Incorporated by reference from an exhibit to the registrant's quarterly report on Form 10-Q for the quarter ended September 30, 2015 filed with the SEC on November 9, 2015).
10.18+	The Providence Service Corporation 2006 Long-Term Incentive Plan, as amended and restated effective July 27, 2016 (Incorporated by reference from an appendix to the registrant's definitive proxy statement on Schedule 14A filed with the SEC on June 14, 2016).

10.19+	Form of Restricted Stock Agreements (Incorporated by reference from an exhibit to the registrant's quarterly report on Form 10-Q for the quarter ended March 31, 2011 filed with the SEC on May 6, 2011).

10.20+	Form of Stock Option Agreements (Incorporated by reference from an exhibit to the registrant's quarterly report on Form 10-Q for the quarter ended March 31, 2011 filed with the SEC on May 6, 2011).
10.21+	Form of Special Incentive Stock Option Award Agreement (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 11, 2015).
10.22+	Form of Matching Incentive Stock Option Award Agreement (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 11, 2015).
10.23+	2015 Holding Company LTI Program (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on August 11, 2015).
10.24+	2015 Holding Company LTI Program, as amended and effective on November 4, 2016 (Incorporated by reference from an exhibit to the registrant's quarterly report on Form 10-Q for the quarter ended September 30, 2016 filed with the SEC on November 9, 2016).
10.25	Amended and Restated Limited Liability Company Agreement of Mercury Parent, LLC, by and between Prometheus Holdco, LLC and Mercury Fortuna Buyer, LLC, dated as of October 19, 2016 (Incorporated by reference from an exhibit to the registrant's current report on Form 8-K filed with the SEC on October 25, 2016).
10.26*	Second Amended and Restated Limited Liability Company Agreement of Mercury Parent, LLC, by and between Prometheus Holdco, LLC and Mercury Fortuna Buyer, LLC, dated February 16, 2018.
10.27+	Form of Matching Stock Option Agreement (Incorporated by reference from an exhibit to the registrant's quarterly report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on May 10, 2017).
10.28+*	Form of Stock Option Agreement.
10.29+*	Letter agreement, dated September 21, 2015, between The Providence Service Corporation and Matthew Umscheid.
12.1*	Statement re Computation of Ratios of Earnings to Fixed Charges.
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of KPMG LLP.
23.2*	Consent of Deloitte & Touche LLP (Mercury Parent, LLC financial statements).
23.3*	Consent of KPMG LLP (Mercury Parent, LLC financial statements).
31.1*	Certification pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 of the Chief Executive Officer.
31.2*	Certification pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 of the Chief Financial Officer.
32.1*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.
32.2*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.
99.1*	Financial Statements of Mercury Parent, LLC.
101. INS*	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 or compensatory plan or arrangement.

* Filed herewith.

Item 16. Form 10-K Summary.

None.

SIGNATURES

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

THE PROVIDENCE SERVICE CORPORATION

By: /s/ R. Carter Pate
R. Carter Pate
Interim Chief Executive Officer

Dated: March 9, 2018

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

Signature	Title	Date
/S/ R. CARTER PATE R. Carter Pate	Interim Chief Executive Officer (Principal Executive Officer)	March 9, 2018
/S/ DAVID C. SHACKELTON David C. Shackelton	Chief Financial Officer (Principal Financial Officer)	March 9, 2018
/S/ WILLIAM SEVERANCE William Severance	Chief Accounting Officer (Principal Accounting Officer)	March 9, 2018
/S/ CHRISTOPHER S. SHACKELTON Christopher S. Shackelton	Chairman of the Board	March 9, 2018
/S/ TODD J. CARTER Todd J. Carter	Director	March 9, 2018
/S/ DAVID A. COULTER David A. Coulter	Director	March 9, 2018
/S/ RICHARD A. KERLEY Richard A. Kerley	Director	March 9, 2018
/S/ KRISTI L. MEINTS Kristi L. Meints	Director	March 9, 2018
/S/ LESLIE V. NORWALK Leslie V. Norwalk	Director	March 9, 2018
/S/ FRANK J. WRIGHT Frank J. Wright	Director	March 9, 2018

Exhibit 10.26

Mercury Parent, LLC

SECOND AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT

Dated as of February 16, 2018

THE UNITS REFERRED TO IN THIS AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY OTHER APPLICABLE SECURITIES LAWS. SUCH UNITS MAY NOT BE SOLD, ASSIGNED, PLEDGED OR OTHERWISE DISPOSED OF AT ANY TIME WITHOUT EFFECTIVE REGISTRATION UNDER SUCH ACT AND LAWS OR EXEMPTION THEREFROM, AND COMPLIANCE WITH THE OTHER SUBSTANTIAL RESTRICTIONS ON TRANSFERABILITY SET FORTH HEREIN.

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Mercury Parent, LLC

SECOND AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT

This SECOND AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT, dated as of February 16, 2018, is entered into by and among Mercury Parent, LLC (the "LLC") and the Unitholders party hereto.

WHEREAS, the LLC and certain of the Unitholders are party to that certain Amended and Restated Limited Liability Company Agreement dated October 19, 2016 (the "Existing LLC Agreement"); and

WHEREAS, the Unitholders wish to enter into this Second Amended and Restated Limited Liability Company Agreement to amend and restate the Existing LLC Agreement in its entirety and admit certain new Unitholders and wish for this Agreement to constitute the limited liability company agreement of the LLC in accordance with the Delaware Act, and to provide for, among other things, the management of the business and affairs of the LLC, the allocation of profits and losses among the Unitholders, the respective rights and obligations of the Unitholders to each other and to the LLC, and certain other matters.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby enter into this Agreement as follows:

ARTICLE I

CERTAIN DEFINITIONS

Capitalized terms used but not otherwise defined herein shall have the following meanings:

"Absent Manager" shall have the meaning set forth in Section 5.3(b).

"Accredited Investor" has the meaning given to such term in Regulation D promulgated under the Securities Act.

"Additional Securities" shall have the meaning set forth in Section 3.4.

"Additional Unitholder" means a Person admitted to the LLC as a Unitholder pursuant to Section 11.2.

"Advisory Agreement" means that certain Management Consulting Agreement, dated as of the Effective Date, by and among the Borrower, Frazier Management, LLC and The Providence Service Corporation.

"Affiliate" of any particular Person means (i) any other Person controlling, controlled by, or under common control with such particular Person, where "control" means the possession, directly or indirectly, of the power to direct the management and policies of a Person whether through the ownership of voting securities, by contract, or otherwise, (ii) if such Person is a partnership, any general partner thereof or any limited partner thereof who, alone or together with its Affiliates, owns at least 50% of the outstanding limited partnership interests of such partnership and (iii) without limiting the foregoing, with respect to Frazier only, any Person advised, managed or sub-advised by an investment adviser affiliated with such Persons; provided, that for purposes of this Agreement (x) none of the members of the Company Group shall be deemed an Affiliate of Frazier or Providence (and vice versa) and (y) Coliseum shall not be considered an Affiliate of Providence; provided, that Coliseum shall be deemed an Affiliate of Providence for purposes of Section 10.6 and the definitions of "Sale of the LLC" and "Approved Sale" for so long as Coliseum owns, directly or indirectly, at least five percent (5%) of the debt or equity Securities of Providence Parent and/or Providence.

"Agreement" means this Second Amended and Restated Limited Liability Company Agreement, as amended or modified from time to time in accordance with the terms hereof.

"Annual Financial Statements" shall have the meaning set forth in Section 6.6(a)(i).

"Approved Sale" means:

(a) any Sale of the LLC approved by each Principal Investor;

(b) prior to the seventh (7th) anniversary of the Effective Date, any Sale of the LLC approved by Frazier at such time that Frazier (together with its Affiliates) holds no less than fifty percent (50%) of the LLC's outstanding Units (without giving effect to any dilution resulting from issuances that are not subject to the preemptive rights set forth in Section 3.5) (i) that occurs prior to an initial Public Offering, (ii) that would result (with respect to each Principal Investor) in Proceeds to the Principal Investors of not less than one times (1.0x) the Principal Investor Investment as of the date thereof if all Units outstanding were Transferred in such Sale of the LLC, (iii) pursuant to which all of the consideration received is cash or marketable securities (unless the Principal Investors otherwise agree) and (iv) pursuant to which Frazier proposes to Transfer to any Person or Group that is not an Affiliate of Frazier all of its Units in a single Sale of the LLC; and

(c) after the seventh (7th) anniversary of the Effective Date, any Sale of the LLC approved by either Principal Investor at such time that such Principal Investor (together

with its Affiliates) holds no less than thirty percent (30%) of the LLC's outstanding Units (without giving effect to any dilution resulting from issuances that are not subject to the preemptive rights set forth in Section 3.5) (i) that occurs prior to an initial Public Offering, (ii) pursuant to which all of the consideration received is cash or marketable securities (unless the Principal Investors otherwise agree) and (iii) pursuant to which such Principal Investor proposes to Transfer to any Person or Group that is not an Affiliate of such Principal Investor all of its Units in a single Sale of the LLC.

For the avoidance of doubt, (A) the approval of the Board shall not be required to consummate, commit to or enter into any agreement to effectuate an Approved Sale, and (B) to the maximum extent permitted by applicable law, no Manager will owe, or be deemed to have breached, any fiduciary duty with respect to any action or inaction in connection with effectuating any such Approved Sale.

"Assignee" means a Person to whom an LLC Interest has been transferred in accordance with the terms of this Agreement and the other agreements contemplated hereby, but who has not become a Unitholder pursuant to Article XI.

"Benchmark Amount" shall have the meaning set forth in Section 3.10(a)(iv).

"Board" means the Board of Managers established pursuant to Section 5.2.

"Board Observer" shall have the meaning set forth in Section 5.3(i).

"Borrower" means Community Care Health Network, LLC.

"Business Day" shall mean any day that is not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the State of New York.

"Buyer" shall have the meaning set forth in the DPN Purchase Agreement.

"Capital Account" shall have the meaning set forth in Section 3.6(a).

"Capital Contributions" means any cash, cash equivalents, promissory obligations, or the Fair Market Value of other property that a Unitholder contributes or is deemed to have contributed to the LLC with respect to any Unit pursuant to Sections 3.1 or 3.4.

"Cause" means, with respect to any Other Unitholder (i) if such term is defined in an employment or Service agreement with such Other Unitholder, the definition used in such agreement, (ii) if such term is defined in an award agreement or other document pursuant to which equity-based awards are granted to such Other Unitholder, the definition used in such agreement and (iii) in all other circumstances, a termination of an Other Unitholder's employment by the LLC or any Subsidiary of the LLC that employs such individual (or by the LLC on behalf of any such Subsidiary), or a termination of such Other Unitholder's Service, as applicable, by reason of one or more of the following having

occurred (as reasonably determined by the Board (excluding such Other Unitholder, if he is then a member of the Board) based on information then known to it):

(a) such Other Unitholder having been charged by a court of competent jurisdiction with felony or a lesser crime involving dishonesty or moral turpitude (under the laws of the United States or any relevant state, or a similar crime or offense under the applicable laws of any relevant foreign jurisdiction);

(b) such Other Unitholder having engaged in acts of fraud, embezzlement, theft, misappropriation, dishonesty or other acts of willful misconduct, malfeasance or gross negligence in the course of his duties hereunder or otherwise with respect to the LLC or any of its Subsidiaries;

(c) such Other Unitholder having failed to perform or uphold his or her material duties under this Agreement and/or such Other Unitholder's employment or Service agreement (if any) with the LLC or any of its Subsidiaries after being informed of and given the opportunity and at least thirty (30) days to remedy such failure to comply;

(d) if such Other Unitholder is a Management Unitholder, such Management Unitholder having failed to materially comply with reasonable directives of the Board or any senior executive officer of the LLC or any Subsidiary of the LLC who holds a supervisory capacity over the Management Unitholder after being informed of and given the opportunity to remedy such failure to comply;

(e) any breach by such Other Unitholder of any provision of Sections 6.7, 6.8, 6.9 or 15.2 of this Agreement, or any material breach by such Other Unitholder of any other contract to which he or she is a party with the LLC or any Subsidiary of the LLC (excluding the DPN Purchase Agreement (but including Sections 7.07 (Confidentiality) and 7.08 (Releases) thereof)) after being informed of and given the opportunity and at least thirty (30) days to remedy such breach;

(f) if such Other Unitholder is a Management Unitholder, such Management Unitholder having violated the substance abuse policy of the LLC or any of its Subsidiaries;

(g) if such Other Unitholder is a Management Unitholder, such Management Unitholder's willful and material failure to adhere to any policy applicable generally to all executive employees of the LLC or any of its Subsidiaries after being informed of and given the opportunity and at least thirty (30) days to remedy such failure;

(h) such Other Unitholder having appropriated a material business opportunity of the LLC or any of its Subsidiaries, including attempting to secure or securing any personal profit in connection with any transaction entered into with or on behalf of the LLC or any of its Subsidiaries but excluding any bona-fide arm's length transaction approved by the Board; or

(i) if such Other Unitholder is a Management Unitholder, such Management Unitholder having been debarred or excluded from any federal or state contracting or healthcare program.

"CEO Board Seat" shall have the meaning set forth in Section 5.2.(a)(vii).

"Certificate" means the LLC's Certificate of Formation as filed with the Secretary of State of Delaware.

"Chairperson" shall have the meaning set forth in Section 5.3.(g).

"Change of Control" shall have the meaning set forth in the definition of "Transfer".

"Class A Common Holder" means a Unitholder in regard to such Unitholder's particular LLC Interest in Class A Common Units.

"Class A Common Units" means a sub-class of Common Units, as described in Section 3.1(b).

"Class B Common Holder" means a Unitholder in regard to such Unitholder's particular LLC Interest in Class B Common Units.

"Class B Common Units" means a sub-class of Common Units, as described in Section 3.1(b).

"Closing Equity" means the number of Units held by a Unitholder as of the date of its initial Capital Contribution, provided that for purposes of any calculation comparing a Unitholder's ownership of equity in the LLC with such Unitholder's Closing Equity, the effect of (i) any recapitalization or exchange or conversion of securities of the LLC, (ii) any redemption or repurchase of securities of the LLC or (iii) any subdivision (by Unit split or otherwise) or any combination (by reverse Unit split or otherwise) of any outstanding Units, in each case which occurs between the date of its initial Capital Contribution and the date of such calculation and which is *pro rata* in effect, shall be disregarded.

"Code" means the United States Internal Revenue Code of 1986, as amended.

"Coliseum" means Coliseum Capital Management LLC and its related funds.

"Common Holder" means a Unitholder in regard to such Unitholder's particular LLC Interest in Common Units.

"Common Units" means a class of LLC Interests, as described in Section 3.1(b). For the avoidance of doubt, Common Units shall (i) include Class A Common Units and Class B Common Units, and (ii) exclude Value Units.

"Company Group" means, collectively, the LLC and each of its direct or indirect Subsidiaries.

"Company Sub" means CCHN Group Holdings, Inc.

"Competing Business" shall have the meaning set forth in Section 6.7.

"Competitor" means Person that competes with the Business. For purposes of this definition only, the term "Business" shall mean the business of contracting with health plans to provide health assessments for health evaluation and/or plan risk adjustment purposes and care management or care coordination for Commercial, Managed Medicaid and Medicare Advantage members.

"Confidential Information" shall have the meaning set forth in Section 15.2.

"Consultation Rights" shall have the meaning set forth in Section 6.10.

"Credit Agreement" means (i) the Existing Credit Agreement and (ii) any agreement (including any credit agreement, loan agreement, indenture or other financing agreement) extending the maturity of, consolidating, restructuring, refunding, replacing or refinancing all or any portion of the obligations under the Existing Credit Agreement, whether by the same or any other lender, debt holder or group of lenders or debt holders or the same or any other agent, trustee or representative therefor and whether or not increasing or decreasing the amount of any Indebtedness (as defined in the Existing Credit Agreement) that may be incurred thereunder.

"Deficiency" shall have the meaning set forth in Section 6.6(a)(v).

"Delaware Act" means the Delaware Limited Liability Company Act, 6 Del. L. § 18-101, *et seq.*, as it may be amended from time to time, and any successor to the Delaware Act.

"Distribution" means each distribution made by the LLC to a Unitholder with respect to such Person's Units, whether in cash, property or securities of the LLC or otherwise and whether by liquidating distribution, redemption, repurchase, or otherwise; provided that any *pro rata* recapitalization or exchange or conversion of securities of the LLC, or any redemption or repurchase of securities of the LLC, in each case, pursuant to

this Agreement and any subdivision (by Unit split or otherwise) or any combination (by reverse Unit split or otherwise) of any outstanding Units shall not be deemed a Distribution.

"DPN" means DPN USA, LLC (d/b/a "HealthFair"), a Florida limited liability company.

"DPN Purchase Agreement" means the Securities Purchase Agreement, dated January 4, 2018, by and among Buyer, DPN, the Sellers, and the Sellers' Representative, as may be amended, supplemented or modified from time to time.

"Draft Tax Forms" shall have the meaning set forth in Section 9.1.

"Economic Capital Account" means, with respect to any Unitholder, such Unitholder's Capital Account balance as of the date of determination, after crediting to such Capital Account any amounts that the Unitholder is deemed obligated to restore under Treasury Regulations Section 1.704-2.

"Effective Date" means October 19, 2016.

"Ekbatani" means Shahriar "James" Ekbatani.

"Ekbatani Holder" means (i) Ekbatani, as long as he holds Units, and (ii) any Affiliate or Permitted Transferee of Ekbatani that hereafter becomes an Additional Unitholder pursuant to Section 11.2.

"Ekbatani Repurchase Option" shall have the meaning set forth in Section 3.11(a).

"Ekbatani Repurchase Price" shall have the meaning set forth in Section 3.11(a).

"Equity Securities" means (i) Units or other equity interests in the LLC or a legal successor thereto (including other classes or groups thereof having such relative rights, powers, and duties as may from time to time be established by the Board, including rights, powers, and/or duties senior to existing classes and groups of Units and other equity interests in the LLC), (ii) obligations, evidences of indebtedness, or other securities or interests convertible or exchangeable into Units or other equity interests in the LLC or a legal successor thereto, and (iii) warrants, options, or other rights to purchase or otherwise acquire Units or other equity interests in the LLC or a legal successor thereto.

"Event of Withdrawal" means the death, retirement, resignation, expulsion, bankruptcy or dissolution of a Unitholder or the occurrence of any other event that terminates the continued membership of a Unitholder in the LLC.

"Excess Escrow Loss" shall have the meaning set forth in the DPN Purchase Agreement.

"Excessive Leverage Event" means, the incurrence or guarantee of any Restricted Debt by the LLC or any of its Subsidiaries, unless, after giving pro forma effect to such incurrence or guarantee and the use of proceeds thereof, the Total Net Leverage Ratio (as defined in the Existing Credit Agreement as in effect on the Effective Date, unless such changes are otherwise approved by the Principal Investors for purposes of this definition, and to be calculated in manner consistent with such version of the Existing Credit Agreement and as if all references to the Borrower and its Subsidiaries (as defined in such version of the Existing Credit Agreement) in such version of the Existing Credit Agreement were references to the LLC and its Subsidiaries on a consolidated basis) of the LLC would be less than or equal to 5.50:1.00 as of the last day of the most recently ended fiscal quarter for which the LLC's financial statements are available.

"Existing LLC Agreement" shall have the meaning set forth in the Recitals.

"Existing Credit Agreement" means, that Credit Agreement, dated as of February 16, 2018, among the Borrower, the banks and other financial institutions party thereto, SunTrust Bank, as Administrative Agent, CCHN Holdings, LLC and the Subsidiaries of the Borrower party thereto, as in effect on the Effective Date.

"Fair Market Value" means, with respect to any asset or equity interest, its fair market value determined according to Article XIV.

"Family Group" means a Unitholder's parents, spouse and lineal descendants (whether natural or adopted), and any trust, limited partnership, limited liability company or other entity wholly owned and controlled, directly or indirectly, by such Unitholder or such Unitholder's parents, spouse and/or lineal descendants (whether natural or adopted) that is and remains solely for the benefit of such Unitholder and/or such Unitholder's parents, spouse and/or lineal descendants (whether natural or adopted).

"FATCA" shall mean (a) Sections 1471 through 1474 of the Code, the Treasury Regulations thereunder, and official interpretations thereof; (b) any legislation, regulations or guidance enacted in any jurisdiction that seeks to implement a similar tax reporting or withholding tax regime; (c) any intergovernmental agreement, treaty or other agreement between any jurisdictions (including any government bodies in such jurisdiction) entered into in order to comply with, facilitate, supplement or implement any legislation, regulations or guidance described in clause (a) or (b) above; and (d) any legislation, regulations or guidance that gives effect to any matter described in clauses (a) through (c) above.

"Filing Schedule" shall have the meaning set forth in Section 6.6(b).

"Fiscal Quarter" means each calendar quarter ending March 31, June 30, September 30, and December 31.

"Fiscal Year" shall have the meaning set forth in Section 8.2.

"Frazier" means (i) Mercury Fortuna Buyer, LLC and (ii) any of its Affiliates or Permitted Transferees that become an Additional Unitholder pursuant to Section 11.2. Unless otherwise agreed by the holder(s) of a majority of the Units collectively held by Frazier, any action taken or contemplated to be taken by Frazier pursuant to this Agreement shall be taken by the holder(s) of a majority of the Units collectively held by Frazier at such time.

"Frazier Managers" shall have the meaning set forth in Section 5.2.(a).

"GAAP" shall have the meaning set forth in Section 5.1(b)(iv)(C).

"Governmental Entity" means the United States of America or any other nation, any state or other political subdivision thereof, or any entity exercising executive, legislative, judicial, regulatory or administrative functions of government or any agency or department or subdivision of any governmental authority, including the United States federal government or any state or local government.

"Grant Date" means, with respect to any Value Units, the date on which such Value Units are granted to the applicable Management Unitholder or Operating Unitholder, in each case as set forth opposite such Unitholder's name on the row corresponding to such grant on Schedule A hereto.

"Group" shall have the meaning set forth in Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934, as amended.

"Imputed Underpayment Amount" shall have the meaning set forth in Section 4.6(f).

"Inactive Unitholder" shall have the meaning set forth in Section 3.10(b)(ii).

"Independent Auditor" shall have the meaning set forth in Section 14.3.

"Information" shall have the meaning set forth in Section 6.6.

"Information Recipient" means (i) the Principal Investors and (ii) each Unitholder holding ten percent (10%) or more of any class of Units outstanding.

"Initial Value" means, as of any date of determination, an amount equal to the aggregate Capital Contributions made by the Common Holders to the LLC on or prior to such date of determination in respect of the Common Units held by such Common Holders.

"Investor Group" shall have the meaning set forth in Section 7.9.

"Issuance Notice" shall have the meaning set forth in Section 3.5(b).

"Liens" means any mortgage, pledge, security interest, encumbrance, lien, or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof), any sale of receivables with recourse against the applicable Person, or any Subsidiary or any Affiliate thereof, any filing or agreement to file a financing statement as debtor under the Uniform Commercial Code or any similar statute other than to reflect ownership by a third party of property leased to the applicable Person, any Subsidiary or any Affiliate under an operating lease which is not in the nature of a conditional sale or title retention agreement.

"LLC" has the meaning set forth in the Preamble.

"LLC Interest" means the limited liability interest in the LLC which represents the interest of each Unitholder in and to the Profits and Losses of the LLC, and such Unitholder's right to receive Distributions of the LLC's assets, as set forth in this Agreement.

"Losses" means items of LLC loss and deduction determined in accordance with U.S. tax principles as applied to the maintenance of capital accounts.

"Management Unitholder" means any Unitholder that is employed by the LLC or any of its Subsidiaries, and is designated as such on Schedule A hereto.

"Manager" means a manager on the Board, who, for purposes of the Delaware Act, will be deemed a "manager" (as defined in the Delaware Act) but will be subject to the rights, obligations, limitations and duties set forth in this Agreement. A "member" of the Board shall be a Manager for purposes of this Agreement.

"Material Change" shall have the meaning set forth in Section 6.6(a)(vi).

"Member Nonrecourse Debt" has the same meaning as "partner nonrecourse debt" as set forth in Treasury Regulations Section 1.704-2(b)(4).

"Member Nonrecourse Debt Minimum Gain" has the same meaning as "partner nonrecourse debt minimum gain" as set forth in Treasury Regulations Section 1.704-2(i)(2).

"Monthly Financial Information" shall have the meaning set forth in Section 6.6(a)(iii).

"Negotiation Notice" shall have the meaning set forth in Section 10.5.

"Negotiation Parties" shall have the meaning set forth in Section 10.5.

"Officers" means each person designated as an officer of the LLC to whom authority and duties have been delegated pursuant to Section 5.5, subject to any resolution of the Board appointing such person as an officer or relating to such appointment.

"Operating Unitholder" means a Unitholder that provides Services to the LLC or its Subsidiaries, and is designated as such on Schedule A hereto.

"Other Accredited Unitholders" shall have the meaning set forth in Section 3.5(a).

"Other Unitholders" means, collectively, the Management Unitholders and the Operating Unitholders.

"Participating Purchaser" shall have the meaning set forth in Section 3.5(b).

"Partnership Minimum Gain" shall have the meaning set forth in Sections 1.704-2(b)(2) and 1.704-2(d) of the Treasury Regulations.

"Permitted Transferee" means (i) with respect to any Unitholder who is a natural person, a member of such Unitholder's Family Group, (ii) with respect to any Unitholder which is an entity, any entity which is a Subsidiary of such Unitholder or any Person of which such Unitholder is a Subsidiary and (iii) with respect to any current or former Principal Investor, such current or former Principal Investor's Affiliates (in each case, it being understood that any Transfer to such Persons shall be conditioned on the receipt of an undertaking by such Transferee to Transfer such Units back to the Transferor if such Transferee ceases to otherwise qualify as a Permitted Transferee); provided that portfolio companies of Frazier's investment manager or any other financial sponsor whose funds become a Unitholder shall not be Permitted Transferees of such Unitholder. For the avoidance of doubt, none of the members of the Company Group shall be deemed a Permitted Transferee of Frazier or Providence.

"Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, any other business entity, or a Governmental Entity.

"Plan" mean the Mercury Parent, LLC 2016 Value Unit Plan (as amended and in effect from time to time).

"Preemptive Portion" shall have the meaning set forth in Section 3.5(a).

"Preemptive Pro Rata Percentage" means, at any time, the percentage obtained by dividing the total number of Units then held by the applicable holder by the aggregate number of Units then held by all of the Unitholders who are Accredited Investors.

"Preemptive Securities" shall have the meaning set forth in Section 3.5(a).

"Principal Investor" means (a) Frazier and/or (b) Providence; provided, that (i) each of Frazier and Providence shall cease to be deemed a "Principal Investor" if it ceases to hold at least twenty percent (20%) of its Closing Equity and (ii) Providence shall cease to be deemed a "Principal Investor" upon the consummation of a Change of Control of The Providence Service Corporation or its successor to a Competitor. Any action requiring the consent or approval of the Principal Investors collectively pursuant to this Agreement shall require the approval of each of Frazier and Providence (unless and until either or both has ceased to be a Principal Investor pursuant to the preceding sentence).

"Principal Investor Investment" means, without duplication, as of any measurement date, the aggregate payments or investment (including the contribution of shares of the Company Sub by Providence and Frazier, valued in accordance with the Subscription Agreement at the time of their contribution) by each of the Principal Investors with respect to or in exchange for Units (including securities that are convertible into Units) of the LLC (whether such payments are made to the LLC or any third party) from the Effective Date until such measurement date (including any Capital Contributions).

"Principal Investor Managers" shall have the meaning set forth in Section 5.3(b).

"Principal Investor Ratio" means, with respect to any Principal Investor, at the time of determination, the ratio obtained by dividing the number of Units owned by such Principal Investor by the aggregate number of outstanding Units owned by all Principal Investors at the time such determination.

"Proceeding" shall have the meaning set forth in Section 7.2.

"Proceeds to the Principal Investors" means the aggregate cash return to each of the Principal Investors in respect of their Units, taking into account the amount of all previous cash dividends and cash distributions to the Principal Investors in respect of such Units and all cash proceeds to the Principal Investors from the sale or other disposition of such Units.

"Profits" means items of LLC income and gain determined in accordance with U.S. tax principles as applied to the maintenance of capital accounts.

"Providence" means, (i) Prometheus Holdco, LLC and (ii) any of its Affiliates or Permitted Transferees or any Affiliates or Permitted Transferees of The Providence Service Corporation that hereafter becomes an Additional Unitholder pursuant to Section 11.2. Unless otherwise agreed by the holder(s) of a majority of the Units collectively held by Providence, any action taken or contemplated to be taken by Providence pursuant to this Agreement shall be taken by the holder(s) of a majority of the Units collectively held by Providence at such time.

"Providence Parent" means The Providence Service Corporation or any successor entity thereof, whether by recapitalization, reorganization or otherwise, and any Subsidiary

thereof that may from time to time be subject to reporting or filing obligations under the Securities Act or the Securities Exchange Act or offer or sell securities exempt from registration under the Securities Act.

"Providence Managers" shall have the meaning set forth in Section 5.2(a).

"Public Offering" means any sale of the common equity securities of the LLC or another member of the Company Group (or a successor thereto) pursuant to an effective registration statement under the Securities Act filed with the Securities and Exchange Commission; provided that the following shall not be considered a Public Offering: (i) any issuance of common equity securities as consideration for a merger, consolidation, amalgamation or acquisition of an entity or a division of an entity or all or substantially all of the assets thereof, and (ii) any issuance of common equity securities or options or rights to acquire (or the exercise thereof) common equity securities to employees, directors, officers or consultants of the LLC or its Subsidiaries as part of an incentive or compensation plan or arrangement, in each case, that has been approved pursuant to Section 5.1(b)(iv).

"Qualified IPO" means an underwritten IPO with aggregate gross cash proceeds (without regard to any underwriting discount or commission) of at least $200 million (whether to the LLC (or a successor entity), its equity holders, or both).

"Quarterly Financial Statements" shall have the meaning set forth in Section 6.6(a)(ii).

"Ray Ekbatani Trust" means the Nobility Trust.

"Registration Rights Agreement" shall have the meaning set forth in Section 6.12.

"Relative Ownership Percentage" means (a) with respect to the Units held by a Unitholder, a fraction (expressed as a percentage) (i) the numerator of which is the number of Units owned by such Unitholder immediately following the effective time of a Transfer and (ii) the denominator of which is the aggregate number of Units owned by such Unitholder at the time of the initial Public Offering and (b) with respect to the Units held by the Principal Investors, a fraction (expressed as a percentage) (i) the numerator of which is the aggregate number of Units owned by all of the Principal Investors immediately following the effective time of such Transfer and (ii) the denominator of which is the aggregate number of Units owned by all of the Principal Investors at the time of the initial Public Offering.

"Report" means any: (i) registration statement, prospectus or private placement memorandum for use in connection with any registration, offering or sale of Providence Parent securities under the Securities Act (including Form S-1, Form S-3, Form S-4 and Form S-8), or with any offering or sale of Providence Parent securities exempt from

registration under the Securities Act (in each case, at Providence's sole cost and expense); (ii) report of Providence Parent (including any related exhibits) filed or furnished with the Securities and Exchange Commission pursuant to the Securities Exchange Act, including Form 10-Q, Form 10-K, Form 8-K and Schedule 14A; (iii) listing application or report of Providence Parent required by any securities exchange and (iv) annual report, proxy statement, press release, investor presentation or other communication required to be transmitted to Providence Parent shareholders or reasonably determined to be necessary.

"Required Interest" means a majority of the Units.

"Requisite Board Meeting Notice" shall have the meaning set forth in Section 5.3(f).

"Restricted Debt" means any Indebtedness (as defined in the Existing Credit Agreement as in effect on the Effective Date but excluding from the calculation thereof any Disqualified Capital Stock as defined therein, unless such changes are otherwise approved for purposes of this definition by the Principal Investors) of the LLC or its Subsidiaries, but excluding any (i) revolving credit indebtedness and letter of credit obligations incurred under any credit agreement in an aggregate principal and/or face amount not to exceed $20 million outstanding at any one time and (ii) intercompany indebtedness.

"Restricted Period" shall have the meaning set forth in Section 6.7.

"Restrictive Covenant Agreements" means the Restrictive Covenant Agreements, dated January 4, 2018, by and among DPN, Borrower, and each of Ekbatani, Ray Ekbatani, Shawn Ekbatani and Terry Diaz, as applicable.

"Rollover Call Option" shall have the meaning set forth in Section 3.12(a).

"Rollover Holders" means (i) any Unitholder holding Class B Common Units, and designated as such on Schedule A hereto, and (ii) any Affiliate or Permitted Transferee of any Person specified in clause (i) that hereafter becomes an Additional Unitholder pursuant to Section 11.2. For the avoidance of doubt, in the event that any Rollover Holder that is also a Seller under the DPN Purchase Agreement Transfers any Units to any Person in accordance with the terms of this Agreement (including as Permitted Transfer), such Transferee of the Units shall be deemed a Rollover Holder and Seller for purposes of Section 3.12, and shall hold such Units subject to the obligations under Section 3.12 as if such Transferee were the initial Transferring Rollover Holder.

"Rule 144" means Rule 144 promulgated under the Securities Act, or any successor rule.

"Sale of the LLC" means any transaction or series of transactions pursuant to which any Person or group of related Persons (other than the Principal Investors and their respective Affiliates) in the aggregate acquire(s), directly or indirectly, (i) Equity Securities possessing the voting power (other than voting rights accruing only in the event of a default or breach) to elect a majority of the LLC's Board (whether by merger, consolidation, reorganization, combination, sale or transfer of the Equity Securities, securityholder or voting agreement, proxy, power of attorney or otherwise) or (ii) all or substantially all of the Company Group's assets determined on a consolidated basis.

"Securities" means notes, stocks, limited liability company equity interests, bonds, debentures, evidences of indebtedness, certificates of interest or participation in any profit-sharing agreement, partnership interests, beneficial interests in trusts, collateral-trust certificates, pre-organization certificates or subscriptions, transferable shares, investment contracts, voting-trust certificates, certificates of deposit for securities, equity interests, notional principal contracts and certificates of interest or participation in, temporary or interim certificates for, receipts for or warrants or rights or options to subscribe to or purchase or sell any of the foregoing, and any other items commonly referred to as securities.

"Securities Act" means the Securities Act of 1933, as amended, and applicable rules and regulations thereunder, and any successor to such statute, rules, or regulations. Any reference herein to a specific section, rule, or regulation of the Securities Act shall be deemed to include any corresponding provisions of future law.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended, and applicable rules and regulations thereunder, and any successor to such statute, rules, or regulations. Any reference herein to a specific section, rule, or regulation of the Securities Exchange Act shall be deemed to include any corresponding provisions of future law.

"Seller" shall have the meaning set forth in the DPN Purchase Agreement.

"Sellers' Representative" shall have the meaning set forth in the DPN Purchase Agreement.

"Service" means, with respect to any Operating Unitholder, service to the LLC or any of its Subsidiaries (including service as a consultant, director or officer of such Person), in each case to the extent such Operating Unitholder was appointed to such position directly or indirectly by the Board.

"Shawn Ekbatani Trust" means the Dignity Trust.

"Subject Holders" means, collectively, the Principal Investors and the Rollover Holders.

"Subscription Agreement" means that certain Subscription Agreement, dated as of August 28, 2016, by and between Mercury Fortuna Buyer, LLC, the Company Sub and The Providence Service Corporation.

"Subsidiary" means, with respect to any Person, any corporation, limited liability company, partnership, association, or business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or (ii) if a limited liability company, partnership, association, or other business entity (other than a corporation), a majority of partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof; provided, that none of the members of the Company Group shall be deemed a Subsidiary of Frazier or Providence for purposes of this Agreement. For purposes hereof, a Person or Persons shall be deemed to have a majority ownership interest in a limited liability company, partnership, association, or other business entity (other than a corporation) if such Person or Persons shall be allocated a majority of limited liability company, partnership, association, or other business entity gains or losses or shall be or control any managing director or general partner of such limited liability company, partnership, association, or other business entity. For purposes hereof, references to a "Subsidiary" of any Person shall be given effect only at such times that such Person has one or more Subsidiaries, and, unless otherwise indicated herein, the term "Subsidiary" refers to a Subsidiary of the LLC.

"Substituted Unitholder" means a Person that is admitted as a Unitholder to the LLC pursuant to Section 11.1.

"Tag-Along Escrow Amount" shall have the meaning set forth in Section 10.4(f).

"Tag-Along Escrow Notice" shall have the meaning set forth in Section 10.4(f).

"Tag-Along Notice" shall have the meaning set forth in Section 10.4(a).

"Tag-Along Offer" shall have the meaning set forth in Section 10.4(a).

"Tag-Along Pro Rata Percentage" means, with respect to any Unitholder, at the time a Tag-Along Notice is delivered by the Tag-Along Seller in accordance with Section 10.4.(a), the percentage obtained by dividing the number of Units owned by such Unitholder by the aggregate number of outstanding Units owned by all Unitholders at the time such Tag-Along Notice is delivered.

"Tag-Along Response Notice" shall have the meaning set forth in Section 10.4(a).

"Tag-Along Seller" shall have the meaning set forth in Section 10.4(a).

"Tag-Along Unitholders" shall have the meaning set forth in Section 10.4(a).

"Target Balance" means, with respect to any Unitholder as of the close of any Fiscal Year (or other relevant period) for which allocations are made under Article IV, the amount such Unitholder would receive (or be required to contribute) in a hypothetical liquidation of the LLC as of the close of such period, assuming for purposes of any hypothetical liquidation (i) a sale of all of the assets of the LLC at prices equal to their then book values (as maintained by the LLC for purposes of, and as maintained pursuant to, the capital account maintenance provisions of Treasury Regulations Section 1.704-1(b)(2)(iv)) and (ii) the distribution of the net proceeds thereof to the Unitholders pursuant to the provisions of Article IV (after the payment of all actual LLC indebtedness, and any other liabilities related to the LLC's assets, limited, in the case of non-recourse liabilities, to the collateral securing or otherwise available to satisfy such liabilities).

"Tax" or "Taxes" means any federal, state, local, or foreign income, gross receipts, franchise, estimated, alternative minimum, add-on minimum, sales, use, transfer, registration, value added, excise, natural resources, severance, stamp, occupation, premium, windfall profit, environmental, customs, duties, real property, personal property, capital stock, social security, unemployment, disability, payroll, license, employee, or other withholding, or other tax, of any kind whatsoever, including any interest, penalties, or additions to tax or additional amounts in respect of the foregoing.

"Tax Matters Partner" shall have the meaning set forth in Section 9.3.

"Transfer" means any direct or indirect sale, transfer, assignment, pledge, mortgage, exchange, hypothecation, grant of a security interest in or other disposition or encumbrance of, including any swap, participation or other arrangement that transfers to another Person, in whole or in part, any economic consequences of ownership of, a Unit or other interest in the LLC (whether voluntary, involuntary, by operation of law or otherwise); provided, that (i) any Transfer of Securities of The Providence Service Corporation or its successor (including any parent entity resulting from such Transfer) (whether by consolidation, merger, reorganization or otherwise) or (ii) a Change of Control of The Providence Service Corporation or its successor, in each case, shall not be deemed a "Transfer" of any Units or other interest in the LLC held thereby. As used herein, the term "Change of Control" means, with respect to any Person, (i) any liquidation, dissolution or winding up of such Person, whether voluntary or involuntary, other than a liquidation, dissolution or winding up for purposes of effecting a corporate restructuring or reorganization as a result of which the holders of such Person's outstanding equity interests possessing the voting power (under ordinary circumstances) to elect a majority of such Person's board of directors (or similar governing body) immediately prior to such liquidation, dissolution or winding up (or their Affiliates) beneficially own, directly or indirectly, the outstanding equity securities of the surviving entity possessing the voting

power (under ordinary circumstances) to elect a majority of the surviving entity's board of directors (or similar governing body), (ii) any sale, transfer, assignment or other disposition by such Person of all or substantially all of its assets (other than to an Affiliate), (iii) any consolidation, merger or reorganization of such Person with or into any other entity or entities as a result of which the holders of such Person's outstanding equity interests possessing the voting power (under ordinary circumstances) to elect a majority of such Person's board of directors (or similar governing body) immediately prior to such consolidation, merger or reorganization (or their Affiliates) no longer beneficially own, directly or indirectly, the outstanding equity securities of the surviving entity possessing the voting power (under ordinary circumstances) to elect a majority of the surviving entity's board of directors (or similar governing body) or (iv) any sale, transfer, assignment or other disposition to any third party of such Person's equity securities by the holders thereof as a result of which the holders of such Person's equity securities possessing the voting power (under ordinary circumstances) to elect a majority of such Person's board of directors (or similar governing body) immediately prior to such sale, transfer, assignment or other disposition (or their Affiliates) no longer beneficially own, directly or indirectly, the outstanding equity securities of such Person possessing the voting power (under ordinary circumstances) to elect a majority of such Person's board of directors (or similar governing body). The terms "Transferee," "Transferred," and other forms of the word "Transfer" shall have correlative meanings.

"Transferor's Owner" shall have the meaning set forth in Section 10.1(e).

"Transferring Unitholder" shall have the meaning set forth in Section 10.5.

"Treasury Regulations" means the income tax regulations promulgated under the Code.

"Trigger Event" means the occurrence of one or more of the following events:

(a) Ekbatani has, at any time, prior to his reinstatement to Medicare effective April 1, 2013, been determined by a court or Governmental Entity to have violated the terms of his exclusion from Medicare;

(b) Other than in connection with United States v. Campo, No. :99-cr-14015 (S.D. Fl.) (the "Campo Matter"), Ekbatani has (i) pled guilty or nolo contendere to, or been convicted of, a misdemeanor or felony described in 42 U.S.C. § 1320a-7; or (ii) been determined by a court or Governmental Entity to have otherwise engaged in conduct that is grounds for mandatory exclusion or permissive exclusion, in each case, described in 42 U.S.C. § 1320a-7;

(c) Other than in connection with the Campo Matter, Ekbatani has, to the detriment (whether economic or otherwise) of the LLC or any of its Subsidiaries (or, by virtue of Ekbatani's ownership in the LLC, the LLC or any of its

Subsidiaries has), pled guilty or nolo contendere to, or been convicted of, a misdemeanor or felony involving fraud, embezzlement, theft or misappropriation; or

(d) Ekbatani to the detriment (whether economic or otherwise) of the LLC or any of its Subsidiaries (or, by virtue of Ekbatani's ownership in the LLC, the LLC or any of its Subsidiaries):

(i) becomes suspended, debarred or otherwise disqualified or ineligible to participate in any federal health care program (as defined in 42 U.S.C. §1320a-7b(f)) or any state healthcare program or is determined by a court or Governmental Entity to be ineligible to provide management or administrative services to a healthcare provider; or

(ii) becomes subject to sanction or indictment (with respect to any criminal investigation), in each case, related to health care by any federal, state, or local enforcement, regulatory, administrative or licensing agency, or is named in a complaint by a Governmental Entity under the False Claims Act.

"Unit" means an LLC Interest of a Unitholder or an Assignee in the LLC representing a fractional part of the LLC Interests of all Unitholders and Assignees. With respect to any Unit, to "hold" such Unit means to own such Unit and a "holder" thereof means an owner of such Unit. For the avoidance of doubt, "Units" shall include Common Units and Value Units.

"Unit Transfer Agreement" shall have the meaning set forth in Section 15.23.

"Unitholder" means any owner of one or more Units as reflected on the LLC's books and records, and any Person admitted to the LLC as an Additional Unitholder or Substituted Unitholder; but only for so long as such Person is shown on the LLC's books and records as the owner of one or more Units.

"Unpaid Equity Value Amount" means, as of any given date of determination with respect to all Unitholders (other than Class B Holders), an amount of distributions, in the aggregate, equal to $531,309,972.27, less an amount equal to the cumulative distributions made by the LLC in respect of all Units (other than Class B Common Units) as of such date pursuant to Section 4.1, provided that, for purposes of this definition, notwithstanding anything to the contrary contained in this Agreement, the Unpaid Equity Value Amount may never be less than Zero Dollars ($0).

"USRPHC" shall have the meaning set forth in Section 2.10(b).

"Value A Holder" means a Unitholder in regard to such Unitholder's particular LLC Interest in Value A Units.

"Value B Holder" means a Unitholder in regard to such Unitholder's particular LLC Interest in Value B Units.

"Value C Holder" means a Unitholder in regard to such Unitholder's particular LLC Interest in Value C Units.

"Value D Holder" means a Unitholder in regard to such Unitholder's particular LLC Interest in Value D Units.

"Value B Threshold" shall have the meaning set forth in the Plan.

"Value C Threshold" shall have the meaning set forth in the Plan.

"Value D Threshold" shall have the meaning set forth in the Plan.

"Value A Units" means a sub-class of Value Units, as described in Section 3.1(c).

"Value B Units" means a sub-class of Value Units, as described in Section 3.1(c).

"Value C Units" means a sub-class of Value Units, as described in Section 3.1(c).

"Value D Units" means a sub-class of Value Units, as described in Section 3.1(c).

"Value Unitholder" means a Unitholder in regard to such Unitholder's particular LLC Interest in Value Units.

"Value Units" means the Value A Units, Value B Units, Value C Units and Value D Units.

"Withheld Amount" shall have the meaning set forth in Section 4.6(b).

"Withholding Payment" shall have the meaning set forth in Section 4.6(a).

ARTICLE II

ORGANIZATIONAL MATTERS

2.1. Formation. The LLC has been organized as a Delaware limited liability company by the filing with the Secretary of State of the State of Delaware of the Certificate

under and pursuant to the Delaware Act and shall be continued in accordance with this Agreement.

2.2. **The Certificate, Etc**. The Certificate was filed with the Secretary of State of the State of Delaware on October 17, 2016. The Unitholders hereby agree to execute, file and record all such other certificates and documents, including amendments to the Certificate, and to do such other acts as may be appropriate to comply with all requirements for the formation, continuation and operation of a limited liability company, the ownership of property, and the conduct of business under the laws of the State of Delaware and any other jurisdiction in which the LLC may own property or conduct business, in each case, as reasonably requested by the Board.

2.3. **Name**. The name of the LLC shall be "Mercury Parent, LLC". The Board in its sole discretion may change the name of the LLC at any time and from time to time. Notification of any such change shall be given to all Unitholders. The LLC's business may be conducted under its name and/or any other name or names deemed advisable by the Board.

2.4. **Purpose**. The sole purpose of the LLC is, and the nature of the business to be conducted and promoted by the LLC shall be, (a) to directly or indirectly invest in, own and dispose of securities of its Subsidiaries and any assets ancillary to such investment, ownership and disposal and (b) to engage in all lawful acts or activities necessary, advisable or incidental and in furtherance of the foregoing, subject to the terms of this Agreement.

2.5. **Powers of the LLC**. Subject to the provisions of this Agreement (including, for the avoidance of doubt, Section 5.1(b)(iv)) and the agreements contemplated hereby, the LLC shall have the power and authority to take any and all actions necessary, appropriate, proper, advisable, convenient or incidental to or for the furtherance of the purposes set forth in Section 2.4, including the power:

(a) to carry on its operations and have and exercise the powers granted to a limited liability company by the Delaware Act in any state, territory, district or possession of the United States, or in any foreign country that may be necessary, convenient or incidental to the accomplishment of the purpose of the LLC;

(b) to acquire by purchase, lease, contribution of property or otherwise, own, hold, operate, maintain, finance, refinance, improve, lease, sell, convey, mortgage, transfer, demolish or dispose of any real or personal property that may be necessary, convenient or incidental to the accomplishment of the purpose of the LLC;

(c) to enter into, perform and carry out contracts of any kind, including contracts with any Unitholder or any Affiliate thereof, or any agent of the LLC necessary to, in connection with, convenient to or incidental to the accomplishment of the purpose of the LLC;

(d) to purchase, take, receive, subscribe for or otherwise acquire, own, hold, vote, use, employ, sell, mortgage, lend, pledge, or otherwise dispose of, and otherwise use and deal in and with, shares or other interests in or obligations of domestic or foreign corporations, associations, general or limited partnerships (including the power to be admitted as a partner thereof and to exercise the rights and perform the duties created thereby), trusts, limited liability companies (including the power to be admitted as an equityholder or appointed as a manager thereof and to exercise the rights and perform the duties created thereby) or individuals or direct or indirect obligations of the United States or of any government, state, territory, governmental district or municipality or of any instrumentality of any of them;

(e) to lend money for any proper purpose, to invest and reinvest its funds and to take and hold real and personal property for the payment of funds so loaned or invested;

(f) to sue and be sued, complain and defend, and participate in administrative or other proceedings in its name;

(g) to indemnify any Person in accordance with the Delaware Act and to obtain any and all types of insurance;

(h) to cease its activities and cancel its Certificate;

(i) to negotiate, enter into, renegotiate, extend, renew, terminate, modify, amend, waive, execute, acknowledge or take any other action with respect to any lease, contract or security agreement in respect of any assets of the LLC;

(j) to borrow money and issue evidences of indebtedness and guarantee indebtedness (whether of the LLC or any of its Subsidiaries), and to secure the same by a Lien on the assets of the LLC or its Subsidiaries or a pledge of the stock of any Subsidiary of the LLC;

(k) to pay, collect, compromise, litigate, arbitrate or otherwise adjust or settle any and all other claims or demands of or against the LLC or to hold such proceeds against the payment of contingent liabilities; and

(l) to make, execute, acknowledge and file any and all documents or instruments necessary, convenient or incidental to the accomplishment of the purpose of the LLC.

2.6. Foreign Qualification. Prior to the LLC's conducting activities in any jurisdiction other than Delaware, the Board shall cause the LLC to comply, to the extent procedures are available and those matters are reasonably within the control of the Board, with all requirements necessary to qualify the LLC as a foreign limited liability company

in that jurisdiction. At the reasonable request of the Board or any Officer, each Unitholder shall execute, acknowledge, swear to and deliver all certificates and other instruments conforming with this Agreement that are necessary or appropriate to qualify, continue and terminate the LLC as a foreign limited liability company in all such jurisdictions in which the LLC may conduct business.

2.7. Principal Office; Registered Office. The principal office of the LLC shall be located at Two Union Square, 601 Union Street, Suite 3200, Seattle, WA 98101 or at such other place as the Board may from time to time designate. All activities of the LLC shall be deemed to have occurred at its principal office. The LLC may maintain offices at such other place or places as the Board deems advisable. The registered office of the LLC required by the Delaware Act to be maintained in the State of Delaware shall be the office of the initial registered agent named in the Certificate or such other office (which need not be a place of business of the LLC) as the Board may designate from time to time in the manner provided by law. The registered agent of the LLC in the State of Delaware shall be the initial registered agent named in the Certificate or such other Person or Persons as the Board may designate from time to time in the manner provided by law.

2.8. Term. The term of the LLC commenced upon the filing of the Certificate in accordance with the Delaware Act and shall continue in existence until termination and dissolution thereof in accordance with the provisions of Article XIII.

2.9. No State-Law Partnership. Except as provided in the next sentence, the Unitholders intend that the LLC not be a partnership (including a limited partnership) or joint venture, and that no Unitholder be a partner or joint venturer of any other Unitholder by virtue of this Agreement, and neither this Agreement nor any other document entered into by the LLC or any Unitholder relating to the subject matter hereof shall be construed to suggest otherwise. The Unitholders intend that the LLC shall be treated as a partnership for federal and, if applicable, state or local income tax purposes, and that each Unitholder and the LLC shall file all tax returns and shall otherwise take all tax and financial reporting positions in a manner consistent with such treatment. Without the consent of the Principal Investors, the LLC shall not make an election to be treated as a corporation for federal income tax purposes pursuant to Treasury Regulation 301.7701-3 (or any successor regulation or provision) and, if applicable, state and local income tax purposes.

2.10. No UBTI/ECI.

(a) The LLC shall use best efforts to operate and cause its Subsidiaries to operate in a manner that will not cause any Unitholder (or any direct or indirect equity owner thereof), subject to Section 511 of the Code, to recognize unrelated business taxable income under Section 512 of the Code or unrelated debt-financed income under Section 514 of the Code. The LLC shall not invest in or own any other entity that is tax-transparent for U.S. federal income tax purposes unless such entity is subject to similar restrictions regarding unrelated business taxable income.

(b) The LLC shall use best efforts to conduct its affairs so that its direct foreign Unitholders (or any direct or indirect foreign equity owner of any Unitholder) will not be treated as engaged in a trade or business, and will not recognize income which is, or is treated as, effectively connected with the conduct of a U.S. trade or business for purposes of Sections 864, 881,882, 884, 897 or 1446 of the Code solely as a result of the LLC's activities or investments. The LLC shall also use its reasonable best efforts to conduct its affairs so that any of its direct foreign Unitholders (or any direct or indirect foreign equity owner of any Unitholder) that is entitled to the benefits of Section 892 of the Code will not be treated as engaged in a "commercial activity" within the meaning of Code Section 892 solely as a result of the LLC's activities or investments. In furtherance thereof, the LLC will use reasonable best efforts not to: (i) acquire or own an interest or option to acquire an equity interest in any partnership, limited liability company, trust or other entity which is not treated as a corporation for United States tax purposes, other than an interest solely as a creditor, unless (A) the LLC determines, after consultation with counsel to the LLC, that such proposed acquisition (and in the case of an acquisition of an option to acquire an equity interest, the acquisition of such equity interest upon exercise of the option) is not likely to cause its direct foreign Unitholder (or any direct or indirect foreign equity owner of any Unitholder) to be treated as engaged in a U.S. trade or business within the meaning of the Code Sections specified in the preceding sentence and (B) such entity agrees to be bound contractually by restrictions substantially similar to those set forth in this paragraph or (ii) engage in or hold itself out as engaging in the performance of services for compensation or otherwise carry on a United States trade or business within the meaning of the Code Sections specified in the preceding sentence. Notwithstanding anything to the contrary herein, if the LLC acquires an interest in a corporation that is not a "United States real property holding corporation" (as defined in Section 897(c)(2) of the Code, a "USRPHC") at the time of the LLC's investment and that is not reasonably expected to become a USRPHC, the LLC shall not be deemed to have breached its covenant hereunder solely because that domestic corporation subsequently becomes a USRPHC and the LLC continues to hold an interest in such corporation. The LLC confirms that, as of the date of this Agreement, the LLC does not own, directly or indirectly, an interest in, and is not reasonably expected to acquire, directly or indirectly, an interest in, a USRPHC.

(c) Notwithstanding anything to the contrary in this Section 2.10, if at least 50% of the Managers on the Board were designated by Frazier during any period when any action prohibited under this Section 2.10 took place, neither the LLC nor any subsidiary thereof shall have any liability under this Section 2.10.

ARTICLE III

UNITS; CAPITAL ACCOUNTS

3.1. Units; Unitholders.

(a)

(i) General. The LLC, as of the date hereof, has two (2) authorized classes of Units: (i) "Common Units" (which Common Units, as described below, will consist of Class A Common Units and Class B Common Units) and (ii) "Value Units" (which Value Units, as described below, will consist of Value A Units, Value B Units, Value C Units and Value D Units). Common Units and Value Units are referred to herein collectively, as the "Units". Unless and until the Board shall determine otherwise, the Units shall each be uncertificated and recorded in the books and records of the LLC (including Schedule A). The LLC may, in its sole discretion, issue certificates to the Unitholders representing the Units held by each Unitholder. To the extent that the holder of a Unit is required by the other provisions of this Agreement to deliver or surrender such holder's certificates representing Units, then, in the event that the Units are not certificated by the LLC, the LLC will provide appropriate forms or documents (regarding the conveyance of such Units, and all right, title and interest thereto) to be completed and delivered by such holder in lieu thereof. The Board may determine the conditions upon which a new certificate may be issued in place of a certificate that is alleged to have been lost, stolen or destroyed and may, in its discretion, require the owner of such certificate or its legal representative to give an agreement of indemnity or a bond, with sufficient surety, to indemnify the LLC and each transfer agent and registrar agent, if any, against any and all losses and claims that may arise as a result of the issuance of a new certificate in place of the one so lost, stolen or destroyed.

(ii) Ownership Limitation. Each Rollover Holder agrees and acknowledges that the LLC does not intend for it to own five percent (5%) or more of the LLC's outstanding Units. In furtherance of the foregoing, each Rollover Holder hereby agrees and acknowledges that, unless otherwise determined by the Board, in the event that any offering of Units (including any offering effected pursuant to Section 3.5) would result in any such Rollover Holder owning five percent (5%) or more of the LLC's outstanding Units, in such case, such Rollover Holder shall refrain from participating in any such offering of Units to the extent as may be necessary to ensure that such Rollover Holder does not own five percent (5%) or more of the LLC's outstanding Units following the consummation of any such offering of Units. Also in furtherance of the foregoing, each Rollover Holder hereby agrees and acknowledges that, unless otherwise determined by the Board, in the event that any transaction by the LLC (e.g., a sale of Units by a Unitholder to the LLC in accordance with the terms herein) would result in any such Rollover Holder owning five percent (5%) or more of the LLC's outstanding Units, in such case, such Rollover Holder shall permit the LLC to repurchase Units from such Rollover Holder to the extent as may be necessary to ensure that such Rollover Holder does not own five percent (5%) or more of the LLC's outstanding Units following the consummation of any such transaction; any such repurchase of Units by the LLC shall be consummated at Fair Market Value and in accordance with the terms provided in Sections 3.11 and 14.3, *mutatis mutandis*.

(b) Common Units. The LLC will have two (2) sub classes of Common Units: Class A Common Units and Class B Common Units. The Class A Common Units and Class B Common Units shall be identical in all respects, except as otherwise expressly set forth in this Agreement (including Section 4.1 below). Unless otherwise determined by the Board, the Common Units will initially be issued for a Capital Contribution of $1.00 per Common Unit. The payment terms and schedule for the Capital Contributions applicable to the issuance of any Common Unit will be determined by the Board upon issuance of such Common Units.

(c) Value Units.

(i) General. The LLC will have four (4) sub classes of Value Units: Value A Units, Value B Units, Value C Units and Value D Units. Subject to the provisions of Section 3.10 hereof (including the applicable Benchmark Amounts), the holders of Value Units shall have the rights with respect to profits and losses of the LLC and distributions from the LLC as set forth herein (including Section 3.10 and Article IV) and in the Plan, provided that additional terms and conditions applicable to a Value Unit may be established by the Board in connection with the issuance of any such Value Unit to a Person who becomes a Management Unitholder or Operating Unitholder at any time after the date of this Agreement in accordance with Article XI hereof. The number of Value Units issued to any Management Unitholder or Operating Unitholder as of any given time shall be set forth on Schedule A, as it may be updated from time to time in accordance with this Agreement. Authorized and unallocated Value Units (if any) are set forth on Schedule A. Notwithstanding anything to the contrary, Value Units shall not have voting rights.

(ii) Price. The holders of Value Units are not required to make any Capital Contribution to the LLC in exchange for their Value Units or otherwise.

(iii) Vesting. Subject to the terms and conditions of this Agreement, including, without limitation, Section 3.10(b), the Plan, and except as otherwise provided for in any award or other agreement evidencing a grant of Value Units, twenty-five percent (25%) of each class of the Value Units granted to any Management Unitholder or Operating Unitholder as of any Grant Date shall vest on the first anniversary of such Grant Date, with the remaining portion of each class of such Value Units vesting thereafter in thirty-six (36) substantially equal monthly installments such that one-hundred percent (100%) of each class of the Value Units granted as of any such Grant Date shall become fully vested on the fourth anniversary of such Grant Date. For the avoidance of doubt, the foregoing vesting schedule requires the continued employment (in the case of each Management Unitholder) or Service (in the case of each Operating Unitholder) through each applicable vesting date as a condition to the vesting of the applicable installment of the Value Units granted to such Management Unitholder or Operating Unitholder, as the case may be. Except as otherwise approved by the Board, employment or Service for only a portion of the vesting period, even if a substantial portion, will not

entitle any Management Unitholder or Operating Unitholder, as the case may be, to any proportionate vesting. Each holder of Value Units shall make an election under Section 83(b) of the Code with respect to his or her initial receipt of Value Units within 30 days of the issuance of such Value Units and promptly provide a copy of such election to the LLC.

(d) Unitholders. Each Person named on Schedule A attached hereto agrees that it will make (or has made) Capital Contributions to the LLC as set forth on Schedule A in exchange for the Units specified thereon, and each Person's initial Capital Account established pursuant to such Capital Contributions, and the number of Units owned by such Person, is set forth on Schedule A. Any reference in this Agreement to Schedule A shall be deemed to be a reference to Schedule A as amended in accordance with the terms herein and in effect from time to time. The LLC and each such Person shall file all tax returns, including any schedules thereto, in a manner consistent with such initial Capital Accounts. Each Unitholder listed on Schedule A upon (i) his, her or its execution of this Agreement or a counterpart hereto and (ii) receipt (or deemed receipt) by the LLC of such Person's Capital Contribution as set forth on Schedule A, is hereby admitted to the LLC as a Unitholder of the LLC. Each Unitholder's interest in the LLC, including such Unitholder's interest in Profits, Losses and Distributions of the LLC and the right to vote on certain matters as provided in this Agreement, shall be represented by the Units owned by such Unitholder. The ownership of Units shall entitle each Unitholder to allocations of Profits and Losses and other items and distributions of cash and other property as set forth in Article IV or Article XIII hereof.

(e) Representations and Warranties of Unitholders. Each Unitholder hereby represents and warrants, severally and not jointly, to the LLC and acknowledges that: (i) such Unitholder has reviewed and evaluated all information necessary to assess the merits and risks of his, her or its investment in the LLC and has had answered to such Unitholder's satisfaction any and all questions regarding such information; (ii) such Unitholder is able to bear the economic and financial risk of an investment in the LLC for an indefinite period of time and could afford a complete loss of such investment; (iii) such Unitholder is acquiring interests in the LLC for investment only and not with a view to, or for resale in connection with, any distribution to the public or public offering thereof; (iv) to the extent that the Units are deemed to be securities under the Securities Act of 1933, the interests in the LLC have not been registered under the securities laws of any jurisdiction and cannot be disposed of unless they are subsequently registered and/or qualified under applicable securities laws or pursuant to an exemption therefrom or as otherwise provided in this Agreement have been complied with; (v) if such Unitholder is a natural person, such Unitholder has the natural capacity (or, if such Unitholder is an entity, such Unitholder has the corporate (or similar) power and authority) to execute and deliver this Agreement and each document referred to herein to be executed by such Unitholder (or counterparts thereof or joinders thereto) hereunder, and to perform its obligations hereunder and thereunder; (vi) the execution, delivery and performance of this Agreement have been duly authorized by such Unitholder and do not require such Unitholder to obtain

any consent or approval that has not been obtained and do not contravene or result in a default under any provision of any law or regulation applicable to such Unitholder or other governing documents or any agreement or instrument to which such Unitholder is a party or by which such Unitholder is bound; (vii) the determination of such Unitholder to purchase or otherwise acquire interests in the LLC has been made by such Unitholder independent of any other Unitholder and independent of any statements or opinions as to the advisability of such purchase, which may have been made or given by the LLC, any other Unitholder or by any agent or employee of any other Unitholder; provided, however, that the LLC acknowledges the representations and warranties it has made to the Rollover Holders in their respective Contribution and Exchange Agreements; (viii) this Agreement is valid, binding and enforceable against such Unitholder in accordance with its terms, except to the extent that such enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws generally affecting creditors' rights and general equitable principles (regardless of whether enforcement is sought in equity or at law); and (ix) the Units cannot be Transferred except in compliance with the terms of this Agreement.

(f) No Liability of Unitholders.

(i) No Liability. Except as otherwise required by applicable law and as expressly set forth in this Agreement, no Unitholder shall have any personal liability whatsoever in such Unitholder's capacity as a Unitholder, whether to the LLC, to any of the other Unitholders, to the creditors of the LLC or to any other third party, for the debts, liabilities, commitments or any other obligations of the LLC or for any losses of the LLC. Each Unitholder shall be liable only to make such Unitholder's Capital Contribution to the LLC and the other payments provided expressly herein.

(ii) Distribution. In accordance with the Delaware Act and the laws of the State of Delaware, an equityholder of a limited liability company may, under certain circumstances, be required to return amounts previously distributed to such equityholder. It is the intent of the Unitholders that no Distribution to any Unitholder pursuant to Article IV hereof shall be deemed a return of money or other property paid or distributed in violation of the Delaware Act. The payment of any such money or distribution of any such property to a Unitholder shall be deemed to be a compromise within the meaning of the Delaware Act, and the Unitholder receiving any such money or property shall not be required to return to any Person any such money or property. However, if any court of competent jurisdiction holds that, notwithstanding the provisions of this Agreement, any Unitholder is obligated to make any such payment, such obligation shall be the obligation of such Unitholder and not of any other Unitholder.

3.2. Unitholder Meetings.

(a) Voting of Unitholders. Except for the voting, approval and consent rights of the Principal Investors expressly provided by this Agreement (including pursuant

to Section 5.1(b)(iv)), none of the Unitholders shall have any voting, approval or consent rights under this Agreement or the Delaware Act with respect to the Units held by such Person, including with respect to any matters to be decided by the LLC or any other governance matters described in this Agreement, and each Unitholder, by its acceptance thereof, expressly waives any consent, approval or voting rights (except to the extent expressly provided to the Principal Investors in this Agreement) or other rights to participate in the governance of the LLC, whether such rights may be provided under the Delaware Act (including under §§ 18-209(b), 18-213(b), 18-215(g), 18-215(k), 18-216(b), 18-301(b)(1), 18-302(a), 18-302(f), 18-304, 18-702(a), 18-704(a), 18-801(a), 18-803(a) or 18-806 thereof) or otherwise.

(b) Voting; Quorum. A quorum shall be present at a meeting of Unitholders if the Principal Investors are represented at the meeting in person or by proxy. With respect to any matter, other than a matter for which the affirmative vote of the holders of a specified portion of all Unitholders entitled to vote is required by the Delaware Act or by this Agreement (including Section 5.1(b)(iv)), the affirmative vote of Unitholders holding a Required Interest at a meeting of Unitholders at which a quorum is present shall be the act of the Unitholders.

(c) Place. All meetings of the Unitholders shall be held at the principal office of the LLC or at such other place within or without the State of Delaware as shall be specified or fixed in the notices or waivers of notice thereof; provided that any or all Unitholders may participate in any such meeting by means of conference telephone or similar communications equipment pursuant to Section 3.3(d).

(d) Adjournment. Notwithstanding the other provisions of the Certificate or this Agreement to the contrary, the chairperson of the meeting or Unitholders holding a Required Interest shall have the power to adjourn such meeting from time to time, without any notice other than announcement at the meeting of the time and place of the holding of the adjourned meeting. If such meeting is adjourned by the Unitholders, such time and place shall be determined by Unitholders holding a Required Interest. Upon the resumption of such adjourned meeting, any business may be transacted that might have been transacted at the meeting as originally called.

(e) Annual Meeting. An annual meeting of the Unitholders, for the election of Managers and for the transaction of such other business as may properly come before the meeting, shall be held at such place, within or without the State of Delaware, on such date and at such time as the Board shall fix and set forth in the notice of the meeting, which date shall be within thirteen months subsequent to the date of organization of the LLC or the last annual meeting of Unitholders, whichever most recently occurred. Notwithstanding the foregoing, in the absence of any such annual meeting, the Managers then in office shall continue to be Managers of the LLC until the earlier of their death, resignation or removal.

(f) Special Meetings. Special meetings of the Unitholders for any proper purpose or purposes may be called at any time by the Board or Unitholders holding a Required Interest. If not otherwise stated in or fixed in accordance with the remaining provisions hereof, the record date for determining Unitholders entitled to call a special meeting is the date any Unitholder first signs the notice of that meeting. Only business within the purpose or purposes described in the notice (or waiver thereof) required by this Agreement may be conducted at a special meeting of the Unitholders.

(g) Notice. A written or printed notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered to each Unitholder entitled to vote at the applicable meeting in accordance with Section 15.15 below not less than two or more than 60 days before the date of the meeting, by or at the direction of the Board or the Unitholders calling the meeting. A vote of the Unitholders otherwise entitled to vote at a meeting of the Unitholders shall be valid and binding only if a notice of the meeting at which such vote is taken is given to all Unitholders entitled to vote at such meeting in accordance with this Section 3.2(g).

(h) Record Date. The date on which notice of a meeting of Unitholders is mailed or the date on which the resolution of the Board declaring a distribution is adopted, as the case may be, shall be the record date for the determination of the Unitholders entitled to notice of or to vote at such meeting (including any adjournment thereof) or the Unitholders entitled to receive such distribution.

(i) Proxies. A Unitholder may vote either in person or by proxy executed in writing by the Unitholder. A telegram, telex, cablegram or similar transmission by the Unitholder, or a photographic, photostatic, facsimile or similar reproduction of a writing executed by the Unitholder shall be treated as an execution in writing for purposes of this Section 3.2(i). Proxies for use at any meeting of Unitholders or in connection with the taking of any action by written consent pursuant to Section 3.3 shall be filed with an Officer authorized by the Board, before or at the time of the meeting or execution of the written consent as the case may be. All proxies shall be received and taken charge of and all ballots shall be received and canvassed by an Officer authorized by the Board, who shall decide all questions concerning the qualification of voters, the validity of the proxies and the acceptance or rejection of votes, unless an inspector or inspectors shall have been appointed by the chairperson of the meeting, in which event such inspector or inspectors shall decide all such questions. No proxy shall be valid after 11 months from the date of its execution unless otherwise provided in the proxy. A proxy shall be revocable unless the proxy form conspicuously states that the proxy is irrevocable and the proxy is coupled with an interest. A Unitholder may designate one or more Persons to act as proxy, and should a proxy designate two or more Persons to act as proxies, unless that instrument shall provide to the contrary, a majority of such Persons present at any meeting at which their powers thereunder are to be exercised shall have and may exercise all the powers of voting

or giving consents thereby conferred, or if only one be present, then such powers may be exercised by that one; or, if an even number attend and a majority do not agree on any particular issue, the LLC shall not be required to recognize such proxy with respect to such issue if such proxy does not specify how the Units that are the subject of such proxy are to be voted with respect to such issue.

(j) Conduct of Unitholder Meetings. All meetings of the Unitholders shall be presided over by the chairperson of the meeting, who shall be one of the Managers (as determined by Unitholders holding a Required Interest). The chairperson of any meeting of Unitholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him or her in order.

(k) Voting Rights. The holders of the Units entitled to vote at any applicable meeting shall be entitled to notice of such meeting in accordance with this Agreement, and except as otherwise required by law, the holders of the Units shall be entitled to vote on all matters submitted to the Unitholders for a vote with each Unit entitled to one vote. Except as otherwise expressly provided in this Agreement (including, for the avoidance of doubt, Section 5.1(b)(iv)) or as required by law, the vote, consent or approval of Unitholders holding a Required Interest shall constitute the act of the Unitholders.

3.3. Action of Unitholders by Written Consent or Telephone Conference.

(a) Written Consent in Lieu of Meeting. Subject to the terms of this Agreement (including, for the avoidance of doubt, Section 5.1(b)(iv)), any action required or permitted to be taken at any annual or special meeting of Unitholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the Unitholder or Unitholders holding not less than the minimum percentages of Units that would be necessary to take such action at a meeting at which all Unitholders entitled to vote on the action were present and voted in accordance with Section 3.2(k). Every written consent shall bear the date of signature of each Unitholder who signs the consent (or a counterpart thereof). No written consent shall be effective to take the action that is the subject to the consent unless, within 60 days after the date of the earliest dated consent delivered to the LLC in the manner required by this Section 3.3(a), a consent or consents signed by the Unitholder or Unitholders holding not less than the minimum Units that would be necessary to take the action that is the subject of the consent are delivered to the LLC by delivery to its registered office, its principal place of business or the Board. Delivery shall be by hand or certified or registered mail, return receipt requested. Delivery to the LLC's principal place of business shall be addressed to the Board. A telegram, telex, cablegram, electronic mail or similar transmission by a Unitholder, or a photographic, photostatic, facsimile, PDF or similar reproduction of a writing signed by a Unitholder, shall be regarded as signed by the Unitholder for purposes of this Section 3.3(a). Prompt notice of the taking of any action by Unitholders without a meeting by less than unanimous written consent shall be given to

those Unitholders who were otherwise entitled to vote but did not consent in writing to the action.

(b) Record Date for Written Consent in Lieu of Meeting. The record date for determining Unitholders entitled to consent to action in writing without a meeting shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the LLC by delivery to its registered office, its principal place of business, or the Board. Delivery shall be by hand or by certified or registered mail, return receipt requested. Delivery to the LLC's principal place of business shall be addressed to the Board.

(c) Filings. If any action by Unitholders is taken by written consent, any certificate or documents filed with the Secretary of State of Delaware as a result of the taking of the action shall state, in lieu of any statement required by the Delaware Act concerning any vote of Unitholders, that written consent has been given in accordance with the provisions of the Delaware Act and that any written notice required by the Delaware Act has been given.

(d) Telephone Conference. Unitholders may participate in and hold a meeting by means of conference telephone or similar communications equipment by means of which all Persons participating in the meeting can hear each other, and participation in such meeting shall constitute attendance and presence in person at such meeting, except where a Person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

3.4. Issuance of Additional Units and Interests. Subject to compliance with the provisions of this Agreement (including Section 5.1(b)(iv)), the Board shall have the right to cause the LLC to authorize, designate, issue or sell to any Person (including Unitholders and Affiliates) any additional Equity Securities (which for purposes of this Agreement shall be "Additional Securities"). Subject to the provisions of this Agreement, including Section 5.1(b)(iv), the Board shall determine the terms and conditions governing the issuance of such Additional Securities, including the number and designation of such Additional Securities, the designations, preferences (with respect to distributions, liquidations, or otherwise) over any other Units and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior or junior to, or *pari passu* with, any other Units, any required contributions in connection therewith and voting rights. Subject to Section 5.1(b)(iv) and Section 15.3, the Board shall, in its sole discretion, be permitted to amend this Agreement in connection with the authorization, designation reservation or issuance of any Additional Securities. Any Person who acquires Units may be admitted to the LLC as a Unitholder pursuant to the terms of Section 11.2 hereof. If any Person acquires additional Units or other interests in the LLC or is admitted to the LLC as an Additional Unitholder, the LLC shall amend Schedule A to reflect such additional issuance and/or Unitholder, as the case may be.

3.5. Preemptive Rights.

(a) If, prior to an initial Public Offering, the Board authorizes the issuance or sale of any Units, any equity Securities of any of the LLC's Subsidiaries or any securities convertible into, or exchangeable or exercisable for any such Units or equity Securities (any of the foregoing, "Preemptive Securities"), the LLC shall offer to sell to each of the Subject Holders, or one or more Affiliates of such Subject Holder designated for such purpose, that certifies (to the reasonable satisfaction of the LLC) that it is an Accredited Investor (the "Other Accredited Unitholders"), at the same price and on the same terms, an amount of Preemptive Securities (with respect to each Other Accredited Unitholder, the "Preemptive Portion") equal to the product (rounded down to the nearest whole number) of (A) the Preemptive Pro Rata Percentage of such Other Accredited Unitholder, multiplied by (B) the number of Preemptive Securities then contemplated to be issued by the LLC. Subject to Section 3.1(a)(ii), each Other Accredited Unitholder shall be entitled to purchase his, her or its Preemptive Portion of such Preemptive Securities at the price and on the terms set forth in the Issuance Notice. The purchase price for all Preemptive Securities to be offered to the Other Accredited Unitholders under this Section 3.5 shall be payable in cash. It is understood by the parties hereto that the LLC may proceed with the consummation of the issuance of Preemptive Securities prior to offering such securities to the Other Accredited Unitholders; provided that an Issuance Notice (as defined below) is delivered to each of the Other Accredited Unitholders in accordance with Section 3.5(b) below.

(b) The LLC shall deliver to each Other Accredited Unitholder a written notice (an "Issuance Notice") describing in reasonable detail the Preemptive Securities being offered in the applicable issuance under this Section 3.5, the purchase price thereof, the payment terms and such Other Accredited Unitholder's percentage allotment prior to the closing of the issuance, or, if no such notice is delivered prior to such closing, no later than fifteen (15) days after such closing. In order to exercise its purchase rights hereunder, each Other Accredited Unitholder must within twenty (20) days after receipt of an Issuance Notice, deliver a written notice to the LLC describing its election to purchase all or any portion of his, her or its Preemptive Portion of the applicable Preemptive Securities under this Section 3.5. Each Other Accredited Unitholder who has not accepted such offer within such period shall be deemed to have waived all of such Other Accredited Unitholder's rights to participate in such issuance. In the event that all of the Preemptive Securities have not been subscribed for pursuant to this Section 3.5(b) following the delivery of the initial Issuance Notice, then (subject to Section 3.1(a)(ii)) the Preemptive Securities not subscribed for shall be reoffered pursuant to the provisions of this Section 3.5(b) one additional time to all such Other Accredited Unitholders who have elected to purchase their respective Preemptive Portions (each a "Participating Purchaser"); provided, that in such case of any reoffering, the applicable period to make an election to purchase with respect to such Preemptive Securities shall be five (5) Business Days, and each Participating Purchaser shall be permitted to commit to acquire all or any portion of the remaining

Preemptive Securities being offered pursuant to this Section 3.5(b) (and any over commitment shall be cut back *pro rata* on the basis of each such Participating Purchaser's relative Preemptive Portion). Following such reoffering of remaining Preemptive Securities, the LLC shall thereafter be free to issue any remaining Preemptive Securities in such issuance not already subscribed for by the Participating Purchasers to other prospective subscribers at a price no less than the price set forth in the Issuance Notice and on the other terms set forth in the Issuance Notice. If one or more Other Accredited Unitholders elects to purchase Preemptive Securities under this Section 3.5, the closing of such purchase shall occur no later than 120 days after receipt by the LLC of such election.

(c) Notwithstanding the foregoing (but subject, in each case, to compliance with the other provisions of this Agreement, including Section 5.1(b)(iv)), the rights set forth in this Section 3.5 shall not apply to any issuance of Preemptive Securities (i) upon the conversion, exchange or exercise of any then outstanding Equity Securities in accordance with their respective terms, (ii) to financing sources of the LLC or any of its Subsidiaries in connection with the issuance of debt or restructuring or recapitalization of existing debt; (iii) in connection with grants of Units (including Value Units) or options to officers, directors, employees or consultants of the LLC or any of its Subsidiaries issued pursuant to a plan approved by the Board (including the Plan); (iv) pursuant to a stock (or similar) split, dividend, combination, reorganization, recapitalization or similar event; (v) in connection with a Public Offering; (vi) in connection with a Sale of the LLC; (vii) to the sellers of a company, business, division or enterprise as part of the consideration (in whole or in part) for such acquisition by any member of the Company Group; or (viii) in connection with issuances of Common Units to officers, directors, employees or consultants of the LLC or any of its Subsidiaries issued for cash and not in excess of the amount of Common Units designated therefor on Schedule B.

(d) The LLC shall have 120 days from the date of the Issuance Notice to consummate the proposed issuance of any or all of such Units that the Other Accredited Unitholders have elected to purchase under this Section 3.5 at the same price and terms that are specified in the Issuance Notice; provided that, if such issuance is subject to regulatory approval, such 120-day period shall be extended until the expiration of five Business Days after all such approvals have been received, but in no event later than 270 days from the date of the Issuance Notice. If the LLC proposes to issue any series of Units after such 120 or 270-day period, it shall again comply with the procedures set forth in this Section 3.5 (to the extent applicable).

(e) The LLC shall not be under any obligation to consummate any proposed issuance of Preemptive Securities, nor shall there be any liability on the part of the LLC to any Unitholder if the LLC has not consummated any proposed issuance of Preemptive Securities pursuant to this Section 3.5 for whatever reason, regardless of whether it shall have delivered an Issuance Notice in respect of such proposed issuance. Without limiting the generality of the foregoing, if the LLC shall not issue any Preemptive

Securities to which an Issuance Notice relates, the LLC shall have no liability to issue to any Other Accredited Unitholder his, her or its Preemptive Portion of the Preemptive Securities.

3.6. Capital Accounts.

(a) There shall be established on the books and records of the LLC a capital account (a "Capital Account") for each Unitholder.

(b) Each Unitholder's Capital Account shall be adjusted:

(i) by adding any Capital Contributions made by such Unitholder (including the Capital Contributions made in exchange for any Units);

(ii) by deducting any amounts paid to such Unitholder in connection with the redemption or other repurchase by the LLC of Units;

(iii) by adding any Profits allocated in favor of such Unitholder and subtracting any Losses allocated in favor of such Unitholder; and

(iv) by deducting any distributions paid in cash or other assets to such Unitholder by the LLC (excluding any amount paid to such Unitholder pursuant to the Subscription Agreement or the Advisory Agreement).

(c) Each Unitholder's Capital Account shall be further adjusted with respect to any special allocations or adjustments pursuant to this Agreement. The LLC may adjust the Capital Accounts of its Unitholders, in accordance with Treasury Regulations Section 1.704-l(b)(2)(iv)(f), to reflect revaluations (including any unrealized income, gain or loss) of the LLC's property (including intangible assets such as goodwill), whenever it issues additional Units, or whenever the adjustments would otherwise be permitted under such Treasury Regulations. In the event that the Capital Accounts of the Unitholders are so adjusted, (i) the Capital Accounts of the Unitholders shall be adjusted in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv)(g) for allocations of depreciation, depletion, amortization and gain or loss, as computed for book purposes, with respect to such property and (ii) the Unitholders' distributive shares of depreciation, depletion, amortization and gain or loss, as computed for tax purposes, with respect to such property shall be determined so as to take account of the variation between the adjusted tax basis and book value of such property in the same manner as under Section 704(c) of the Code and Section 4.3 of this Agreement. The Capital Accounts shall be maintained for the sole purpose of allocating items of income, gain, loss and deductions among the Unitholders and shall have no effect on the amount of any distributions to any Unitholder in liquidation or otherwise. The provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Treasury Regulations Sections 1.704-1(b) and 1.704-2 and shall be interpreted and applied in a manner consistent with such Treasury

Regulations, and the LLC shall be permitted to adjust the Capital Accounts of the Unitholders in a manner consistent with such Treasury Regulations. Any contributions of property after the Effective Date shall be valued at their Fair Market Value (as will be reflected on Schedule A hereto).

3.7. Negative Capital Accounts. No Unitholder shall be required to pay to any other Unitholder or the LLC any deficit or negative balance which may exist from time to time in such Unitholder's Capital Account (including upon and after dissolution of the LLC).

3.8. No Withdrawal. No Person shall be entitled to withdraw any part of such Person's Capital Contributions or Capital Account or to receive any Distribution from the LLC, except as expressly provided herein or in the other agreements referred to herein.

3.9. Loans From Unitholders. If Unitholders make loans to the LLC (subject to Section 5.1(b)(iv)); (a) such loans shall not be considered Capital Contributions; (b) the making of such loans shall not result in any increase in the amount of the Capital Account of such Unitholder; and (c) the amount of any such loans shall be a debt of the LLC to such Unitholder and shall be payable or collectible in accordance with the terms and conditions upon which such loans are made.

3.10. Additional Terms Applicable to Value Units.

(a) Certain Terms.

(i) Forfeiture of Value Units. A Management Unitholder's Value Units shall be subject to forfeiture in accordance with Section 3.10(b)(i).

(ii) Certain Cancellations. In the event that any portion of the Value Units does not become eligible to participate in distributions pursuant to Section 4.1(a) upon the first occurrence of a Sale of the LLC, after taking into account distributions from the LLC or proceeds from the sale of Units in connection with such Sale of the LLC, such portion of such Value Units shall automatically be canceled without payment therefor.

(iii) Calculations. All calculations required or contemplated by Section 4.1 shall be made in the good faith determination of the Board, and, absent manifest error or failure to comply with the terms of this Agreement, shall be final and binding on the LLC and each Management Unitholder and Operating Unitholder.

(iv) Profits Interests. The Board shall determine a benchmark amount with respect to each Value Unit at the time such Value Unit is issued to a Unitholder (a "Benchmark Amount"), which shall be reflected on Schedule A. The LLC and the Unitholder intend that each Value Unit be treated as a separate "profits interest" for U.S. federal income tax purposes within the meaning of Internal Revenue Service Rev.

Proc. 93-27 and Rev. Proc. 2001-43 or such other subsequent Internal Revenue Service rulings defining "profits interests" as of the date such Value Unit is issued, and this Agreement shall be interpreted to give effect to such intention. Notwithstanding any other provision of this Agreement, (A) each Unitholder shall, and shall cause each of its Affiliates and transferees to, take any action requested by the Board to ensure that the fair market value of any Value Unit at the time of issuance is treated for U.S. federal income tax purposes as being equal to the "liquidation value" (within the meaning of Proposed Treasury Regulations Section 1.83-3(l)) of such Unit (and that each such Unit is afforded pass-through treatment for all applicable U.S. federal, state and local income tax purposes) and (B) without limiting the generality of the foregoing, to the extent required in order to attain or ensure such treatment under any applicable law, revenue procedure, revenue ruling, notice or other guidance governing partnership interests transferred in connection with the performance of services, such action may include authorizing and directing the LLC to make any election, agreeing to any condition imposed on such Unitholder, its Affiliates or its transferees, executing any amendment to this Agreement or other agreements, executing any new agreement, making any tax election or tax filing, and agreeing not to take any contrary position unless required pursuant to applicable law.

(v) The Value Units reserved for issuance under the Plan shall be subject in all respects to the terms, provisions, restrictions and conditions as are set forth in this Agreement, the Plan and the applicable award agreement or other document pursuant to which such Value Units awards were granted.

(b) Effects of Termination of Employment on Value Units.

(i) Forfeiture of Value Units upon Termination.

(A) Termination for Cause. Unless otherwise determined by the Board in a manner more favorable to such Management Unitholder or Operating Unitholder, as applicable, or otherwise set forth in an agreement between such Management Unitholder or Operating Unitholder, as applicable, and the LLC, in the event that a Management Unitholder's employment with or an Operating Unitholder's Service to the LLC or any Subsidiary of the LLC is terminated for Cause, all of the Value Units issued to such Management Unitholder or Operating Unitholder (whether vested or not) shall be forfeited immediately and automatically upon such termination.

(B) Other Termination. Unless otherwise determined by the Board in a manner more favorable to such Management Unitholder or Operating Unitholder, as applicable, or otherwise set forth in an agreement between such Unitholder and the LLC, in the event that a Management Unitholder's employment with or an Operating Unitholder's Service to the LLC or any Subsidiary of the LLC is terminated for any reason, other than for Cause, then all unvested Value Units issued to such Management Unitholder or Operating Unitholder shall be forfeited immediately and automatically upon such termination. If all or any portion of a Management Unitholder's or Operating

Unitholder's Value Units are not so forfeited, they shall remain outstanding in accordance with their applicable terms. Notwithstanding the foregoing, during the ninety (90) day period following such termination of employment or Service, as applicable, the Board may elect (with the consent of the Principal Investors) (the "Repurchase Option") to repurchase the vested Value Units from the applicable the Management Unitholder or Operating Unitholder, and upon such election the Management Unitholder or Operating Unitholder shall be obligated to sell such vested Value Units to the LLC, in each case, for a price equal to the Fair Market Value, as determined by the Board, of such Value Units as of the date of termination of employment or Service (the "Repurchase Price"). In the event that, following the Board's exercise of the Repurchase Option, the LLC is prohibited pursuant to its existing loan documents or otherwise from paying the Repurchase Price in respect of the Repurchase Option, the Board may elect that the LLC pay the Repurchase Price in the form of a promissory note (on market terms and conditions) to the applicable Management Unitholder or Operating Unitholder, and upon the issuance of such promissory notes the vested Value Units shall be immediately cancelled and shall no longer be deemed outstanding.

(ii) Inactive Unitholders. Subject to the last sentence of this clause (ii), if a Management Unitholder's employment with or an Operating Unitholder's Service to the LLC or any Subsidiary of the LLC terminates for any reason, such Unitholder shall thereafter be referred to herein as an "Inactive Unitholder" with only the rights (and applicable restrictions) of an Inactive Unitholder specified herein. Notwithstanding anything to the contrary, such Inactive Unitholder shall continue to be treated as a Unitholder solely for purposes of any applicable allocations or distributions, which shall be deemed for tax purposes to be made to such Inactive Unitholder in its capacity as a Unitholder, until such time as all Units retained by such Inactive Unitholder are Transferred or repurchased in accordance with this Agreement. Notwithstanding the foregoing, the Ekbatani Holder shall only become an Inactive Unitholder pursuant to Section 3.11(b) or Section 3.12(b), as applicable, below.

(iii) Effect of Forfeiture. Any Value Unit which is forfeited shall be cancelled for no consideration.

(iv) Accelerated Vesting Upon a Sale of the LLC. Unless otherwise set forth in an agreement between such Management Unitholder or Operating Unitholder, as applicable, and the LLC, the Board, in its sole and absolute discretion, may elect, immediately prior to the occurrence of a Sale of the LLC, to accelerate the vesting of any then-unvested Value Units then held by any Management Unitholder or Operating Unitholder (and not previously forfeited).

(c) Nontransferability of Awards. Notwithstanding anything to the contrary, no Value Units may be Transferred, other than subject to approval by the Board in any individual case (including such additional terms and conditions as the Board shall require), to a transferee under Article X.

(d) Treatment in an Initial Public Offering. In connection with an initial Public Offering, the holders of any Value Units that are not then vested may, in the Board's sole discretion, receive restricted securities of comparable economic value, in exchange for and cancellation of such Value Units, (i) that are subject to similar restrictions, vesting and forfeiture provisions as are described in this Agreement and the applicable award agreement or other document pursuant to which such Value Units awards were granted and (ii) the form and substance of which will determined at the sole discretion of the Board; provided that the tax treatment of such securities may be different than that of the Value Units.

3.11. Effects of a Trigger Event.

(a) During the ninety (90) day period following the date on which any executive officer of the Company or member the Board is actually notified of a Trigger Event, the LLC (with the consent of the Principal Investors) may elect, by written notice thereof to the Ekbatani Holder, to repurchase all or any portion of the Units then held by the Ekbatani Holder (the "Ekbatani Repurchase Option") and, following notice of such election so delivered within such ninety (90) period, the Ekbatani Holder shall be obligated to sell such Units to the LLC, in each case, for a cash price equal to the Fair Market Value of such Units as of the date of repurchase thereof, as determined by the Board and specified in such notice (which determination, for the avoidance of doubt, will take into account the Unpaid Equity Value Amount and the features of the distribution waterfall set forth in Section 4.1 with respect to the Units then-held by the Ekbatani Holder) (subject to Section 14.3 below, the "Ekbatani Repurchase Price"). In the event that, following the LLC's exercise of the Ekbatani Repurchase Option, the LLC is prohibited pursuant to its then-existing senior debt financing arrangements from paying the Ekbatani Repurchase Price (or any portion thereof) in respect of the Ekbatani Repurchase Option, the LLC shall pay the Ekbatani Repurchase Price (or any portion thereof) in the form of a promissory note (on market terms and conditions) to the Ekbatani Holder due upon the repayment or refinancing of the LLC's then-existing senior debt financing arrangements, and upon the issuance of such promissory note the Units then so repurchased from the Ekbatani Holder in exchange therefor shall be immediately cancelled and shall no longer be deemed outstanding. The LLC and the Ekbatani Holder shall be required to consummate an Ekbtatani Repurchase Option during the thirty (30) day period following delivery to the Ekbatani Holder of notice thereof (subject to the right to Dispute pursuant to Section 14.3) or, if prior to such date the Ekbatani Holder has delivered to the LLC a notice of a Dispute pursuant to Section 14.3 below, during the thirty (30) day period following the final determination of the Fair Market Value of the Units to be repurchased pursuant to such Section 14.3.

(b) Upon the LLC's delivery to the Ekbatani Holder of its notice of election to exercise the Ekbatani Repurchase Option, the Ekbatani Holder shall thereafter for so long as such Ekbatani Repurchase Option is pending and only with respect to the

Units being repurchased pursuant to such Ekbatani Repurchase Option, be referred to herein as an "Inactive Unitholder" with only the rights (and applicable restrictions) of an Inactive Unitholder specified herein. Notwithstanding anything to the contrary, such Inactive Unitholder for so long as such Ekbatani Repurchase Option is pending and only with respect to the Units being repurchased pursuant to such Ekbatani Repurchase Option, shall continue to be treated as a Unitholder solely for purposes of any applicable allocations or distributions, which shall be deemed for tax purposes to be made to such Inactive Unitholder in its capacity as a Unitholder, until such time as all Units retained by such Inactive Unitholder are Transferred or repurchased in accordance with this Agreement.

3.12. Effects of an Excess Escrow Loss.

(a) In the event that, pursuant to Article X of the DPN Purchase Agreement (and subject to the terms thereof), it has been determined by (i) a final, non-appealable order or judgment of a court of competent jurisdiction or (ii) a written, executed agreement between the Buyer and the Sellers' Representative, that the Buyer has suffered an Excess Escrow Loss for which the Sellers are obligated to indemnify the Buyer under the DPN Purchase Agreement, then during the ninety (90) day period following the date on which such Excess Escrow Loss is so finally determined, the LLC (with the consent of the Principal Investors) may elect, by written notice thereof to the Rollover Holders, to repurchase and redeem, in satisfaction of all or a portion of such Excess Escrow Loss, all or a portion of the Units then held by the Rollover Holders (pro rata in proportion to the amount of the Excess Escrow Loss allocable to such Rollover Holder as a Seller under the DPN Purchase Agreement) having an aggregate Fair Market Value at the time of such election equal to the amount of such Excess Escrow Loss being so satisfied (the "Rollover Call Option") as determined by the Board (subject to Section 14.3) and specified in such notice (which determination, for the avoidance of doubt, will take into account the Unpaid Equity Value Amount and the features of the distribution waterfall set forth in Section 4.1 with respect to the Units then-held by the Rollover Holders) and, following notice of such election so delivered within such ninety (90) period, the Rollover Holders shall be obligated to sell such Units to the LLC, in each case, for no consideration; provided, however, in no event shall the aggregate Fair Market Value of any Units repurchased or redeemed pursuant to this Section 3.12 in satisfaction of all or a portion of such Excess Escrow Loss, exceed $6,000,000. The LLC and the Rollover Holders shall be required to consummate any Rollover Call Option during the thirty (30) day period following delivery to the Rollover Holders of notice thereof (subject to the right to Dispute pursuant to Section 14.3) or, if prior to such date the Rollover Holders have delivered to the LLC a notice of a Dispute pursuant to Section 14.3 below, during the thirty (30) day period following the final determination of the Fair Market Value of the Units to be repurchased pursuant to such Section 14.3.

(b) Upon the LLC's delivery to the Rollover Holders of its notice of election to exercise the Rollover Call Option, the Rollover Holders shall thereafter for so

long as such Rollover Call Option is pending and only with respect to the Units being repurchased and redeemed pursuant to such Rollover Call Option, be referred to herein as "Inactive Unitholders" with only the rights (and applicable restrictions) of Inactive Unitholders specified herein. Notwithstanding anything to the contrary, such Inactive Unitholders for so long as such Rollover Call Option is pending and only with respect to the Units being repurchased pursuant to such Rollover Call Option, shall continue to be treated as a Unitholders solely for purposes of any applicable allocations or distributions, which shall be deemed for tax purposes to be made to each such Inactive Unitholder in its capacity as a Unitholder, until such time as all Units retained by such Inactive Unitholder are Transferred or repurchased in accordance with this Agreement.

ARTICLE IV

DISTRIBUTIONS; ALLOCATIONS AND REDEMPTIONS

4.1. Distributions.

(a) Distributions Generally. Except as otherwise set forth in this Section 4.1, and subject to Section 5.1(b)(iv) and the provisions of Section 18-607 of the Delaware Act, the Board may make Distributions at any time or from time to time as determined by Board in its discretion (after taking into account the anticipated cash needs of the business, the existing liabilities and expenses of the LLC and a reasonable reserves for future liabilities and expenses of the LLC). Subject to the foregoing, except as otherwise set forth in this Section 4.1, and subject to Section 5.1(b)(iv) and the provisions of Section 18-607 of the Delaware Act, all Distributions shall be made to the Unitholders as follows:

(i) First, to the Common Holders, pro rata in accordance with their Capital Contributions, until the cumulative amount distributed to such Common Holders pursuant to this Section 4.1(a)(i) equals the aggregate unreturned Capital Contributions made by such Common Holders with respect to the Common Units owned by such Common Holders, and no distribution or any portion thereof shall be made under any other paragraphs of this Section 4.1(a) until such cumulative amount of unreturned Capital Contributions in respect of Common Units has been distributed;

(ii) Thereafter, to the Common Holders and the Value A Holders, pro rata in accordance with their respective ownership in such Units, until the cumulative amount distributed to the Common Holders pursuant to this Section 4.1(a) equals the Value B Threshold, and no distribution or any portion thereof shall be made under paragraphs (iii), (iv) or (v) of this Section 4.1(a) until such amount has been distributed; provided, however, that no distribution or any portion thereof shall be made in respect of any Class B Common Units under this Section 4.1(a)(ii) or under paragraphs

(iii), (iv) or (v) of this Section 4.1(a) until the entire amount of the Unpaid Equity Value Amount as of the time of such distribution has been distributed in full to the Unitholders (other than the Class B Holders);

(iii) Thereafter, to the Common Holders, the Value A Holders, and the Value B Holders, pro rata in accordance with their respective ownership in such Units, until the cumulative amount distributed to the Common Holders pursuant to this Section 4.1(a) equals the Value C Threshold, and no distribution or any portion thereof shall be made under paragraphs (iv) or (v) of this Section 4.1(a) until such amount has been distributed; provided, however, that no distribution or any portion thereof shall be made in respect of any Class B Common Units under this Section 4.1(a)(iii) or under paragraphs (iv) or (v) of this Section 4.1(a) until the entire amount of the Unpaid Equity Value Amount as of the time of such distribution has been distributed in full to the Unitholders (other than the Class B Holders);

(iv) Thereafter, to the Common Holders, the Value A Holders, the Value B Holders, and the Value C Holders, pro rata in accordance with their respective ownership in such Units, until the cumulative amount distributed to the Common Holders pursuant to this Section 4.1(a) equals the Value D Threshold, and no distribution or any portion thereof shall be made under paragraph (v) of this Section 4.1(a) until such amount has been distributed; provided, however, that no distribution or any portion thereof shall be made in respect of any Class B Common Units under this Section 4.1(a)(iv) or under paragraph (v) of this Section 4.1(a) until the entire amount of the Unpaid Equity Value Amount as of the time of such distribution has been distributed in full to the Unitholders (other than the Class B Holders); and

(v) Thereafter, to the Common Holders, the Value A Holders, the Value B Holders, the Value C Holders, and the Value D Holders, pro rata in accordance with their respective ownership in such Units; provided, however, that no distribution or any portion thereof shall be made in respect of any Class B Common Units under this Section 4.1(a)(v) until the entire amount of the Unpaid Equity Value Amount as of the time of such distribution has been distributed in full to the Unitholders (other than the Class B Holders).

(b) Notwithstanding the foregoing, the amount of any proposed distribution to a holder of any participating Value Unit pursuant to Section 4.1(a) in respect of such Value Unit shall be reduced (and no distributions shall be made in respect of any such Value Unit) until the total reductions in proposed distributions pursuant to this Section 4.1(b) in respect of such Value Unit equals the Benchmark Amount in respect of such Value Unit. Any amount that is not distributed to the holder of any Value Unit pursuant to this Section 4.1(b) shall be distributed to the remaining Members pursuant to Section 4.1(a).

(c) In the event that (i) a Sale of the LLC is structured as a sale of LLC Interests by the Members, rather than a distribution of proceeds by the LLC or (ii) there is a sale of LLC Interests pursuant to Section 10.4 or 10.6 involving LLC Interests of a different class or sub-class, the purchase agreement governing such sale will have provisions therein which replicate, to the greatest extent possible, the economic result which would have been attained under this Article IV had the Sale of the LLC or such sale been structured as a sale of the LLC's assets and a distribution of proceeds thereof (or, in the context of a sale event only, modifications will be made to this Agreement to accomplish this result).

(d) For the avoidance of doubt, it is understood that references herein to Value Units that "will not participate in distributions under Article IV" or any similar formulation or reference means (i) that Members will not receive Distributions pursuant to this Article IV (other than pursuant to Section 4.1(g)) in respect of such Units and (ii) that such non-participating Value Units held will not be counted in any determination of the pro rata or proportionate ownership of Units of such Member or any other Member for purposes of Article IV (other than pursuant to Section 4.1(g)).

(e) Notwithstanding anything to the contrary, only vested Value Units held by Management Unitholders, Operating Unitholders and Inactive Unitholders shall participate in any Distributions (other than pursuant to Section 4.1(g)).

(f) Persons Receiving Distributions. Each Distribution shall be made to the Persons shown on the LLC's books and records as Unitholders as of the date of such Distribution; provided, however, that, subject to Article X, any transferor and transferee of Units may mutually agree as to which of them should receive payment of any Distribution under this Section 4.1.

(g) Tax Distributions. In the event the LLC allocates net taxable income to any of the Value Unitholders for any Fiscal Year and to the extent that prior distributions to such Value Unitholder with respect to such Fiscal Year are not sufficient to satisfy such Value Unitholder's tax liability arising as a result of such allocations, then the LLC shall, subject to the Board's determination that there is sufficient cash available for distribution, make distributions of cash to such Value Unitholders prior to any other distributions provided for in this Article IV in an amount determined in good faith by the Board for the purpose of allowing such Value Unitholders to satisfy their tax liability arising as a result of such allocation. Tax distributions made pursuant to the foregoing shall be treated as advances against distributions payable to such Value Unitholders pursuant to Section 4.1(a), and shall be taken into account in the calculations of amounts distributed pursuant to Section 4.1(a).

(h) **Distributions In Kind**. In the event of a Distribution of LLC property, such property shall for all purposes of this Agreement be deemed to have been

sold at its Fair Market Value and the proceeds of such sale shall be deemed to have been distributed to the Members.

4.2. Allocations. Profits and Losses for any Fiscal Year shall be allocated among the Unitholders in such a manner that as closely as possible gives economic effect to the provisions of Section 4.1(a) and the other relevant provisions of this Agreement.

(a) General. Profit and Loss for any Fiscal Year shall be allocated among the Unitholders in such ratio or ratios as may be required to cause the balances of the Unitholders' Economic Capital Accounts to equal, as nearly as possible, their Target Balances, consistent with the provisions of Section 4.2(b) and solely for this purpose, treating all non-vested Units as vested.

(b) Compliance with Code Section 704(b). The allocation provisions contained in this Article IV are intended to comply with Section 704(b) of the Code and the Treasury Regulations promulgated thereunder and shall be interpreted and applied in a manner consistent therewith.

4.3. Tax Allocations. Each item of income, gain, loss or deduction recognized by the LLC shall be allocated among the Unitholders for U.S. federal, state and local income tax purposes in the same manner that each such item is allocated to the Unitholders' Capital Accounts or as otherwise provided herein, provided that the Board may adjust such allocations as long as such adjusted allocations have substantial economic effect or are in accordance with the interests of the Unitholders in the LLC, in each case within the meaning of the Code and the Treasury Regulations. Notwithstanding the foregoing, (i) items of LLC taxable income, gain, loss, and deduction with respect to any property contributed to the capital of the LLC shall be allocated among the Unitholders, as determined by the Board in accordance with Code Section 704(c) so as to take account of any variation between the adjusted basis of such property to the LLC for federal income tax purposes and its value on the date of contribution and (ii) if the value of any LLC asset is adjusted pursuant to the requirements of Treasury Regulation Section 1.704-1(b)(2)(iv)(e) or (f) then subsequent allocations of items of taxable income, gain, loss, and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and such value, as determined by the Board in the same manner as under Code Section 704(c). The Board shall elect to use the traditional method described in Treasury Regulation Section 1.704-3(b), unless each Principal Investor consents to the election of another method. Tax credits and tax credit recapture shall be allocated in accordance with the Unitholders' interests in the LLC as provided in Treasury Regulations Section 1.704-1(b)(4)(ii). All matters concerning allocations for U.S. federal, state and local and non-U.S. income tax purposes, including accounting procedures, not expressly provided for by the terms of this Agreement shall be determined by the Board in its sole discretion.

4.4. Indemnification and Reimbursement for Payments on Behalf of a Unitholder. If the LLC is required by law to make any payment that is specifically attributable to a Unitholder or a Unitholder's status as such (including federal withholding or other taxes, state personal property taxes, and state unincorporated business taxes), then such Unitholder shall indemnify the LLC in full for the entire amount paid (including interest, penalties and related expenses). The LLC may pursue and enforce all rights and remedies it may have against each Unitholder under this Section 4.3, including instituting a lawsuit to collect such indemnification and contribution with interest calculated at a rate equal to 10% per annum, compounded as of the last day of each year (but not in excess of the highest rate per annum permitted by law).

4.5. Transfer of Capital Accounts. If a Unitholder sells, assigns or transfers an interest in the LLC to a new or existing Unitholder in accordance with the terms herein, the transferee Unitholder shall succeed to that portion of the transferor's Capital Account that is attributable to the sold, assigned or transferred interest. Any reference in this Agreement to a Capital Contribution of, or Distribution to, a Unitholder that has succeeded any other Unitholder shall include any Capital Contributions or Distributions previously made by or to the former Unitholder on account of the interest of such former Unitholder sold, assigned or transferred to such Unitholder.

4.6. Withholding.

(a) Notwithstanding any other provision of this Agreement, each Unitholder authorizes the LLC to withhold and to pay over, or otherwise pay, any withholding or other taxes payable by the LLC or any of its Affiliates (pursuant to the Code or any provision of the United States Federal, state, local or foreign tax law) attributable to such Unitholder (including taxes attributable to income or gain allocable to such Unitholder) or as a result of such Unitholder's participation in the LLC (a "Withholding Payment"); and if and to the extent that the LLC shall be required to withhold or pay and actually pays any such Withholding Payment, such Unitholder shall be deemed for all purposes of this Agreement to have received an interest-free loan from the LLC as of the time such Withholding Payment is required to be paid notwithstanding the actual date of payment. Amounts so treated as advanced to any Unitholder shall be repaid by such Unitholder to the LLC within thirty (30) days after the LLC delivers a written request to such Unitholder for such repayment; provided, however, that if any such repayment is not made, the LLC may (without prejudice to any other rights of the LLC) collect such unpaid amounts from any subsequent LLC distributions that otherwise would be made to such Unitholder pursuant to Section 4.1 (all such decisions to be made and applied within the sole discretion of the Board).

(b) If the LLC makes a distribution in kind (if such distribution is permitted in accordance with the terms of this Agreement) and such distribution is subject to withholding or other taxes payable by the LLC on behalf of any Unitholder (the "Withheld Amount"), the Board shall notify such Unitholder as to the extent (if any) of the

Withheld Amount and such Unitholder shall make a prompt payment to the LLC of the Withheld Amount by wire transfer (it being understood that, notwithstanding anything else herein to the contrary, the LLC shall refrain from distributing such property to be distributed having a Fair Market Value of at least the Withheld Amount until the LLC has received a payment of such Withheld Amount).

(c) Any withholding referred to in this Section 4.6 shall be made at the maximum applicable statutory rate under the applicable tax law unless the Board shall have received an opinion of counsel or other evidence, satisfactory to the Board, to the effect that a lower rate is applicable, or that no withholding is applicable.

(d) If the LLC receives a distribution from or in respect of which tax has been withheld, the LLC shall be treated as having received cash in an amount equal to the amount of such withheld tax, and each Unitholder shall be treated as having received as a distribution the portion of such amount that is attributable to such Unitholder.

(e) Each Unitholder shall provide the LLC with any information, representations, certificates, forms or other documentation relating to such Unitholder (or its direct or indirect owners or account holders) that are reasonably requested from time to time by the Board and that the Board determines in its sole discretion are necessary or appropriate in order for any entity (including (i) the LLC, (ii) any entity in which the LLC holds (directly or indirectly) an interest (whether in the form of debt or equity), (iii) any member of any "expanded affiliated group" (as defined in Section 1471(e)(2) of the Code and the Treasury Regulations thereunder) of which any Person described in clause (i) or (ii) is a member and (iv) any "Related Entity", as such term is defined in any intergovernmental agreement referenced in clause (c) of the definition of FATCA) to (A) avoid any withholding required under FATCA (including, without limitation, any withholding upon any payments to any person described in clauses (i), (ii) or (iii) or to any Unitholder under this Agreement), (B) comply with any reporting or withholding requirements under FATCA, (C) enter into, maintain or comply with an "FFI Agreement," as defined in the Code and the Treasury Regulations thereunder (or any other agreement entered into in connection with FATCA), or (D) otherwise comply with FATCA. In addition, each Unitholder shall take such actions as the Board may reasonably request in connection with the foregoing. Any Unitholder that fails to comply with this Section 4.6(e) shall, together with all other Unitholders that fail to comply with this Section 4.6(e), unless otherwise agreed by the Board in writing, to the fullest extent permitted by law, indemnify and hold harmless the Board and the LLC for any costs or expenses arising out of such failure or failures, including any withholding tax imposed under FATCA. Each Unitholder acknowledges and agrees that any information or other data in respect of such Unitholder (or its direct or indirect owners or account holders) provided to the LLC in accordance with this Section 4.6(e) shall be kept confidential but may, if required by law, be disclosed to any tax authority.

(f) Any imputed underpayment within the meaning of Section 6225 of the Code paid (or payable) by the LLC as a result of an adjustment with respect to any LLC item, including any interest or penalties with respect to any such adjustment (collectively, an "Imputed Underpayment Amount"), shall be treated as if it were paid by the LLC as a Withholding Payment with respect to the appropriate Unitholders. The Board shall reasonably determine the portion of an Imputed Underpayment Amount attributable to each Unitholder or former Unitholder. The portion of the Imputed Underpayment Amount that the Board attributes to a Unitholder shall be treated as a Withholding Payment with respect to such Unitholder. The portion of the Imputed Underpayment Amount that the Board attributes to a former Unitholder of the LLC shall be treated as a Withholding Payment with respect to both such former Unitholder and such former Unitholder's transferee(s) or assignee(s), as applicable, and the Board may in its discretion exercise the LLC's rights pursuant to this Section 4.6(f) in respect of either or both of the former Unitholder and its transferee or assignee. Imputed Underpayment Amounts treated as Withholding Payments also shall include any imputed underpayment within the meaning of Code Section 6225 paid (or payable) by any entity treated as a partnership for U.S. federal income tax purposes in which the LLC holds (or has held) a direct or indirect interest other than through entities treated as corporations for U.S. federal income tax purposes to the extent that the LLC bears the economic burden of such amounts, whether by law or agreement.

(g) If the LLC is obligated to pay any taxes (including penalties, interest and any addition to tax) to any Governmental Entity that is specifically attributable to a Unitholder, such Unitholder's transferee or as a result of any transfer of an interest in the Company, including, without limitation, on account of Sections 864 or 1446 of the Code, then (i) such Persons shall indemnify the LLC in full for the entire amount paid or payable, (ii) the Board may offset future distributions from such Persons pursuant to Section 4.1 to which such Person is otherwise entitled under this Agreement against such Person's obligation to indemnify the LLC under this Section 4.6(g) and (iii) such amounts shall be treated as a Withholding Payment pursuant to this Section 4.6 with respect to both such former Unitholder and such former Unitholder's transferee(s), as applicable.

ARTICLE V

BOARD OF MANAGERS; OFFICERS

5.1. Management by the Board of Managers.

(a) No Management by Unitholders. The Unitholders shall not manage or control the affairs of the LLC, except as expressly provided in this Agreement with respect to the Principal Investors (including, for the avoidance of doubt, Section 5.1(b)(iv)) or as required by any non-waivable provisions of applicable law.

(b) Authority of Board of Managers.

(i) Except as expressly provided in this Agreement with respect to the Principal Investors (including, for the avoidance of doubt, the provisions of Section 5.1(b)(iv)) or as required by any non-waivable provision of applicable law, (A) the powers of the LLC shall be exercised by or under the authority of, and the affairs of the LLC shall be managed under the direction of, the Board and (B) the Board may make all decisions and take all actions for the LLC not otherwise provided for in this Agreement, including the following (subject, in each case, to Section 5.1(b)(iv)):

(A) authorizing, designating, reserving for issuance or issuing any Units or other Equity Securities;

(B) entering into, making and performing contracts, agreements and other undertakings binding the LLC that may be necessary, appropriate or advisable in furtherance of the purposes of the LLC and making all decisions and waivers thereunder;

(C) maintaining the assets of the LLC in good order;

(D) collecting sums due to the LLC;

(E) opening and maintaining bank and investment accounts and arrangements, drawing checks and other orders for the payment of money and designating individuals with authority to sign or give instructions with respect to those accounts and arrangements;

(F) to the extent that funds of the LLC are available therefor, paying debts and obligations of the LLC as they come due;

(G) acquiring, utilizing for LLC purposes and disposing of any assets of the LLC;

(H) hiring and employing executives, Officers, supervisors and other personnel for the Company Group;

(I) selecting, removing and changing the authority and responsibility of lawyers, accountants and other advisers and consultants;

(J) entering into guaranties on behalf of the LLC's Subsidiaries;

(K) obtaining insurance for the LLC;

(L) determining Distributions of cash and other property of the LLC as provided in Article IV.

(M) establishing reserves for commitments and obligations (contingent or otherwise) of the LLC; and

(N) establishing a seal for the LLC.

(ii) The Board may act (A) by resolutions adopted at a meeting and/or by written consents pursuant to Section 5.3, (B) by delegating power and authority to committees pursuant to Section 5.4, or (C) by delegating power and authority to any Officer pursuant to Section 5.5(a).

(iii) Each Unitholder acknowledges and agrees that no Manager shall, as a result of being a Manager (as such), be bound to devote all of his or her business time to the affairs of the LLC, and that he or she and his or her Affiliates do and will continue to engage for their own account and for the accounts of others in other business ventures.

(iv) Notwithstanding anything in this Agreement to the contrary, the LLC shall not, and shall cause its Subsidiaries not to, directly or indirectly, take any of the following actions without the prior approval of the Board and the prior written approval of each Principal Investor (provided, that the prior approval of a Principal Investor shall not be required (x) with respect to clauses (A) – (D) (and clauses (T) and (U) to the extent applicable) if such Principal Investor, together with its Affiliates, collectively holds less than twenty percent (20%) of such Principal Investor's Closing Equity and (y) with respect to clauses (E) – (U) if such Principal Investor, together with its Affiliates, collectively holds less than fifty percent (50%) of such Principal Investor's Closing Equity):

(A) amend or repeal any provision of, or supplement, this Agreement, the Certificate, bylaws or other organizational documents of the LLC or its Subsidiaries, other than to the extent required in connection with a Qualified IPO to increase the number of authorized Equity Securities;

(B) enter into any agreement or commitments that would restrict any Principal Investor or any of its Affiliates from entering into any line of business;

(C) adopt any change to any tax or accounting policy other than as required by generally accepted accounting principles ("GAAP") or applicable law, or change its independent public accountants, auditors or tax advisors;

(D) enter into any transaction (or amend the terms of any such transaction) with any Principal Investor or any of its Affiliates other than (i) as specifically contemplated by this Agreement, (ii) pursuant to any agreements in effect as

of the date of the Closing (as defined in the Subscription Agreement) and disclosed in the disclosure schedules thereto or (iii) pursuant to commercial agreements entered into between an operating business of a Principal Investor or its Affiliates, on the one hand, and the LLC or any of its Subsidiaries, on the other, in the ordinary course of business and on arm's length terms;

(E) except in accordance with Section 5.4(a), form, or delegate any authority to, any committee or subset of the Board or elect any Person to any such committee or subset of the Board;

(F) make any acquisition or disposition (or any series of related acquisitions or dispositions) of any entity, business or assets with aggregate consideration in excess of one-hundred million United States dollars ($100,000,000), including by way of merger, equity purchase, asset purchase or otherwise;

(G) consummate, commit to or enter into any agreement or commitment for a Sale of the LLC or any merger or consolidation with a third party other than (i) an Approved Sale or (ii) with respect to transactions other than a Sale of the LLC as would be permitted under Section 5.1(b)(iv)(F);

(H) enter into or commit to enter into any material joint ventures or partnerships, establish or acquire any non-wholly-owned Subsidiaries or merge or consolidate with, or make investments in, any third party (other than in connection with a Drag-Along Sale in accordance with Section 10.6), in each case, that involve a cash or asset contribution (or commitment) in excess of fifty million United States dollars ($50,000,000);

(I) effect an initial Public Offering (other than a Qualified IPO), or, except in accordance with Section 6.12, grant any registration rights to any Person;

(J) create, designate, authorize, issue, sell or grant, or enter into any agreement providing for the issuance (contingent or otherwise) of, any of its Units or other Equity Securities or any equity appreciation rights, phantom equity plans or similar rights or plans relating to the LLC or its Subsidiaries, other than (i) the issuance of any of the foregoing pursuant to a plan approved under Section 5.1(b)(iv)(O) (provided that, except as approved pursuant to this Section 5.1(b)(iv)(J), for each class of Units (including, for the avoidance of doubt, Value Units and Common Units), the total number of Units issued or reserved for issuance under all such management equity plans and other employee incentive plans shall not exceed the number specified in Schedule B hereto for such class of Units) and (ii) in a Qualified IPO or an initial Public Offering approved pursuant to Section 5.1(b)(iv)(I) and effected pursuant to Section 6.12 and the Registration Rights Agreement;

(K) authorize, issue, sell or grant, or enter into any agreement providing for the issuance (contingent or otherwise) of, any of the equity interests of any Subsidiary to persons other than the LLC or another wholly-owned Subsidiary of the LLC, other than issuance of equity interests in connection with a Public Offering approved pursuant to Section 5.1(b)(iv)(I) and effected pursuant to Section 6.12 and the Registration Rights Agreement;

(L) incur or guarantee any Restricted Debt, unless such incurrence or guarantee would not result in an Excessive Leverage Event as of the date of incurrence of such Restricted Debt or the effective date of the guarantee of such Restricted Debt;

(M) develop, construct, operate, acquire ownership of or otherwise expand into any line of business not conducted by the Company Group as of the Effective Date which would be competitive with any business conducted by a Principal Investor or its Affiliates at the time of such action;

(N) (i) select, hire, terminate or remove any person as the chief executive officer of the Company Group or (ii) amend the terms of any existing employment agreement or compensation arrangement with, or enter into any new employment agreement or compensation arrangement with, the chief executive officer of the Company Group;

(O) adopt, or effect any material changes to, any management equity plan or other employee incentive plan, including, without limitation, employee equity (including any change to the number of Value Units issuable under the Plan or any successor plan), phantom equity or senior management bonus programs, or issue any capital stock or other securities other than limited liability company units, capital stock or other securities which it is obligated to issue under the terms of any option existing as of the Effective Date or issuances to employees, officers or managers under any plan approved pursuant to this Section 5.1(b)(iv)(O) (it being understood that (i) that the total number of each class of Units issued or reserved for issuance under all such plans shall not exceed the amounts permitted under Section 5.1(b)(iv)(J) and (ii) the Plan has been approved by the Board and each Principal Investor);

(P) determine the terms and conditions governing the issuance of any Additional Securities, including the number and designation of such Additional Securities, the preferences (with respect to distributions, liquidations, or otherwise) over any other Units and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior or junior to, or *pari passu* with, any other Units, any required contributions in connection therewith and voting rights;

(Q) commence or file any bankruptcy, reorganization, liquidation, insolvency or similar proceeding or commence or consent to the filing of an involuntary bankruptcy, reorganization, liquidation, insolvency, or similar proceeding;

(R) voluntarily liquidate, dissolve or wind up;

(S) commence, pursue, settle or compromise any litigation or regulatory proceeding except for (i) any litigation that arises out of the ordinary course of business and involves solely the payment of monetary damages by the LLC or any of its Subsidiaries of an amount not exceeding ten million United States dollars ($10,000,000) or (ii) any litigation or disputes relating to a Principal Investor's investment in the LLC;

(T) take any other action that requires the consent of Frazier or Providence under this Agreement; or

(U) agree or otherwise commit to take any actions set forth in the foregoing subparagraphs (A) through (T).

(c) Officers. The management of the business and affairs of the LLC by the Officers and the exercising of their powers shall be conducted under the supervision of and subject to the approval of the Board.

5.2. Composition and Election of the Board of Managers.

(a) Number and Designation. Unless otherwise agreed by the Principal Investors:

(i) The number of Managers on the Board shall be established at seven (7), but may be increased to such higher number or decreased to such lower number from time to time with the approval of the Principal Investors (subject to Section 5.2(a)(iii) and Section 5.2(a)(iv) below).

(ii) The composition of the Board, as of the date hereof, shall be as follows:

(A) David Shackelton and such other Person designated by Providence (as and when so designated in accordance with this Section 5.2(a)(ii)(A)), each of whom has been or will be designated by Providence pursuant to Section 5.2(d) (each of the foregoing, together with any replacements designated by Providence pursuant to Section 5.2(d), the "Providence Managers");

(B) Ben Magnano, Brian Morfitt and Phil Zaorski, each of whom has been or will be designated by Frazier pursuant to Section 5.2(d) (each of the

foregoing, together with any replacements designated by Frazier pursuant to Section 5.2(d), the "Frazier Managers");

(C) Walt Cooper, the chief executive officer of the Company Group; and

(D) Paul Kusserow, who has been or will be designated by Principal Investors pursuant to Section 5.2(d) (the foregoing, together with any replacements designated by Principal Investors pursuant to Section 5.2(d), the "Independent Manager").

(iii) For so long as a Frazier, together with its Affiliates, collectively holds at least 88.88% of its Closing Equity, it shall have the right to designate three (3) Managers (which shall initially be the Frazier Managers listed in Section 5.2(a)(ii) above). For so long as Frazier, together with its Affiliates, collectively holds at least 44.0% but less than 88.88% of its Closing Equity, it shall have the right to designate two (2) Managers. For so long as Frazier, together with its Affiliates, collectively holds at least 10% but less than 44.0% of its Closing Equity, it shall have the right to designate one (1) Manager. If Frazier, together with its Affiliates, holds less than 10% of its Closing Equity, it shall not have the right to designate any Managers.

(iv) For so long as a Providence, together with its Affiliates, collectively holds at least 50% of its Closing Equity, it shall have the right to designate two (2) Managers (which shall initially be the Providence Managers listed in Section 5.2(a)(ii) above). For so long as Providence, together with its Affiliates, collectively holds at least 10% but less than 50% of its Closing Equity, it shall have the right to designate one (1) Manager. If Providence, together with its Affiliates, holds less than 10% of its Closing Equity, it shall not have the right to designate any Managers.

(v) Notwithstanding the foregoing clauses (iii) and (iv) of Section 5.2(a), for so long as (A) Frazier, together with its Affiliates, collectively holds more Units than Providence, together with its Affiliates, Frazier will be entitled to appoint at least one more Manager than Providence, and (B) Providence, together with its Affiliates, collectively holds more Units than Frazier, together with its Affiliates, Providence will be entitled to appoint at least one more Manager than Frazier. Without limiting the foregoing, in the event that the Principal Investor Ratio equals 4:1 or greater in favor of any Principal Investor (together with its Affiliates) (the "Subject Principal Investor"), then (for so long as such Principal Investor Ratio equals 4:1 or greater in favor of the Subject Principal Investor) the number of members on the Board shall automatically (and without any action by any Unitholder or the Board (including pursuant to Section 5.1(b)(iv)) be increased by one (1) and such Subject Principal Investor shall have the right to designate the Board member (and any replacement thereto) to fill such newly created Board seat.

(vi) Notwithstanding the foregoing, such Board designation rights shall be adjusted proportionately in the event of any increase or decrease in the size of the Board pursuant to Section 5.2(a)(i). Furthermore, upon the request of either Principal Investor, the LLC shall cause the boards of directors (or similar governing bodies) and committees of its Subsidiaries to be comprised of the same persons who are then Managers of the Board and members of committees of the Board and the voting rights on the boards of directors (or similar governing bodies) and committees of each of the LLC's Subsidiaries to be commensurate with the voting rights of the Principal Investors with respect to the Board and the committees of the Board.

(vii) The Board shall at all times include the chief executive officer of the Company Group as a Manager (such Board seat, the "CEO Board Seat").

(viii) In the event that the number of Managers a Principal Investor has the right to designate is reduced pursuant to Section 5.2(a)(iii) or Section 5.2(a)(iv), (A) such Principal Investor shall promptly identify its incumbent Board designee that will be removed from the Board in connection with such reduction and (B) the LLC and the Unitholders shall promptly take all action necessary or desirable to cause the removal of such incumbent Manager(s) from office.

(ix) Upon an initial Public Offering, the Principal Investors shall negotiate in good faith mutually agreeable modifications to the governance structure set forth in this Section 5.2 that they deem appropriate in light of the LLC's then public status.

(b) Term; Resignation. Members of the Board shall serve from their designation in accordance with the terms hereof until their resignation, death or removal in accordance with the terms hereof. Members of the Board need not be Unitholders and need not be residents of the State of Delaware. A person shall become a member of the Board effective upon the election or appointment of such person at a meeting of the Unitholders, or by unanimous written consent. A member of the Board may resign as such by delivering his, her or its written resignation to the LLC at the LLC's principal office addressed to the Board. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

(c) Removal. Each Principal Investor may, at any time and for any reason, with or without cause, remove any Manager designated by such Principal Investor pursuant to Section 5.2(a) or Section 5.2(d) and designate a replacement Manager pursuant to Section 5.2(d), and the Unitholders and the LLC shall promptly take all action necessary or desirable to accomplish the foregoing. Upon the removal of any Manager, such Manager shall cease to be a "manager" (within the meaning of the Delaware Act). No Unitholder shall take any action to cause the removal of any Manager designated by a Principal Investor pursuant to Section 5.2(a) or Section 5.2(d) except (i) in connection with the reduction of the number of Managers such Principal Investor has the right to designate under Section 5.2(a)(viii) or (ii) at the direction of such Principal Investor.

(d) Vacancies. In the event that a vacancy on the Board is created or exists (including by the death, disability, retirement, resignation, removal (with or without cause) of a Manager or otherwise), (i) if such vacancy relates to the CEO Board Seat, then such vacancy shall be filled by the highest ranking officer of the Company Group, (ii) if such vacancy relates to a Board seat previously filled by a Frazier Manager or Providence Manager and is not created as a result of a removal pursuant to Section 5.2(a)(viii), then such vacancy shall be filled by a Person designated by Frazier or Providence, as applicable, (iii) if such vacancy is created as a result of a removal pursuant to Section 5.2(a)(viii), then such vacancy shall remain unfilled and the size of the Board shall be reduced accordingly unless such Board seat is assigned in accordance with Section 10.7, and (iv) if such vacancy is created for any other reason, then such vacancy shall be filled by a person designated by the Principal Investors. The LLC and the Unitholders shall promptly take all action necessary or desirable to fill any vacancy on the Board in accordance with this Section 5.2(d).

(e) Reimbursement. The LLC shall pay or cause to be paid by one of its Subsidiaries all reasonable out-of-pocket costs and expenses incurred by each member of the Board incurred in the course of his or her service hereunder, including in connection with attending regular and special meetings of the Board, any board of managers or board of directors of each of the LLC's Subsidiaries and/or any of their respective committees, pursuant to reimbursement guidelines approved by each of the Principal Investors.

(f) Reliance by Third Parties. Any Person dealing with the LLC, other than a Unitholder, may rely on the authority of the Board (or any Officer authorized by the Board) in taking any action in the name of the LLC without inquiry into the provisions of this Agreement or compliance herewith, regardless of whether that action actually is taken in accordance with the provisions of this Agreement. Every agreement, instrument or document executed by the Board (or any Officer authorized by the Board) in the name of the LLC with respect to any business or property of the LLC shall be conclusive evidence in favor of any Person relying thereon or claiming thereunder that (i) at the time of the execution or delivery thereof, this Agreement was in full force and effect, (ii) such agreement, instrument or document was duly executed according to this Agreement and is binding upon the LLC and (iii) the Board or such Officer was duly authorized and empowered to execute and deliver such agreement, instrument or document for and on behalf of the LLC.

5.3. Board Meetings and Actions by Written Consent.

(a) Voting. On each matter presented at a meeting of the Board for action to be taken by the Board on such matter, each Manager present at such meeting shall be entitled to one vote thereon.

(b) Quorum.

(i) Managers representing a majority of the total number of votes on the Board must be present (including pursuant to Section 5.3(h)) in order to constitute a quorum for the transaction of business of the Board, provided that, subject to Section 5.2(a), at least one (1) Frazier Manager and one (1) Providence Manager must be present at a meeting to constitute a quorum for such meeting, and provided further that one (1) Frazier Manager and one (1) Providence Manager (each, a "Principal Investor Manager", and collectively the "Principal Investor Managers") together shall constitute a quorum for any meeting; provided, however, in the event that a Principal Investor Manager fails to attend (either in person or by conference telephone or similar communications) two (2) consecutive meetings of the Board after, in each case, being provided with Requisite Board Meeting Notice in accordance with Section 5.3(f) (such Manager, an "Absent Manager"), in such case, to the extent that the Absent Manager is provided with at least three (3) days' notice of a third (3rd) consecutive meeting of the Board, the Absent Manager will be deemed to be in attendance at such third meeting for purposes of establishing a quorum and taking any actions pursuant thereto (including for establishing a quorum pursuant to this Section 5.3(b)) whether or not such Absent Manager actually attends such meeting (a "Deemed Quorum").

(ii) Except as otherwise provided in this Agreement (and subject to clause (i) above), the act of the Managers who are present at a meeting of the Board at which a quorum is present and who are entitled to exercise a majority of the votes present at such meeting shall be the act of the Board on any matter presented to the Board for action to be taken thereon at such meeting. In the event of a tie vote of the Managers who are present at a meeting of the Board at which a quorum is present (subject to clause (i) above), a second vote of the Board shall be taken without the participation of the Manager currently occupying the CEO Board Seat. A Manager who is present at a meeting of the Board at which action on any matter is taken shall be presumed to have assented to the action unless his or her dissent shall be entered in the minutes of the meeting or unless he shall file his or her written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof or shall deliver such dissent to the LLC immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Manager who voted in favor of such action.

(c) Place; Attendance. Meetings of the Board may be held at such place or places as shall be determined from time to time by resolution of the Board. At all meetings of the Board, business shall be transacted in such order as shall from time to time be determined by resolution of the Board. Attendance of a Manager at a meeting shall constitute a waiver of notice of such meeting, except where a Manager attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

(d) Meeting In Connection With Unitholder Meeting. In connection with any meeting of Unitholders, the Managers may, if a quorum is present (subject to

Section 5.3(b)(i)), hold a meeting for the transaction of business immediately after and at the same place as such meeting of the Unitholders. Notice of such meeting at such time and place shall not be required.

(e) Time, Place and Notice. Regular meetings of the Board shall be held at such times and places as shall be designated from time to time by resolution of the Board. Notice of such meetings shall not be required.

(f) Special Meetings. Special meetings of the Board may be called by any Manager, or the Principal Investors, on at least 24 hours' notice to each Manager ("Requisite Board Meeting Notice"). Such notice need not state the purpose or purposes of, nor the business to be transacted at, such meeting, except as may otherwise be required by law or provided for in this Agreement.

(g) Chairperson. For so long as Frazier holds at least 88.88% of its Closing Equity, Frazier shall designate one of the then serving Frazier Managers to serve as the chairperson of the Board (the "Chairperson"). The Chairperson shall preside at all meetings of the Board. If the Chairperson is absent at any meeting of the Board, the Managers present shall designate a member to serve as interim Chairperson for that meeting. The Chairperson, except in his or her capacity as an Officer (as applicable), shall not have the authority or power to act for or on behalf of the LLC, to do any act that would be binding on the LLC or to make any expenditure or incur any obligation on behalf of the LLC or authorize any of the foregoing. In the event that Frazier no longer holds at least 88.88% of its Closing Equity, the position of Chairperson shall be filled by a vote of the majority of the Board.

(h) Action by Written Consent or Telephone Conference. Any action permitted or required by the Delaware Act, the Certificate or this Agreement to be taken at a meeting of the Board or any committee designated by the Board may be taken without a meeting if a consent in writing, setting forth the action to be taken, is signed by all the Managers or members of such committee constituting a quorum under Section 5.3(b) or Section 5.4(a), as the case may be. Such consent shall have the same force and effect as a vote sufficient to approve such action at a meeting and may be stated as such in any document or instrument filed with the Secretary of State of Delaware, and the execution of such consent shall constitute attendance or presence in person at a meeting of the Board or any such committee, as the case may be, provided, however, that the Unitholders may record their dissent to any such action. Subject to the requirements of the Delaware Act, the Certificate or this Agreement for notice of meetings, unless otherwise restricted by the Certificate, the Managers or members of any committee designated by the Board may participate in and hold a meeting of the Board or any committee, as the case may be, by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such meeting shall constitute attendance and presence in person at such meeting, except where

a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

(i) Non-Voting Board Observers. Each Principal Investor shall be entitled to designate up to two non-voting observers affiliated with such Principal Investor (*i.e.* an officer, employee or partner of such Principal Investor or its Affiliates) (each a "Board Observer") to be present at all meetings of the Board and its committees. Each Board Observer shall be entitled to notice of meetings of the Board and its committees to the same extent, and in the same manner, as the Managers. Notwithstanding the foregoing, (i) each Board Observer agrees to hold all information so provided to such Board Observer in accordance with Section 15.2 of this Agreement, and such Board Observer shall not disclose any such information to any other Person other than in accordance with Section 15.2 of this Agreement and (ii) the Board reserves the right to withhold any information from any Board Observer and to exclude any Board Observer from any meeting or portion thereof (A) if the Board determines that providing such Board Observer with access to such information or permitting such Board Observer to attend such meeting would adversely affect the attorney-client privilege between the LLC and its counsel or would result in disclosure of trade secrets to such Board Observer, (B) if the Board determines that the individual designated as a Board Observer is a Competitor of the LLC or any of its Subsidiaries, or is employed by, manages, advises, consults with, owns, or serves as a member of the board of directors of, a Competitor of the LLC or any of its Subsidiaries, or (C) to the extent the Board determines that delivery of such information would result in a breach of any laws, rules or regulations, including any healthcare regulations. The decision of the Board with respect to the privileged nature of such information or the exclusion of a Board Observer from any meeting shall be final and binding.

5.4. Committees; Delegation of Authority and Duties.

(a) Committees; Generally. The Board shall promptly establish (i) an audit committee, (ii) a compliance committee and (iii) a compensation committee, and subject to the requirements of applicable Law or the regulations of any self-regulatory organization, each of Frazier and Providence shall be entitled to appoint a number of members of each committee of the Board that is proportional to the number of Managers that such Person is entitled to designate at the relevant time pursuant to Section 5.2(a) (subject to all applicable provisions of Section 5.2(a), applied *mutatis mutandis*); provided, that Providence shall be entitled to appoint at least one member to each committee for so long as Providence is entitled to designate a Manager pursuant to Section 5.2(a). Any of the foregoing committees, to the extent provided in the enabling resolution or in the Certificate or this Agreement, shall have and may exercise, to the extent provided in a resolution of the Board or in this Agreement, the authority of the Board. At every meeting of any of the foregoing committees, the presence of a majority of all the members thereof shall constitute a quorum (provided that at least one (1) Frazier Manager and one (1) Providence Manager must be present at a meeting to constitute a quorum for a meeting of

any committee that includes a Frazier Manager or a Providence Manager, as applicable, as a committee member and subject to all applicable provisions of Section 5.3(b) relating to a Deemed Quorum, applied *mutatis mutandis*). Minutes of all meetings of any committee of the Board shall be kept by the person designated by such committee to keep such minutes. Copies of such minutes and any writing setting forth an action taken by written consent without a meeting shall be distributed to each member of the Board promptly after such meeting is held or such action is taken. On each matter presented at a meeting of any such committee for action to be taken on such matter, each Manager on such committee shall be entitled to one vote. Except as otherwise provided in this Agreement, the affirmative vote of the members of a committee who are present at a meeting of such committee (at which a quorum is present) and who hold a majority of the votes present at such meeting shall be the act of the committee on any matter presented to the committee for action to be taken thereon at such meeting.

(b) Delegation; Generally. Subject to the terms and conditions of this Agreement (including, for the avoidance of doubt, Section 5.1(b)(iv)), the Board may, from time to time, delegate to one or more Persons (including any Manager or Officer) such authority and duties as the Board may deem advisable in addition to those powers and duties set forth in Section 5.1(b) hereof. Subject to the terms and conditions of this Agreement, the Board also may assign titles to any Manager or other individual and may delegate to such Manager or other individual certain authority and duties. Any number of titles may be held by the same Manager or other individual. Subject to the terms and conditions of this Agreement, any delegation pursuant to this Section 5.4(b) may be revoked at any time by the Board.

(c) Third-party Reliance. Any Person dealing with the LLC, other than a Unitholder, may rely on the authority of any Officer in taking any action in the name of the LLC without inquiry into the provisions of this Agreement or compliance herewith, regardless of whether that action actually is taken in accordance with the provisions of this Agreement.

5.5. Officers.

(a) Designation and Appointment. Subject to Section 5.1(b)(iv), the Board shall designate and appoint a chief executive officer of the LLC and may (but need not), from time to time, designate and appoint one or more additional persons as an Officer of the LLC. No Officer need be a resident of the State of Delaware, a Unitholder or a Manager. Any Officers so designated shall have such authority and perform such duties as the Board may, from time to time, delegate to them. The Board may assign titles to particular Officers. Unless the Board otherwise decides, if the title is one commonly used for officers of a business corporation formed, the assignment of such title shall constitute the delegation to such Officer of the authority and duties that are normally associated with that office, subject to (i) any specific delegation of authority and duties made to such Officer by the Board pursuant to the third sentence of this Section 5.5(a) or (ii) any

delegation of authority and duties made to one or more Officers pursuant to the terms of Section 5.4(b). Each Officer shall hold office until such Officer's successor shall be duly designated and shall qualify or until such Officer's death or until such Officer shall resign or shall have been removed in the manner hereinafter provided. Any number of offices may be held by the same individual. Subject to Section 5.1(b)(iv), the salaries or other compensation, if any, of the Officers and agents of the Company Group shall be fixed from time to time by the Board.

(b) Resignation; Removal. Any Officer (subject to any contract rights available to the Company Group, if applicable) may resign as such at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or if no time be specified, at the time of its receipt by the Board. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation. Any Officer may be removed as such, either with or without cause, by the Board in its discretion at any time. Subject to Section 5.1(b)(iv), any vacancy occurring with respect to any Officer position of the LLC may be filled by the Board.

ARTICLE VI

GENERAL RIGHTS AND OBLIGATIONS OF UNITHOLDERS

6.1. Limitation of Liability. Except as otherwise provided by applicable law, the debts, obligations, and liabilities of the LLC, whether arising in contract, tort, or otherwise, shall be solely the debts, obligations, and liabilities of the LLC, and no Unitholder shall be obligated personally for any such debt, obligation, or liability of the LLC solely by reason of being a Unitholder of the LLC; provided that a Unitholder shall be required to return to the LLC any Distribution made to it in clear and manifest accounting or similar error. The immediately preceding sentence shall constitute a compromise to which all Unitholders have consented within the meaning of the Delaware Act. Notwithstanding anything contained herein to the contrary, the failure of the LLC to observe any formalities or requirements relating to the exercise of its powers or management of its business and affairs under this Agreement or the Delaware Act shall not be grounds for imposing personal liability on the Unitholders for liabilities of the LLC.

6.2. Lack of Authority. No Unitholder in his, her, or its capacity as such (other than the members of the Board acting as the Board or an authorized Officer of the LLC) has the authority or power to act for or on behalf of the LLC in any manner, to do any act that would be (or could be construed as) binding on the LLC or to make any expenditures on behalf of the LLC, and, subject to Section 5.1(b)(iv), the Unitholders hereby consent to the exercise by the Board of the powers conferred on it by law and this Agreement.

6.3. No Right of Partition. No Unitholder shall have the right to seek or obtain partition by court decree or operation of law of any LLC property, or the right to own or use particular or individual assets of the LLC.

6.4. Unitholders Right to Act. For situations which the approval of any Unitholders (rather than the approval of the Board) is required, the Unitholders shall act through meetings and written consents as described in Article III and/or Section 15.3.

6.5. Right to Information.

(a) The LLC shall deliver to each Information Recipient (unless otherwise waived by the Principal Investors on behalf of all such Information Recipients):

(i) financial reports distributed by the Board from time to time in its sole discretion generally to all holders of Units;

(ii) upon the reasonable request of an Information Recipient, a current capitalization table reflecting the ownership of all holders of Units; provided, that the LLC shall only provide Information Recipients that are not Principal Investors with such capitalization information on an aggregated basis;

(iii) quarterly materials distributed to the Board; provided, that the LLC shall be entitled to withhold and/or redact such materials to the extent providing such materials would (i) be reasonably likely to adversely affect the attorney-client privilege between the LLC and its counsel, (ii) be reasonably likely to adversely affect the LLC or its Affiliates under governmental regulations or other applicable laws, (iii) be in contravention of any agreement or arrangement requiring such information to be kept confidential, (iv) result in a conflict of interest or (v) otherwise be inappropriate to provide, as reasonably determined by the Board; and

(iv) such other information and data (including such information and reports made available to any lender of the LLC or any of its Subsidiaries under any credit agreement or otherwise) with respect to the LLC and each of its Subsidiaries as may be necessary for such Information Recipient to comply with its respective reporting, regulatory, or other legal requirements and as may from time to time be reasonably requested by any such Information Recipient.

(b) The LLC shall deliver to the Ekbatani Holder (for so long as the Ekbatani Holder owns three percent (3%) or more of the LLC's outstanding Common Units):

(i) Annual Financial Statements: within seventy-five (75) calendar days from the LLC's fiscal year end;

(ii) Quarterly Financial Statements: within thirty (30) calendar days from the end of the LLC's fiscal quarter end;

(iii) A current capitalization table reflecting the ownership of all holders of Units on an aggregated basis: annually, commencing on the date hereof, and thereafter within thirty (30) calendar days of each subsequent anniversary of the date hereof (such date, the "Cap Table Delivery Date"), unless prior to such Cap Table Delivery Date the ownership percentage of any Unitholder in the LLC changes (negatively or positively) by ten percent (10%) or more, in which case within thirty (30) calendar days of such change.

6.6. Public Filing Information Rights.

(a) Information. The LLC shall provide, and Frazier and the other Unitholders shall use their reasonable best efforts to cause the LLC to provide, to Providence (including its agents, accountants, advisors, counsel and other representatives) any information with respect to the LLC that Providence reasonably requests in connection with Providence Parent's Reports, or that, in the reasonable judgment of Providence, is required to be disclosed or incorporated by reference therein, under any applicable law, rule or regulation, including, but not limited to, the following (collectively, the "Information"):

(i) audited consolidated balance sheet of the LLC at the end of each fiscal year, and the related audited statements of income, statements of stockholders' equity and statements of cash flows, which financial statements will set forth in comparative form such figures at the end of and for the previous fiscal year (other than fiscal year 2015), together with all related notes and schedules thereto, together with an opinion of the LLC's independent auditor (such information, "Annual Financial Statements");

(ii) consolidated balance sheet of the LLC at the end of each of the four quarters of each fiscal year, and the related statements of income, statements of stockholders' equity and statements of cash flows, which financial statements will set forth in comparative form such figures at the end of and for such quarter and year to date periods in the previous fiscal year, together with all related notes and schedules thereto, as reviewed (if such review is requested by Providence, at Providence's sole cost and expense) by the LLC's independent auditor (such information, "Quarterly Financial Statements");

(iii) a monthly financial reporting package that includes substantially the same information that was provided by the Company Sub to Providence each month prior to the Effective Date, including a consolidated balance sheet, statement of income (month-end, quarter-end and year-to-date), statement of cash flows and trial balance (such information, "Monthly Financial Information");

(iv) copies of any annual and other budgets and financial projections relating to the LLC;

(v) all significant deficiencies or material weaknesses in the design or operation of internal controls, any fraud that involves management or other employees of the LLC who have a significant role in the LLC's internal control over financial reporting, and any illegal act within the meaning of Section 10A(b) and (f) of the Securities Exchange Act (such information, a "Deficiency");

(vi) any development involving a prospective material change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the LLC (such information, a "Material Change"); and

(vii) any additional financial and other information and data with respect to the LLC and its business, properties, financial position, results of operations and prospects.

(b) Timing and Delivery of Information. The LLC will provide, and Frazier will use its reasonable best efforts to cause the LLC to provide, to Providence (including its agents, accountants, advisors, counsel and other representatives) the Information in a timely manner on the dates requested by Providence (but in any case, with respect to information in the possession of or that can be determined or calculated in a reasonable timeframe by, the LLC or its Subsidiaries, within five (5) business days of any request). For the avoidance of doubt, the following Information will be provided to Providence by no later than the following deadlines (the "Filing Schedule"):

(i) Annual Financial Statements: within seventy-five (75) calendar days from the LLC's fiscal year end (unless such Annual Financial Statements are required at an earlier date pursuant to requirements under Regulation SX 3-09 promulgated under the Securities Exchange Act or other applicable legal requirement);

(ii) Quarterly Financial Statements: within thirty (30) calendar days from the end of the LLC's fiscal quarter end;

(iii) Monthly Financial Information: within ten (10) Business Days following each month-end; and

(iv) Any Material Change or Deficiency: promptly after any Officer of the LLC or any member of the Board becomes aware of such matter.

(c) Independent Auditor. The LLC will use commercially reasonable efforts to cause its independent auditor to provide to Providence all necessary Information in a timely manner pursuant to Section 6.6(b).

(d) Information Standard. The LLC will use commercially reasonable efforts to cause its Quarterly Financial Statements and Annual Financial Statements to be

prepared in accordance with GAAP and to cause such financial information to fairly present, in all material respects, the financial position and results of operations of the LLC as of the dates, and for the periods, covered. The LLC will use commercially reasonable efforts to cause its agents to not publicly disclose or announce information concerning the LLC that could be reasonably expected to cause the information presented in any of Providence Parent's Reports to be untrue or incomplete in any material respect. In furtherance of the foregoing, the LLC shall not share any material, non-public information concerning the LLC with any Person who is not bound by an obligation of confidentiality to the LLC with respect to such information. Neither the LLC nor Frazier or any other Unitholder will provide any Information to Providence (including its agents, accountants, advisors, counsel and other representatives) that contains an untrue statement of a material fact, or omits to state a material fact necessary to make such information not misleading.

(e) Access and Cooperation. As requested by Providence and necessary to comply with Providence Parent's disclosure obligations, the LLC will use commercially reasonable efforts to make its Managers and officers having responsibility for its financial reporting and business areas that relate to the matters included in the Information, and its agents, accountants, advisors, counsel and other representatives, reasonably available to Providence (and its agents, accountants, advisors, counsel and other representatives) at reasonable times and places for (i) consultations and discussions regarding the Information to be included in the Reports and (ii) Providence Parent's presentations to securities analysts and at industry trade meetings and conferences, unless the LLC reasonably determines that they should not be made available for such purposes. Additionally, the LLC will use commercially reasonable efforts to cause its independent auditor to (x) perform an audit of the Annual Financial Statements and review of the Quarterly Financial Statements and provide the results thereof to Providence and the independent auditor of Providence Parent in accordance with the Filing Schedule, (y) provide the necessary consents required under the securities laws and (z) provide customary "comfort letters" in connection with any offerings of Providence Parent securities (with respect to clause (z) and to the review of the Quarterly Financial Statements pursuant to clause (x) if such review is requested by Providence, at Providence's sole cost and expense). Providence will have the right to access such records of the LLC at reasonable times and during normal business hours and will be permitted to make abstracts from, or copies of, such records.

(f) Disclosure Controls. The LLC agrees that it will maintain internal systems and procedures that will provide reasonable assurance that (i) the LLC's consolidated financial statements are reliable and timely prepared in accordance with GAAP and applicable law, (ii) all transactions are recorded as necessary to permit the preparation of the LLC's consolidated financial statements in accordance with GAAP and applicable law, (iii) the receipts and expenditures of the LLC are authorized at the appropriate level within the LLC and (iv) unauthorized use or disposition of the assets of the LLC that could have a material effect on the LLC's consolidated financial statements is prevented or detected in a timely manner.

(g) Miscellaneous. Each of the LLC, Frazier and Providence shall be responsible for its own fees, costs and expenses paid or incurred in connection with the preparation of Information and compliance with the terms of this Section 6.6, including fees, costs and expenses of such party's agents, accountants, advisors, counsel and other representatives. The LLC will indemnify Providence and its Affiliates and all of its and their respective partners, equityholders, officers, directors, employees and agents for any losses, damages, liabilities, claims, demands, judgments, penalties or fines arising out of or relating to the performance of the LLC of its obligations under this Section 6.6.

6.7. Non-Competition. No Unitholder (other than current or former Principal Investors and any Managers that are not employees of the Company Group) shall, during the period of time that he, she or it owns Units in the LLC and for one year following the sale or Permitted Transfer thereof (the "Restricted Period"), directly or indirectly, within or with respect to any country where the Company Group does business, engage, without the prior express written consent of the LLC, in any business or activity, whether as an employee, consultant, partner, principal, agent, representative, director, equityholder or in any other individual, corporate or representative capacity, or render any services or provide any advice to any business, activity, service, person or entity, if such business, activity, service, person or entity, competes with the Business (a "Competing Business"). For purposes of this Section 6.7 only, the term "Business" shall mean the business of contracting with health plans to provide in-home care to Commercial, Managed Medicaid and Medicare Advantage members or other like services as the Company Group or in any other business engaged in by the Company Group or any potential business which has been submitted to the Board for consideration and is under consideration by the Board. In addition, no Unitholder (other than current or former Principal Investors) shall, during the Restricted Period, meaningfully assist, help or otherwise support, without the prior express written consent of the LLC, any Person or activity, whether as an employee, consultant, partner, principal, agent, representative, director, stockholder or in any other individual, corporate or representative capacity, to create, commence or otherwise initiate, or to develop, enhance or otherwise further, any business or activity if such business or activity competes (or is reasonably likely to compete) with the Business. Notwithstanding the foregoing, no Unitholder shall be prohibited during the Restricted Period from being a passive investor where the Unitholder owns not more than two percent (2%) of the outstanding capital stock of any publicly-held company. Notwithstanding the foregoing, this Section 6.7 shall not apply to the Principal Investors.

6.8. Non-Solicitation. During the Restricted Period, no Unitholder shall induce any Person in the senior management role at the Company Group to (i) terminate such employment or (ii) accept employment, or enter into any consulting arrangement, with any Person other than a member of the Company Group.

6.9. Statements by the Unitholder. Unless required by applicable law, rule or regulation or any recognized subpoena power, no Unitholder (other than the Principal

Investors and any former Principal Investor not controlled by a Competitor) shall at any time make any statement or representation, written or oral, which such Unitholder (other than the Principal Investors and any former Principal Investor not controlled by a Competitor) knows or should know will, or which such Unitholder (other than current or former Principal Investors) knows or should know is reasonably likely to, impair or adversely affect in any way the reputation, goodwill, business, customer or supplier relationships, or public relations of the Company Group, and/or any of their respective partners, directors, employees or officers; provided that a former Principal Investor controlled by a Competitor shall not be prohibited from engaging in ordinary course business activities. In the event that any Unitholder (other than the Principal Investors and any former Principal Investor not controlled by a Competitor) becomes legally compelled (by oral questions, interrogatories, request for information or documents, subpoena, criminal or civil investigative demand or similar process) to make any such statements or representations, then prior thereto and to the extent permitted by law, the Unitholder will provide the LLC with prompt written notice so that the LLC may seek (with such Unitholder's cooperation) a protective order or other appropriate remedy and/or waive compliance with the provisions of this Section 6.9. In the event that such protective order or other remedy is not obtained, then the applicable Unitholder will only make such statements or representations which the Unitholder is advised by counsel are legally required, and will cooperate with the LLC in the LLC's efforts to obtain reliable assurance that confidential treatment will be accorded to any such statements or representations. Notwithstanding the foregoing, this Section 6.9 shall not apply to the Principal Investors.

6.10. Publicity. Each Unitholder shall, subject to provisions of this Section 6.10, consult with and obtain the approval of each of the Principal Investors before issuing any press release or other public announcement with respect to this Agreement or the matters contemplated hereby, and no such Unitholder shall issue or cause to be issued any such press release prior to such consultation and approval, except to the extent required or appropriate in connection with applicable law, rule, regulation, governmental body or stock exchange (including regulatory and self-regulatory bodies), in which case the Unitholder proposing to issue such press release or make such public announcement shall use commercially reasonable efforts to consult in good faith with the Principal Investors to the extent practicable before issuing any such press release or making any such public announcement and allow the other party reasonable time (taking into account the circumstances, including exigent circumstances) to comment on, such release or announcement in advance of such issuance, and the party will consider such comments in good faith (the "Consultation Rights"). For the avoidance of doubt, this Section 6.10 shall not prohibit Providence from issuing any Reports or filing this Agreement with the Securities and Exchange Commission, or otherwise limit the rights of the Principal Investors to disclose information to the extent permitted by Section 15.2, in each case, in compliance with this Section 6.10 (including the Consultation Rights set forth herein) and Section 15.2.

6.11. Transactions Between the LLC and the Unitholders.

(a) Except as specifically set forth herein, without the approval of the Board and without limiting Section 5.1(b)(iv), the LLC shall not, and shall cause its Subsidiaries not to, directly or indirectly, enter into or commit to enter into any transaction with any Unitholder or any of its Affiliates, other than (i) this Agreement and the Advisory Agreement, subject to the provisions herein and therein regarding amendment, termination or waiver under any such agreements, (ii) any transaction specifically contemplated by this Agreement, (iii) any agreements or arrangements with employees of the LLC or its Subsidiaries, subject to Section 5.1(b)(iv), or (iv) any transaction between the LLC or any of its Subsidiaries, on the one hand, and an operating business of any of the Principal Investors or any of their respective Affiliates, on the other hand, which is on arms' length terms and in the ordinary course of business. Notwithstanding any other provision hereof, no Unitholder may purchase, assume, or otherwise acquire any indebtedness of the LLC or its Subsidiaries (or any participations related thereto) without receiving the written approval of each Principal Investor.

(b) Except as specifically set forth herein, without the approval of the Ekbatani Holder and without limiting Section 5.1(b)(iv), the LLC shall not, and shall cause its Subsidiaries not to, directly or indirectly, enter into or commit to enter into any agreements or arrangements with the Principal Investors or any of their respective Affiliates that obligate the LLC or any of its Subsidiaries to pay any management or other fees or payments of any kind to the Principal Investors or any of their respective Affiliates, other than this Agreement and the Advisory Agreement (which Advisory Agreement may not be amended to alter the aggregate economics contemplated therein following the date hereof without the prior written consent of the Ekbatani Holder).

6.12. Initial Public Offering; Registration Rights Agreement. Prior to the commencement of any initial Public Offering (i), the Board shall form a committee comprised of one representative of each of the Principal Investors which shall be responsible for facilitating coordination among the Unitholders with respect to sell-down activities and (ii) the LLC or its applicable Subsidiary and the Unitholders shall enter into a Registration Rights Agreement on customary terms negotiated in good faith by the Principal Investors consistent with those forth in Exhibit A (the "Registration Rights Agreement").

6.13. Interests in Providence. Frazier Healthcare Partners ("Frazier Partners") shall not, and shall cause its controlled Affiliates not to, without the prior written consent of Providence, for so long as Mercury Fortuna Buyer, LLC or any of its Affiliates is a Unitholder, directly or indirectly, acquire ownership (including as a beneficial owner) of any securities or indebtedness of Providence Parent or its Subsidiaries, or any options or other rights to acquire any such ownership from a third party or otherwise, or participate in or encourage the formation of any group that owns or seeks or offers to acquire beneficial ownership of any securities or indebtedness of Providence Parent or its Subsidiaries;

provided that (i) Frazier Partners and its Affiliates and their respective personnel may own up to 1% of such securities or indebtedness in the aggregate as passive investments and (ii) for the avoidance of doubt, the restrictions set forth in this Section 6.13 shall not apply, directly or indirectly, to any equityholders of Mercury Fortuna Buyer, LLC or any of its Affiliates to the extent that such equityholders are not Affiliated with Frazier Partners.

ARTICLE VII

EXCULPATION AND INDEMNIFICATION

7.1. Exculpation. No Manager or Tax Matters Partner shall be liable to any Officer, Manager, the LLC or to any Unitholder for any loss suffered by the LLC unless such loss is caused by such Person's gross negligence, willful misconduct or violation of law. The Managers and Tax Matters Partner shall not be liable for errors in judgment or for any acts or omissions that do not constitute gross negligence, willful misconduct or violation of law. Any Manager or Tax Matters Partner may consult with counsel and accountants in respect of LLC affairs, and provided such Person acts in good faith reliance upon the advice or opinion of such counsel or accountants, such Person shall not be liable for any loss suffered by the LLC in reliance thereon.

7.2. Right to Indemnification. Subject to the limitations and conditions as provided in this Article VII, each Person who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit, claim, litigation or proceeding, whether civil, criminal, administrative, arbitrative (hereinafter a "Proceeding"), or any appeal in such a Proceeding or any inquiry or investigation that could lead to such a Proceeding, by reason of the fact that he or she, or a Person of whom he or she is the legal representative, is or was a Unitholder, Manager, Tax Matters Partner or Officer, or while a Unitholder, Manager, Tax Matters Partner or Officer is or was serving at the request of the LLC as a manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise shall be indemnified by the LLC to the fullest extent permitted by the Delaware Act, as the same exist or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the LLC to provide broader indemnification rights than said law permitted the LLC to provide prior to such amendment) against losses, damages, liabilities, claims, demands, judgments, penalties (including excise and similar taxes and punitive damages), fines, settlements and reasonable expenses (including attorneys' fees and costs of investigating the facts related to such Proceeding and preparing for participation therein) actually incurred by such Person as a result of, arising out of or in connection with such Proceeding, and indemnification under this Article VII shall continue as to a Person who has ceased to serve in the capacity which initially entitled such Person to indemnity hereunder; provided, however, that such Person shall not be entitled to indemnification hereunder to the extent

that any of the foregoing is determined by a final, nonappealable order of a court of competent jurisdiction to have been primarily caused by the gross negligence, bad faith or willful misconduct or criminal activity (evidenced by a final, nonappealable felony conviction) of such Person. The rights granted pursuant to this Article VII shall be deemed contract rights, and no amendment, modification or repeal of this Article VII shall have the effect of limiting or denying any such rights with respect to actions taken or Proceedings arising prior to, on or after any such amendment, modification or repeal. It is expressly acknowledged that the indemnification provided in this Article VII could involve indemnification for negligence or under theories of strict liability.

7.3. Advance Payment. Reasonable expenses incurred by a Person of the type entitled to be indemnified under Section 7.2 who was, is or is threatened to be made a named defendant or respondent in a Proceeding shall be paid by the LLC in advance of the final disposition of the Proceeding upon receipt of an undertaking by or on behalf of such Person to repay promptly such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the LLC.

7.4. Indemnification of Employees and Agents. The LLC, by adoption of a resolution of the Board, may indemnify and advance expenses to an employee or agent of the LLC or its Subsidiaries to the same extent and subject to the same conditions under which it may indemnify and advance expenses to Persons who are not or were not Managers, Tax Matters Partner or Officers but who are or were serving at the request of the LLC as a manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in such a capacity or arising out of his or her status as such a Person to the same extent that it may indemnify and advance expenses to Managers, the Tax Matters Partner and Officers under this Article VII.

7.5. Appearance as a Witness. Notwithstanding any other provision of this Article VII, the LLC shall pay or reimburse reasonable out-of-pocket expenses incurred by a Manager, Tax Matters Partner or Officer in connection with his or her appearance as a witness or other participation in a Proceeding at a time when he is not a named defendant or respondent in the Proceeding.

7.6. Nonexclusivity of Rights. The right to indemnification and the advancement and payment of expenses conferred in this Article VII shall not be exclusive of any other right which a Manager, Tax Matters Partner, Officer or other Person indemnified pursuant to Section 7.2 may have or hereafter acquire (i) under any law (common or statutory), (ii) under any provision of the Certificate or this Agreement, (iii) pursuant to the Advisory Agreement or (iv) by vote of Unitholders or disinterested Managers or otherwise.

7.7. Insurance. The LLC shall purchase and maintain insurance in the amount and of the type customarily obtained for companies comparable to the LLC and its Subsidiaries, at its expense, to protect itself and any Person who is or was serving as a Manager, Tax Matters Partner, Officer or agent of the LLC or is or was serving at the request of the LLC as a manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise against any expense, liability or loss, whether or not the LLC would have the power to indemnify such Person against such expense, liability or loss under this Article VII.

7.8. Savings Clause. If this Article VII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the LLC shall nevertheless indemnify and hold harmless each Manager, Tax Matters Partner, Officer or any other Person indemnified pursuant to this Article VII as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative to the full extent permitted by any applicable portion of this Article VII that shall not have been invalidated and to the fullest extent permitted by applicable law.

7.9. Certain Dealings and Opportunities. Each Unitholder acknowledges and agrees that: (a) each current or former Principal Investor, their respective Affiliates and their respective stockholders, directors, officers, controlling Persons, partners, members, and employees (collectively, the "Investor Group") (i) have or may have investments or other business relationships with entities engaged in other businesses (including those which may compete with the business of the LLC and any of its Subsidiaries or areas in which the LLC or any of its Subsidiaries may in the future engage in business) and in related businesses other than through the LLC or any of its Subsidiaries, (ii) may develop a strategic relationship with businesses that are or may be competitive with the LLC or any of its Subsidiaries and (iii) will not be prohibited by virtue of their direct or indirect investment in the LLC or its Subsidiaries, or their service on the Board or any Subsidiary's board of directors (or similar governing body), or for any other reason, from pursuing and engaging in any such activities; (b) neither the LLC or any of its Subsidiaries nor any other Unitholder shall have any right or expectation in or to such other ventures or activities or to the income or proceeds derived therefrom; and (c) no member of the Investor Group shall be obligated to present any particular investment or business opportunity to the LLC or any of its Subsidiaries even if such opportunity is of a character which, if presented to the LLC, could be undertaken by the LLC or any of its Subsidiaries, and each member of the Investor Group shall have the right to undertake any such opportunity for itself for its own account or on behalf of another or to recommend any such opportunity to other Persons. Each of the LLC and the Unitholders hereby waives, to the fullest extent permitted by applicable law, any claims and rights that such Person may otherwise have in connection with the matters described in this Section 7.9. Notwithstanding anything to the

contrary in this Section 7.9, the rights of the Investor Group under this Section 7.9 shall be subject to the confidentiality obligations set forth in Section 15.2.

ARTICLE VIII

BOOKS, RECORDS, ACCOUNTING AND REPORTS

8.1. Records and Accounting. The LLC shall keep, or cause to be kept, appropriate books and records with respect to the LLC's affairs, including all books and records necessary to provide any information, lists, and copies of documents required to be provided pursuant to Section 8.3 or pursuant to applicable laws. All matters concerning (i) the determination of the relative amount of allocations and distributions among the Unitholders pursuant to Articles III and IV and (ii) accounting procedures and determinations, and other determinations not specifically and expressly provided for by the terms of this Agreement, shall be determined by the Board (subject to Section 5.1(b)(iv)), whose determination shall be final and conclusive as to all of the Unitholders absent manifest clerical error.

8.2. Fiscal Year. The fiscal year (the "Fiscal Year") of the LLC shall constitute the 12-month period ending on December 31 of each calendar year, or such other annual accounting period as may be established by the Board; provided, that the written consent of each of the Principal Investors shall be required to change the Fiscal Year. The taxable year of the LLC shall be the same as the Fiscal Year, unless otherwise required by the Code or applicable tax law.

8.3. Tax Information. The LLC shall use commercially reasonable efforts to deliver or cause to be delivered, within 75 days after the end of each Fiscal Year, to each Person who was a Unitholder at any time during such Fiscal Year all information necessary for the preparation of such Person's United States federal and state income tax returns.

8.4. Transmission of Communications. Each Person that owns or controls Units on behalf of, or for the benefit of, another Person or Persons shall be responsible for conveying any report, notice, or other communication received from the Board to such other Person or Persons.

8.5. LLC Funds. The Board and Officers may not commingle the LLC's funds with the funds of any Unitholder or Manager.

ARTICLE IX

TAXES

9.1. Tax Returns. The LLC shall prepare and file all necessary federal and state income tax returns, including making the elections described in Section 9.2. Each

Unitholder shall furnish to the LLC all pertinent information in its possession relating to LLC operations that is necessary to enable the LLC's income tax returns to be prepared and filed. No later than 30 days prior to the due date (including valid extensions) for filing IRS Form 1065 with respect to the LLC, the LLC shall furnish to each Principal Investor a draft copy of such Form 1065 and such Principal Investor's associated Schedule K-1 (collectively, the "Draft Tax Forms"). No later than 10 Business Days after receipt of such Draft Tax Forms, each Principal Investor shall notify the LLC whether it approves such Draft Tax Forms. If any Principal Investor does not so approve, it shall attempt to resolve any disagreement with the other Principal Investor. If no such resolution is reached by the due date (including valid extensions) for filing Form 1065 and associated Schedules K-1, the LLC shall file such form and schedules in the manner approved by the Principal Investor with the largest number of Units as of such date, but the other Principal Investor shall not be required to report on its own tax returns in a manner consistent with such filed Form 1065 and Schedules K-1. Except as otherwise provided in this Section 9.1, all Unitholders agree not to take any position on any of their tax returns that are inconsistent with the positions taken in the LLC's filed income tax returns.

9.2. Tax Elections. Subject to the Subscription Agreement, Section 2.9 and Section 5.1(b)(iv), the Tax Matters Partner (as defined below) shall make any election on behalf of the LLC that the Tax Matters Partner deems appropriate in its reasonable discretion. Notwithstanding the preceding sentence, the Tax Matters Partner shall make a Code Section 754 election upon the request of any Investor in connection with a Transfer of Units in compliance with Article X below.

9.3. Tax Matters Partner. Frazier (or an Affiliate so designated by Frazier) shall be the partnership representative of the LLC, in accordance with Section 6223 of the Code, and the tax matters partner of the LLC pursuant to Section 6231(a)(7) of the Code as in effect before the enactment of the Bipartisan Budget Act of 2015 (and, in each case, any similar provision under any state or local tax laws) (the "Tax Matters Partner"). The Tax Matters Partner shall cause the LLC to elect the application of Section 6226 of the Code with respect to any Imputed Underpayment Amount; provided, that the procedures set forth in applicable Treasury Regulations or other guidance under applicable Tax law shall permit Frazier to push any reporting or other obligation under Section 6226 of the Code through any upper tier partnerships that hold a direct or indirect interest in Frazier to the direct and indirect equityholders in Frazier, in each case, without Frazier or such equityholders incurring material additional Taxes, costs or expenses; provided, further, that if the requirements set forth in the immediately preceding proviso are not satisfied, the LLC shall pay any Imputed Underpayment Amount in accordance with Sections 6225(a) and 6232 of the Code, unless Frazier and Providence agree to use an alternative approach permitted under the Code and applicable Treasury Regulations. Each Unitholder hereby agrees (i) to take such actions as may be required to effect Frazier's (or an Affiliate so designated by Frazier) designation as the Tax Matters Partner and (ii) to cooperate to provide any information or take such other actions as may be reasonably requested by the

Tax Matters Partner in order to determine whether any Imputed Underpayment Amount may be modified pursuant to Section 6225(c) of the Code. A Unitholder's obligation to comply with this Section 9.3 shall survive the transfer, assignment or liquidation of such Unitholder's interest in the LLC. Notwithstanding the foregoing, for so long as Providence and its Affiliates own at least twenty percent (20%) of Providence's Closing Equity, the Tax Matters Partner shall not (x) settle a Tax controversy that could reasonably be expected to have a material adverse effect on Providence or its Affiliates without Providence's written consent, which consent shall not be unreasonably withheld, conditioned or delayed or (y) choose a litigation forum other than the United States Tax Court for a federal Tax proceeding (where a choice for a federal Tax proceeding is available to the LLC and the choices include such forum). The Tax Matters Partner shall keep Providence informed of all material Tax issues arising in connection with a Tax proceeding affecting the LLC and shall permit Providence to participate, at its own expense, in all Tax proceedings with respect to the LLC which could reasonably be expected to adversely affect Providence's or its Affiliates' Tax liability, including audits, administrative appeals and judicial proceedings.

ARTICLE X

TRANSFERS

10.1. Transfers by Unitholders.

(a) No Unitholder shall Transfer any Units except in compliance with this Article X. Except for Transfers to Permitted Transferees or Transfers pursuant to Sections 10.4 (solely as a Tag-Along Unitholder), 10.6 (subject to Section 5.1(b)(iv)) or to the LLC or a Subsidiary thereof pursuant to Sections 3.10, 3.11, or 3.12, no Unitholder shall Transfer, or offer or agree to Transfer, all or any part of any interest in such Person's Units without the prior written consent of the Board and the Principal Investors, which consent may be withheld in the Board's or either Principal Investor's sole discretion, as applicable. With the Board and the Principal Investors' consent, a Unitholder may Transfer all or any part of such Unitholders' Units, subject to compliance with this Agreement (including Section 10.1(c) and Section 10.4).

(b) Notwithstanding the foregoing, (x) each current or former Principal Investor may Transfer all or any part of any interest in such Principal Investor's Units without the consent of the Board or the other current Principal Investor (if any) following the earlier of (i) an initial Public Offering and (ii) the third (3rd) anniversary of the Effective Date, subject, in each case, to compliance with this Agreement (including Sections 10.1(c), 10.4, 10.5 and 10.7), and applicable securities laws and (y) each Unitholder (other than the current and former Principal Investors) may (subject to compliance with this Agreement (including Sections 10.1(c) and 10.7) and the Registration Rights Agreement), following the initial Public Offering, Transfer such Unitholder's Units, but only to the extent such Transfer would not result in the Relative Ownership Percentage of such Unitholder

immediately following such Transfer being less than the Relative Ownership Percentage of the Principal Investors immediately following such Transfer.

(c) Each transferee of Units or other interest in the LLC shall, as a condition precedent to such Transfer, execute a counterpart to this Agreement pursuant to which such transferee shall agree to be bound by the provisions of this Agreement and comply with Section 11.2.

(d) Any Imputed Underpayment Amount that is properly allocable to a transferor of an interest, as reasonably determined by the Board, shall be treated as a Withholding Payment with respect to the applicable transferee in accordance with Section 4.6(f). Furthermore, as a condition to any Transfer, each transferor shall be required to agree (i) to continue to comply with the provisions of Section 9.3 notwithstanding such Transfer and (ii) to indemnify and hold harmless the LLC and the Board from and against any and all liability with respect to the transferee's Withholding Payments resulting from Imputed Underpayment Amounts attributable to the transferor to the extent that the transferee fails to do so.

(e) As a condition to any Transfer, (A) if the transferor of Units who proposes to Transfer such Units (or if such transferor is a disregarded entity for U.S. federal income tax purposes, the first direct or indirect beneficial owner of such transferor that is not a disregarded entity (the "Transferor's Owner")) is a "United States person" as defined in Section 7701(a)(30) of the Code, then such transferor (or Transferor's Owner, if applicable) shall complete and provide to both of the transferee and the LLC, a duly executed affidavit in the form provided to such transferor by the LLC, certifying, under penalty of perjury, that the transferor (or Transferor's Owner, if applicable) is not a foreign person, nonresident alien, foreign corporation, foreign partnership, foreign trust, or foreign estate (as such terms are defined under the Code and applicable United States Treasury Regulations) and the transferor's (or Transferor's Owner's, if applicable) United States taxpayer identification number, or (B) if the transferor of Units who proposes to Transfer such Units (or if such transferor is a disregarded entity for U.S. federal income tax purposes, the Transferor's Owner) is not "United States person" as defined in Section 7701(a)(30) of the Code, then such transferor and transferee shall jointly provide to the LLC written proof reasonably satisfactory to the Board that any applicable withholding tax that may be imposed on such Transfer (including pursuant to Sections 864 and 1446 of the Code) and any related tax returns or forms that are required to be filed, have been, or will be, timely paid and filed, as applicable.

10.2. Effect of Assignment.

(a) Subject to Section 10.1, any Unitholder who shall assign any Units or other interest in the LLC shall cease to be a Unitholder of the LLC with respect to such Units or other interest and shall no longer have any rights or privileges of a Unitholder with respect to such Units or other interest.

(b) Subject to Section 10.1, any Person who acquires in any manner whatsoever any Units or other interest in the LLC, irrespective of whether such Person has accepted and adopted in writing the terms and provisions of this Agreement, shall be deemed by the acceptance of the benefits of the acquisition thereof to have agreed to be subject to and bound by all of the terms and conditions of this Agreement that any transferor of such Units or other interest in the LLC was subject to or by which such transferor was bound (it being understood that such transferee may no longer be eligible for certain rights or privileges with respect to such Units or other interest that, pursuant to the terms hereof, the transferor had by reason of the transferor's status as a Principal Investor, subject to Section 10.7 or as otherwise expressly provided in this Agreement).

10.3. Restrictions on Transfer.

(a) In order to permit the LLC to qualify for the benefit of a "safe harbor" under Code Section 7704, notwithstanding anything to the contrary in this Agreement, no Transfer of any Unit or economic interest shall be permitted or recognized by the LLC or the Board (within the meaning of Treasury Regulation Section 1.7704-1(d)) if and to the extent that such Transfer would cause the LLC to have more than 100 partners (within the meaning of Treasury Regulation Section 1.7704-1(h), including the look-through rule in Treasury Regulation Section 1.7704-1(h)(3)).

(b) Notwithstanding anything herein to the contrary, except with the consent of the Principal Investors, no Unitholder shall Transfer any Units to any Competitor or strategic investor unless such Transfer is made (i) pursuant to an Approved Sale in accordance with Section 10.6 or (ii) to the public pursuant to (x) a Public Offering, or (y) following a Public Offering, pursuant to Rule 144, in either case of (x) or (y), in a market transaction and not a privately negotiated block trade.

10.4. Participation Rights.

(a) Prior to an initial Public Offering, at least thirty (30) days prior to any sale or Transfer of Units by either Principal Investor (including any Transfer of Units to the LLC or any of its Subsidiaries (whether by redemption, repurchase or otherwise)) (the "Tag-Along Seller"), the Tag-Along Seller shall deliver a written notice (the "Tag-Along Notice") to the other Unitholders (the "Tag-Along Unitholders") specifying in reasonable detail the identity of the prospective transferee(s) and the terms and conditions of the sale, including the number of Units to be sold and the cash price therefor (the "Tag-Along Offer"). The Tag-Along Unitholders may elect to participate in the contemplated sale by delivering written notice (a "Tag-Along Response Notice") to the Tag-Along Seller within ten (10) days after delivery of the Tag-Along Notice. If any Tag-Along Unitholders have elected to participate in such sale, the Tag-Along Seller and such Tag-Along Unitholders will be entitled to sell in the contemplated Tag-Along Offer, at the same price and on the same terms, a number of Units to be sold equal to the product of (A) such Person's Tag-Along Pro Rata Percentage multiplied by (B) the number of Units to be sold

in the contemplated sale. If at the termination of such thirty (30)-day period any Unitholder shall not have elected to participate in the Tag-Along Offer, such Unitholder will be deemed to have waived its rights under this Section 10.4 with respect to such Tag-Along Offer. Each Tag-Along Unitholder's right to participate in such Tag-Along Offer shall be conditioned upon (i) the consummation of the transactions contemplated in the Tag-Along Notice with the prospective transferee(s) named therein, (ii) each Tag-Along Unitholder's execution and delivery of all transfer agreements and other related documents as the Tag-Along Seller is required to execute and deliver in connection with such sale (including by making therein representations and warranties as to (x) such Tag-Along Unitholder's ownership of his, her or its Units to be sold free and clear of all Liens (other than any imposed by this Agreement), (y) such Tag-Along Unitholder's power and authority to effect such sale and certificate, if any, representing the applicable Units (together with an executed stock (or similar) power or other conveyance document) and (z) such matters pertaining to compliance with securities laws as the prospective transferee(s) may reasonably require) and (iii) any Tag-Along Unitholder shall not be liable for the inaccuracy of any representation or warranty made by any other person (unless such representation is made jointly with such other person) in connection with the Tag-Along Offer; provided that each Tag-Along Unitholder shall (a) be required (i) to bear his, her or its proportionate share of any escrows, holdbacks or adjustments in purchase price and any transaction expenses and (ii) to make such customary representations, warranties and covenants and enter into such agreements as are customary for transactions of the nature of the Tag-Along Offer, in each case on terms no less favorable to the Tag-Along Unitholders than those disclosed in the Tag-Along Notice and (b) benefit from all of the same provisions of the definitive agreements as the Tag-Along Seller, it being understood that any liability of any Tag-Along Unitholder for indemnification or similar post-closing obligations shall not exceed a proportional share of any such liability based on such Tag-Along Unitholder's share of the aggregate consideration in the Tag-Along Offer. Notwithstanding anything in this Section 10.4 to the contrary, no Tag-Along Unitholder (other than the Management Unitholders) shall be required to execute or enter into a non-compete, non-solicitation or other similar restrictive covenant of any kind in connection with such Tag-Along Offer other than a customary covenant (with customary and reasonable carveouts consistent with those contained in this Agreement) with respect to the protection of confidential or proprietary information; provided, however, notwithstanding the foregoing, in no event shall the Rollover Holders be obligated to enter a non-compete, non-solicitation or other similar restrictive covenant of any kind in connection with such Tag-Along Offer that contains terms that are more restrictive than those set forth in the Restrictive Covenant Agreements.

(b) The Tag-Along Seller will use commercially reasonable efforts to obtain the agreement of the prospective transferee(s) to the participation of the Tag-Along Unitholders in any contemplated Tag-Along Offer, and the Tag-Along Seller will not sell any of its Units to the prospective transferee(s) unless (i) the prospective transferee(s) allow the participation of the Tag-Along Unitholders or (ii) the Tag-Along Seller purchases the

number of Units from the Tag-Along Unitholders that the Tag-Along Unitholders would have been entitled to sell pursuant to Section 10.4(b)(i) for the amount of consideration per Unit to be paid to the Tag-Along Seller by the prospective transferee(s).

(c) Notwithstanding anything to the contrary in any other provision of this Agreement, this Section 10.4 shall not apply to (i) any Transfer of Units held by either Principal Investor to or among its Affiliates (excluding, for the avoidance of doubt, any member of the Company Group), (ii) any Transfer pursuant to Section 10.6 or (iii) any Transfer in connection with a Public Offering.

(d) The restrictions contained in this Agreement will continue to be applicable to the Units after any Transfer of such Units to transferee(s) pursuant to this Section 10.4 and, as a condition precedent to any such Transfer, the transferee(s) of such Units must agree in writing, in form and substance reasonably satisfactory to the LLC, to be bound by the provisions of this Agreement.

(e) Notwithstanding anything contained in this Section 10.4, there shall be no liability on the part of the Tag-Along Seller to the Tag-Along Unitholders (other than the obligation to return any limited powers-of-attorney (and all copies thereof) together with all certificates (if any) evidencing Units, as the case may be, received by the Tag-Along Seller) if the sale of Units pursuant to a Tag-Along Offer under this Section 10.4 is not consummated for whatever reason. Whether to effect a sale of Units pursuant to this Section 10.4 by the Tag-Along Seller is in the sole discretion of the Tag-Along Seller.

(f) Notwithstanding the requirements of this Section 10.4, the Tag-Along Seller may Transfer Units at any time without complying with the requirements of Section 10.4(a) so long as such Transfer is solely for cash and the Tag-Along Seller deposits into escrow with an independent third party at the time of sale that amount of the consideration received in the sale equal to the "Tag-Along Escrow Amount." The "Tag-Along Escrow Amount" shall equal that amount of consideration that all the Tag-Along Unitholders would have been entitled to receive if all such Tag-Along Unitholders had the opportunity to participate in the sale and to sell all of the Units which they would have been entitled to include in the sale, determined as if each such Tag-Along Unitholder (i) delivered a Tag-Along Response Notice to the Tag-Along Seller in the time period set forth in Section 10.4(a) and (ii) proposed to include all of its Units which it would have been entitled to include in the sale.

No later than the date of the sale, the Tag-Along Seller shall notify the LLC in writing of the proposed sale. Such notice (the "Tag-Along Escrow Notice") shall set forth the information required in the Tag-Along Notice, and in addition, such notice shall state the name of the escrow agent and the account number of the escrow account. The LLC shall promptly, and in any event within ten days of the date the LLC delivered or caused to be delivered, the Tag-Along Escrow Notice, deliver or cause to be delivered the Tag-Along Escrow Notice to each applicable Tag-Along Unitholder.

A Tag-Along Unitholder may exercise the tag-along right described in this Section 10.4(f) by delivery to the Tag-Along Seller within 10 days of the date the LLC delivered or caused to be delivered the Tag-Along Escrow Notice, of (i) a written notice specifying the number of Units it proposes and is entitled to sell (which such number shall not exceed such Tag-Along Unitholder's *pro rata* share determined as provided in the first paragraph of this Section 10.4(f)), and (ii) the certificates representing such securities, if any, with transfer powers duly endorsed in blank.

Promptly after the expiration of the thirtieth (30th) day after the LLC has delivered or caused to be delivered the Tag-Along Escrow Notice, (i) the Tag-Along Seller shall purchase that number of Units as the Tag-Along Seller would have been required to include in the sale had the Tag-Along Seller complied with the provisions of Section 10.4(a), (ii) the LLC shall cause to be released from the escrow to the Tag-Along Unitholders from whom the Tag-Along Seller purchases Units pursuant to clause (i) of this paragraph the applicable amount of consideration due to such Tag-Along Unitholders together with any interest thereon, if any, and (iii) all remaining funds and other consideration held in escrow shall be released to the Tag-Along Seller.

(g) The provisions of this Section 10.4 shall terminate upon the consummation of an initial Public Offering.

(h) In the event any Principal Investor sell less than 100% of their LLC Interests in the LLC pursuant to this Section 10.4, joining "pro rata in such sale" (or similar phrases) shall be based on (i) relative Common Units and (ii) after giving effect to any vesting, forfeiture or retention of Value Units in accordance with the provisions of this Agreement as of the date of such sale, the vested Value Units of participating Other Unitholders (with applicable adjustments made for Benchmark Amounts and other appropriate provisions of this Agreement).

10.5. First Negotiation Rights. Subject to Sections 10.2, 10.3 and 10.4 (each of which shall continue to apply to Transfers pursuant to this Section 10.5), prior to an initial Public Offering, a Principal Investor desiring to Transfer any Units (other than to a Permitted Transferee, in connection with an initial Public Offering or in connection with a Tag-Along Sale or a Drag-Along Sale, in each case, pursuant to the terms of this Agreement and the Registration Rights Agreement) (such Principal Investor, the "Transferring Unitholder") shall give written notice (the "Negotiation Notice") to the other Principal Investor. The delivery of a Negotiation Notice shall begin a 180-day period during which (i) the Transferring Unitholder shall not conduct negotiations or discussions concerning the contemplated Transfer with any prospective transferees (other than the LLC or the other Principal Investor) and (ii) the Transferring Unitholder, the LLC and the other Principal Investor (the "Negotiation Parties") will negotiate in good faith for the Transfer to one or more of the Negotiation Parties of any or all Units held by the Transferring Unitholder. If by the expiration of such 180-day period no such Transfer to one or more of the Negotiation Parties has been negotiated (unless the Transferring Unitholder has otherwise agreed, at its

election, in writing), then during the 180-day period following expiration of such 180-day period, the Transferring Unitholder may Transfer its Units to any third party at any price subject to the terms and conditions of this Agreement (including, for the avoidance of doubt, Sections 10.2, 10.3, 10.4 and 10.6), but without needing to provide any additional Negotiation Notice.

10.6. Drag-Along Rights.

(a) In connection with an Approved Sale, the Principal Investors (or if such Approved Sale is approved by one Principal Investor, such Principal Investor) may elect to require all other Unitholders to vote all Units then held by such Unitholders in favor of such Approved Sale and to Transfer all or a portion of such Unitholder's Units in connection with such Approved Sale. In such case, each Unitholder shall vote for, consent to and raise no objections against such Approved Sale. If the Approved Sale is structured as a (i) merger or consolidation, each Unitholder shall waive any dissenters' rights, appraisal rights or similar rights in connection with such merger or consolidation or (ii) sale of Units, each Unitholder shall agree to sell all of such Unitholder's Units or rights to acquire Units on the terms and conditions approved by the Principal Investors (or if such Approved Sale is approved by one Principal Investor, such Principal Investor), subject to this Section 10.6. Each Unitholder shall be obligated to fully participate in an Approved Sale (on a pro rata basis to the extent that not all of the LLC's Units are being transferred in the Approved Sale), and shall be required to exercise all warrants, rights and options, and convert all convertible securities to the extent required by the Principal Investors (or if such Approved Sale is approved by one Principal Investor, such Principal Investor).

(b) In the event of an Approved Sale:

(i) each Unitholder shall, within fifteen (15) days following written request from the LLC, deliver to the LLC certificates or other instruments evidencing all Units held by such Unitholder, duly endorsed, together with all other documents required to be executed in connection with such Approved Sale or, if such delivery is not permitted by applicable law, an unconditional agreement to deliver such Units pursuant to this Section 10.6(b) at the closing for such Approved Sale against delivery to such Unitholder of the consideration therefor;

(ii) each Unitholder shall receive in exchange for each Unit held by such Unitholder the same portion of the aggregate consideration from such sale or exchange as each other Unitholder receives in respect of each of its Units and, if the consideration from such sale or exchange is in the form of securities, then each Unitholder shall be entitled to receive the same form of securities and the same amount of securities per Unit as each other Unitholder and if any Unitholders are given an option as to the form and amount of securities to be received, each Unitholder shall be given the same option;

(iii) each Unitholder shall be obligated to join on a pro rata basis (but not on a joint and several basis), based on such Unitholder's share of the aggregate proceeds paid in such Approved Sale, in any escrow, holdback, indemnification or other obligations that the LLC agrees to provide in connection with such Approved Sale (other than any such obligations that relate specifically to a particular Unitholder such as indemnification with respect to representations and warranties given by such Unitholder regarding such Unitholder's title to and ownership of equity); provided that the indemnification obligation of each Unitholder shall be limited to the amount of the aggregate proceeds received by such Unitholder in the Approved Sale;

(iv) each Unitholder shall make representations and warranties as to its title to or ownership of the Units being sold by such Unitholder in the proposed sale and such Unitholder's authority, power and right to enter into and consummate such transaction without violating its applicable organizational documents or any other agreement or legal requirement and other customary representations and warranties with respect to matters particular to such Unitholder (including as to its due organization and good standing under the laws of its jurisdiction of formation),

(v) no Unitholder shall be required to make any other representations and warranties (other than as described in the foregoing clause (iv)), including representations and warranties concerning any other Unitholder, the LLC, its Subsidiaries or the business of the LLC or its Subsidiaries,

(vi) no Unitholder (other than the Management Unitholders) shall be required to execute or enter into a non-compete, non-solicitation or other similar restrictive covenant of any kind in connection with such Transfer other than a customary covenant (with customary and reasonable carveouts consistent with those contained in this Agreement) with respect to the protection of confidential or proprietary information; provided, however, notwithstanding the foregoing, in no event shall the Rollover Holders be obligated to enter a non-compete, non-solicitation or other similar restrictive covenant of any kind in connection with such Transfer that contains terms that are more restrictive than those set forth in the Restrictive Covenant Agreements.

(vii) each Unitholder agrees to cooperate and to take all reasonably necessary or desirable actions required by the LLC in connection with the consummation of an Approved Sale, including the execution of the sale agreement, stock (or similar) powers and any other appropriate related document.

(c) If the LLC or any Unitholder enters into a negotiation or transaction for which Rule 506 (or any similar rule then in effect) promulgated by the Securities and Exchange Commission may be available with respect to such negotiation or transaction (including a merger, consolidation or other reorganization), the Unitholders (other than those qualifying as "Accredited Investors") will, at the request of the LLC, appoint a purchaser representative (as such term is defined in Rule 501) reasonably acceptable to the

LLC. If any Unitholder appoint a purchaser representative designated by the LLC, the LLC will pay the fees of such purchaser representative, but if any Unitholder declines to appoint the purchaser representative designated by the LLC, such Unitholder will, if required, appoint another purchaser representative, and such Unitholder will be responsible for the fees of the purchaser representative so appointed.

(d) Unitholders who are obligated to participate in the Approved Sale will bear their pro rata share of the costs of any sale pursuant to an Approved Sale to the extent such costs are incurred for the benefit of all Unitholders and are not otherwise paid by the LLC or the acquiring party. For purposes of this Section 10.6(d), costs incurred in exercising reasonable efforts to take all actions in connection with the consummation of an Approved Sale in accordance with Section 10.6(a) shall be deemed to be for the benefit of all Unitholders. For the avoidance of doubt, costs incurred by a Unitholder on such Unitholder's own behalf will not be considered costs of the transaction.

(e) Notwithstanding anything contained in this Section 10.6, there shall be no liability on the part of the LLC, the Board or the Unitholders to any other Unitholder (other than the obligation to return any certificates or other applicable instruments representing such Unitholder's Units received by the LLC) if the transfer of the Unitholder's Units pursuant to this Section 10.6 is not consummated for whatever reason. Subject to Section 10.6(a), whether to effect a transfer of Units pursuant to this Section 10.6 is in the sole discretion of the Principal Investors.

(f) In the event any Principal Investor sell less than 100% of their LLC Interests in the LLC pursuant to this Section 10.6, joining "pro rata in such sale" (or similar phrases) shall be based on (i) relative Common Units and (ii) after giving effect to any vesting, forfeiture or retention of Value Units in accordance with the provisions of this Agreement as of the date of such sale, the vested Value Units of participating Other Unitholders (with applicable adjustments made for Benchmark Amounts and other appropriate provisions of this Agreement).

10.7. Transfer of Consent and Designation Rights. Each Principal Investor may transfer its rights to (i) consent to the actions listed in Section 5.1(b)(iv) and Section 6.11 and (ii) designate Managers under Section 5.2 to a Transferee pursuant to a Transfer in accordance with this Article X only if (x) such Transferee is a Permitted Transferee or (y) such Transfer is occurring on or after the third (3rd) anniversary of the Effective Date and such Transferee is reasonably acceptable to the other Principal Investor and agrees to the terms of this Agreement; provided, that (1) with respect to the rights to consent to the actions listed in Section 5.1(b)(iv)(A) – (D) (and clauses (T) and (U) to the extent applicable), such rights shall transfer only if the Principal Investor transfers at least twenty percent (20%) of such Principal Investor's Closing Equity to the Transferee, (2) with respect to the rights to consent to the actions listed in Section 5.1(b)(iv) (E) – (S) (and clauses (T) and (U) to the extent applicable), such rights shall transfer only if the Principal Investor transfers at least fifty percent (50%) of such Principal Investor's Closing Equity

to the Transferee and (3) with respect to the rights to designate Managers under Section 5.2, such rights shall transfer in proportion to the number of Units transferred by the Principal Investor (e.g., if a Principal Investor transfers thirty-three percent (33%) of its Units and immediately prior to such transfer such Principal Investor had the right to appoint three (3) Managers, the right to appoint one (1) Manager would transfer to the Transferee) and only if and to the extent such Transfer would result in the loss of a Board designee pursuant to Section 5.2.(a)(viii); provided, that in no circumstance shall the Transferee and Transferor have the right to designate a greater number of Managers following the transfer than the Transferee had the right to designate immediately prior to such transfer. Any such Transferee shall be subject to the applicable provisions hereof with respect to the loss and transferability of such rights, *mutatis mutandis*.

10.8. Void Transfers. Any Transfer by any Unitholder of any Units or other interest in the LLC in contravention of this Agreement or which would cause the LLC to not be treated as a partnership for U.S. federal income tax purposes shall be void and ineffectual and shall not bind or be recognized by the LLC or any other party. No purported assignee shall have any right to any profits, losses or distributions of the LLC.

10.9. Legends. In addition to any other legend that may be required, each certificate, if any, representing Units shall bear a legend in substantially the following form:

> "THE SECURITIES REPRESENTED BY THIS CERTIFICATE WERE ISSUED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY NOT BE SOLD, ASSIGNED, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION UNDER THE ACT COVERING THE TRANSFER, ASSIGNMENT, PLEDGE OR SALE, OR AN OPINION OF COUNSEL, SATISFACTORY TO THE ISSUER, THAT REGISTRATION UNDER THE ACT IS NOT REQUIRED. THIS SECURITY IS ALSO SUBJECT TO ADDITIONAL RESTRICTIONS ON TRANSFER AS SET FORTH IN THE SECOND AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT, DATED AS OF FEBRUARY 16, 2018, COPIES OF WHICH MAY BE OBTAINED UPON REQUEST FROM THE LLC OR ANY SUCCESSOR THERETO."

ARTICLE XI

ADMISSION OF UNITHOLDERS

11.1. Substituted Unitholders. In connection with the Transfer of an LLC Interest of a Unitholder permitted under the terms of this Agreement, the transferee shall become a Substituted Unitholder with respect to the transferred LLC Interest on the effective date of such Transfer, which effective date shall not be earlier than the date of

compliance with or waiver of the conditions to such Transfer (unless one of the conditions to such Transfer is that Board or Unitholder consent is required for the admission of such transferee, in which case such consent must first be obtained), including executing a counterpart of, and become a party to, this Agreement in form and substance reasonably acceptable to the Board, whereupon such admission shall be shown on the books and records of the LLC.

11.2. Additional Unitholders. A Person may be admitted to the LLC as an Additional Unitholder only as contemplated under, and in compliance with, the terms of this Agreement, including furnishing to the Board (a) a letter of acceptance, in form satisfactory to the Board, of all the terms and conditions of this Agreement, including the power of attorney granted in Section 15.1, and (b) such other documents or instruments as may be necessary or appropriate to effect such Person's admission as a Unitholder. Such admission shall become effective on the date on which the Board determines in its sole discretion that such conditions have been satisfied and when any such admission is shown on the books and records of the LLC. Thereafter, an Officer authorized by the Board shall amend Schedule A without the further vote, act or consent of any other Person to reflect such new Person as a Unitholder and shall make available for review a copy of such amended Schedule A to each Unitholder.

11.3. Optionholders. Except as set forth in this Agreement, no Person that holds securities (including options, warrants, or rights) exercisable, exchangeable, or convertible into Units shall have any rights with respect to such Units until such Person is actually issued Units upon such exercise, exchange, or conversion and, if such Person is not then a Unitholder, is admitted as a Unitholder pursuant to Section 11.2.

ARTICLE XII

WITHDRAWAL AND RESIGNATION OF UNITHOLDERS

12.1. Withdrawal and Resignation of Unitholders. No Unitholder shall have the power or right to withdraw or otherwise resign or be expelled from the LLC prior to the dissolution and winding up of the LLC pursuant to Article XIII, except as otherwise expressly permitted by this Agreement or any of the other agreements contemplated hereby. Notwithstanding that payment on account of a withdrawal may be made after the effective time of such withdrawal, any completely withdrawing Unitholder will not be considered a Unitholder for any purpose after the effective time of such complete withdrawal, and, in the case of a partial withdrawal, such Unitholder's Capital Account (and corresponding voting and other rights) shall be reduced for all other purposes hereunder upon the effective time of such partial withdrawal.

12.2. Withdrawal of a Unitholder. No Unitholder shall have the power or right to withdraw or otherwise resign from the LLC except (i) as otherwise expressly permitted by this Agreement, or (ii) simultaneous with the Transfer of all of a Unitholder's Units in

a Transfer permitted by this Agreement and, if such Transfer is to a Person that is not a Unitholder, the admission of such Person as a Unitholder pursuant to Section 11.1.

ARTICLE XIII

DISSOLUTION AND LIQUIDATION

13.1. Dissolution. The LLC shall not be dissolved by the admission of Additional Unitholders or Substituted Unitholders, or by the death, retirement, expulsion, bankruptcy or dissolution of a Unitholder. The LLC shall dissolve, and its affairs shall be wound up upon the first to occur of the following:

(a) at any time by decision of each of the Principal Investors; or

(b) the entry of a decree of judicial dissolution of the LLC under Section 18-802 of the Delaware Act.

Except as otherwise set forth in this Article XIII, the LLC is intended to have perpetual existence. An Event of Withdrawal shall not cause a dissolution of the LLC and the LLC shall continue in existence subject to the terms and conditions of this Agreement.

13.2. Liquidation and Termination.

(a) On dissolution of the LLC, the Board shall act as liquidator or may appoint one or more representatives or Unitholders as liquidator. The liquidators shall proceed diligently to wind up the affairs of the LLC, sell all or any portion of the LLC assets for cash or cash equivalents as they deem appropriate, and make final distributions as provided herein and in the Delaware Act. The costs of liquidation shall be borne as an LLC expense. In connection with any such liquidation or dissolution, before making any distribution to Unitholders under Article IV above, the LLC shall purchase an extended reporting period "tail" insurance policy covering the matters described in Section 7.7 for the six-year period commencing on the date of dissolution or liquidation. Until final distribution, the liquidators shall continue to operate the LLC properties with all of the power and authority of the Board. The liquidators shall pay, satisfy, or discharge from LLC funds all of the debts, liabilities, and obligations of the LLC (including all expenses incurred in liquidation) or otherwise make adequate provision for payment and discharge thereof (including the establishment of a cash fund for contingent liabilities in such amount and for such term as the liquidators may reasonably determine) and shall promptly distribute the remaining assets to the holders of Units in accordance with Section 4.1(a). Any non-cash assets will first be written up or down to their Fair Market Value, thus creating Profit or Loss (if any), which shall be allocated in accordance with Sections 4.2 and 4.3. In making such distributions, the liquidators shall allocate each type of asset (i.e., cash, cash equivalents, securities, etc.) among the Unitholders ratably based upon the aggregate amounts to be distributed with respect to the Units held by each such holder.

Any such distributions in kind shall be subject to (x) such conditions relating to the disposition and management of such assets as the liquidators deem reasonable and equitable and (y) the terms and conditions of any agreement governing such assets (or the operation thereof or the holders thereof) at such time. The distribution of cash and/or property to a Unitholder in accordance with the provisions of this Section 13.2 constitutes a complete return to the Unitholder of its Capital Contributions and a complete distribution to the Unitholder of its interest in the LLC and all the LLC's property and constitutes a compromise to which all Unitholders have consented within the meaning of the Delaware Act. To the extent that a Unitholder returns funds to the LLC, it has no claim against any other Unitholder for those funds.

(b) Neither the purchase nor redemption by the LLC of any Units in any manner permitted by the Certificate or any amendment thereof or this Agreement, if any, nor the merger or consolidation of the LLC with or into any other business entity (as defined in the Delaware Act), nor the conversion of the LLC into a corporation under Delaware (or other state) law, nor a sale, exchange, conveyance, transfer or lease of all or substantially all of the LLC's assets shall be deemed to be a liquidation, dissolution or winding up of the LLC for the purposes of this Section 13.2.

13.3. Cancellation of Certificate. On completion of the distribution of LLC assets as provided herein, the LLC shall be terminated (and the LLC shall not be terminated prior to such time), and the Board (or such other Person or Persons as the Delaware Act may require or permit) shall file a certificate of cancellation with the Secretary of State of Delaware, cancel any other filings made pursuant to this Agreement that are or should be canceled, and take such other actions as may be necessary to terminate the LLC. The LLC shall be deemed to continue in existence for all purposes of this Agreement until it is terminated pursuant to this Section 13.3.

13.4. Reasonable Time for Winding Up. A reasonable time shall be allowed for the orderly winding up of the business and affairs of the LLC and the liquidation of its assets pursuant to Section 13.2 in order to minimize any losses otherwise attendant upon such winding up.

13.5. Return of Capital. The liquidators shall not be personally liable for the return of Capital Contributions or any portion thereof to the Unitholders (it being understood that any such return shall be made solely from LLC assets).

13.6. Reserves Against Distributions. The Board shall have the right to withhold from Distributions payable to the Unitholders under this Agreement (pro rata in accordance with the proportion of such Distributions payable to the Unitholders in accordance with Section 4.1) amounts sufficient to pay and discharge any reasonably anticipated contingent liabilities of the LLC, and any amounts remaining after payment and discharge of any such contingent liabilities of the LLC will be paid to the Unitholders pro rata in accordance with the proportions of such prior withholding.

ARTICLE XIV

VALUATION

14.1. Determination. Subject to Section 14.2, the Fair Market Value of the assets of the LLC or of a LLC Interest will be determined by the Board (or, if pursuant to Section 13.2, the liquidators) in its good faith judgment in such manner as it deems reasonable and using all factors, information and data deemed to be pertinent (including, if the Board so determines, the recommendation of an independent third-party appraiser engaged by the Board for such purpose), in the case of Sections 3.6.(c) and 13.2(a), with the consent of each Principal Investor.

14.2. Fair Market Value. "Fair Market Value" of (i) a specific LLC asset will mean the amount which the LLC would receive in an all-cash sale of such asset (free and clear of all Liens and after payment of all liabilities secured only by such asset) in an arms-length transaction with an unaffiliated third party consummated on the day immediately preceding the date on which the event occurred which necessitated the determination of the Fair Market Value (and after giving effect to any transfer taxes payable in connection with such sale); and (ii) the LLC will mean the amount which the LLC would receive in an all-cash sale of all of its assets and businesses as a going concern (free and clear of all Liens and after payment of indebtedness for borrowed money) in an arms-length transaction with an unaffiliated third party consummated on the day immediately preceding the date on which the event occurred which necessitated the determination of the Fair Market Value (assuming that all of the proceeds from such sale were paid directly to the LLC other than an amount of such proceeds necessary to pay transfer taxes payable in connection with such sale, which amount will not be received or deemed received by the LLC). After a determination of the Fair Market Value of the LLC is made as provided above, the Fair Market Value of a Unit will be determined by making a calculation reflecting the cash distributions which would be made to the Unitholders in accordance with this Agreement in respect of such Unit if the LLC were deemed to have received such Fair Market Value in cash and then distributed the same to the Unitholders in accordance with the terms of this Agreement incident to the liquidation of the LLC after payment to all of the LLC's creditors from such cash receipts other than payments to creditors who hold evidence of indebtedness for borrowed money, the payment of which is already reflected in the calculation of the Fair Market Value of the LLC and assuming that all of the convertible debt and other convertible securities were repaid or converted (whichever yields more cash to the holders of such convertible securities) and all options to acquire Units (whether or not currently exercisable) that have an exercise price below the Fair Market Value of such Units were exercised and the exercise price therefor paid. Except as otherwise provided herein or in any agreement, document or instrument contemplated hereby, any amount to be paid under this Agreement by reference to the Fair Market Value shall be paid in full in cash, and any Unit being transferred in exchange therefor will be transferred free and clear of all Liens.

14.3. Dispute Resolution. Notwithstanding anything in this Article XIV to the contrary, in the event that either (i) the Ekbatani Holder solely with respect to Section 3.11, or (ii) the Rollover Holders solely with respect to Section 3.12 (each Unitholder described in clauses (i) and (ii), as applicable, the "Relevant Holder") disputes the Board's determination of Fair Market Value in connection with the LLC's exercise of the Ekbatani Repurchase Option or the Rollover Call Option (as applicable, a "Dispute"), which Dispute the Relevant Holder shall have no less than fourteen (14) days to notify the LLC of following the Relevant Holder's receipt of a repurchase notice pursuant to Section 3.11 or Section 3.12, as applicable, then the applicable Relevant Holder and the Board will negotiate in good faith to resolve any such Dispute, but if they do not reach a final resolution within thirty (30) days after the delivery of a Dispute notice by such Relevant Holder to the LLC, the LLC and such Relevant Holder will retain and submit such Dispute to a regionally-recognized independent accounting firm as mutually agreed upon by such Relevant Holder and the LLC (the "Independent Auditor") to resolve such Dispute. The Independent Auditor will be instructed to set forth a procedure to provide for prompt resolution of any such Dispute and, in any event, to make its determination in respect of such Dispute within thirty (30) days following its retention. The applicable Relevant Holder and the LLC, and their respective representatives, will cooperate fully with the Independent Auditor during its engagement and respond on a timely basis to all requests for information or access to documents or personnel made by the Independent Auditor, all with the intent to fairly and in good faith resolve the Dispute as promptly as reasonably practicable. In resolving the Dispute, the Independent Auditor (i) may not assign a value to any particular item greater than the greatest value for such item claimed by the applicable Relevant Holder or the LLC, or less than the lowest value for such item claimed by the applicable Relevant Holder or the LLC, in each case, as presented to the Independent Auditor, (ii) will be bound by the principles set forth in this Agreement (including this Article XIV) and the DPN Purchase Agreement (with respect to Section 3.12), and (iii) will act as an expert and not as an arbitrator. The Independent Auditor's determination of such Dispute will be final and binding upon the applicable Relevant Holder and the LLC. All fees and expenses of the Independent Auditor shall be borne pro rata as between the applicable Relevant Holder, on the one hand, and the LLC, on the other hand, in proportion to the allocation of the dollar value of the amounts in dispute as between the applicable Relevant Holder and the LLC (set forth in the initial written submissions to the Independent Auditor) made by the Independent Auditor such that the party prevailing on the greater dollar value of such disputes pays the lesser proportion of the fees and expenses.

ARTICLE XV

GENERAL PROVISIONS

15.1. Power of Attorney.

(a) Each Unitholder, other than the Principal Investors, hereby constitutes and appoints each member of the Board and the liquidators, with full power of substitution, as his, her or its true and lawful agent and attorney-in-fact, with full power and authority in his, her or its name, place and stead, to execute, swear to, acknowledge, deliver, file, and record in the appropriate public offices (i) this Agreement, all certificates, and other instruments and all amendments (in the manner set forth herein) thereof in accordance with the terms hereof which the Board deems appropriate or necessary to form, qualify, or continue the qualification of, the LLC as a limited liability company in the State of Delaware and in all other jurisdictions in which the LLC may conduct business or own property; (ii) all documents or instruments which the Board deems appropriate or necessary to reflect any amendment, change, modification, or restatement of this Agreement made pursuant to the terms of this Agreement (including any required approval by Unitholders pursuant to Section 15.3 hereof); (iii) all conveyances and other instruments or documents which the Board deems appropriate or necessary to reflect the dissolution and liquidation of the LLC pursuant to the terms of this Agreement, including a certificate of cancellation; and (iv) all instruments relating to the admission, withdrawal, or substitution of any Unitholder pursuant to Articles XI and XII.

(b) The foregoing power of attorney is irrevocable and coupled with an interest, and shall survive the death, disability, incapacity, dissolution, bankruptcy, insolvency, or termination of any Unitholder and the Transfer of all or any portion of his, her or its LLC Interest and shall extend to such Unitholder's heirs, successors, assigns, and personal representatives.

15.2. Confidentiality. Except as otherwise provided in this Section 15.2, no Unitholder shall, in any manner, either directly or indirectly, divulge, disclose, or communicate to any Person any non-public information, data, observations or materials relating to the LLC or any of its Subsidiaries or their respective assets, liabilities, operations, businesses, affairs and activities (including any notes, summaries, evaluations, analyses and other material derived from any such information, data, observations or materials) (collectively, "Confidential Information"); provided, however, that the foregoing confidentiality obligation shall not apply to any Confidential Information that (a) has previously become available to the general public for a period of at least two (2) Business Days (other than as a result of wrongful disclosure by the Unitholder) or (b) becomes available to the Unitholder on a non-confidential basis from a source other than the LLC or any of its Subsidiaries, so long as such source is not known by the Unitholder (after reasonable inquiry) to be subject to another confidentiality agreement. Until the termination of this Agreement, no Unitholder shall make any use of any Confidential

Information other than to further the operations, businesses, affairs and activities of the LLC and its Subsidiaries or to evaluate or monitor (in its capacity as a Unitholder) its investment in the LLC. The foregoing provisions of this Section 15.2 shall not prohibit the disclosure of Confidential Information by (i) any Unitholder to the extent required by applicable law, rule, regulation, governmental body or stock exchange (including regulatory and self-regulatory bodies), court order or other governmental decree, (ii) any current or former Principal Investor to the extent required or appropriate in connection with federal securities laws, stock exchange requirements or other public company reporting or disclosure obligations, in which case the current or former Principal Investor intending to make the release or disclosure of such Confidential Information shall use commercially reasonable efforts to consult with the other Principal Investor (if any) to the extent practicable about, and allow the other party reasonable time (taking into account the circumstances, including exigent circumstances) to comment on, such release or disclosure in advance of such issuance, and the current or former Principal Investor intending to make the release or disclosure will consider such comments in good faith, (iii) any Unitholder with the written consent of the Principal Investors, which consent may be withheld by the Principal Investors in their sole discretion, (iv) any Unitholder to any officer, director, manager, employee or other representative ("Representatives"), Affiliate or Representatives of an Affiliate of such Unitholder if such Person has a need to know such information and has agreed or is otherwise obligated not to communicate such information to any other Person or use the Confidential Information for his, her or its own benefit, for any purpose other than to monitor the recipient's indirect interest in the LLC or in a manner adverse to the interests of the LLC or (v) any current or former Principal Investor to any limited partner of such current or former Principal Investor, but only to the extent such Confidential Information being disclosed does not contain material, non-public information and is of a nature customarily disclosed by private investment funds to their limited partners in the ordinary course of business consistent with past practice and the recipient of such Confidential Information has been advised and directed not to communicate such information to any other Person or use the Confidential Information for his, her or its own benefit, for any purpose other than to monitor the recipient's indirect interest in the LLC or in a manner adverse to the interests of the LLC. Each Unitholder shall take reasonable steps to inform its Representatives, Affiliates and limited partners who receive access by such Unitholder to any Confidential Information of the provisions of this Section 15.2, and any other Person who receives access to any Confidential Information from such Unitholder pursuant to clauses (iv) or (v) of the foregoing sentence, and such Unitholder shall be responsible for any violation of this Section 15.2 by such Persons as if such Persons been bound hereunder. Except for any disclosure made pursuant to Section 15.2(ii), if any Unitholder is required by applicable law, rule, regulation, governmental body or stock exchange (including regulatory and self-regulatory bodies), court order or other governmental decree to disclose Confidential Information, such Unitholder shall give prompt written notice of such fact to the LLC so that the LLC may seek a protective order or other governmental or judicial relief to prevent disclosure of such information. Notwithstanding the foregoing, the LLC and each Unitholder acknowledges

that, in the ordinary course of business of each member of the Investor Group, the members of the Investor Group evaluate, pursue, acquire, sell, manage, advise and serve on the boards of other Persons. The LLC and each Unitholder acknowledges that (x) the review of the Confidential Information by each of Frazier, Providence and the members of the Investor Group may inevitably enhance such Persons' or their respective Affiliates' general industry knowledge and understanding of the industries in which the Company Group operates in a way that cannot be separated from such Persons' or their respective Affiliates' other knowledge, and the LLC and each Unitholder agrees that this Section 15.2 shall not restrict such Persons' or their respective Affiliates' use of such general industry knowledge and understanding, including in connection with investments in other companies (including in the same or similar industries) and (y) none of Frazier or Providence or any member of the Investor Group shall be deemed to have used any Confidential Information in contravention of this Section 15.2 solely because of the fact of its evaluation, pursuit, acquisition, sale or management of, provision of advice to, or service on the board of any such other investment. In no event shall the restrictions set forth in this Section restrict a Unitholder from enforcing its rights under this Agreement.

15.3. Amendments.

(a) This Agreement may be amended from time to time by the Board to reflect the Transfer of Units or other interests in the LLC effectuated pursuant to the terms of Article X or to reflect the admission of Unitholders effectuated pursuant to the terms of Article XI. Any provisions of this Agreement may be amended, modified, supplemented or waived with the written approval of the LLC and the Principal Investors; provided, that no amendment or modification pursuant to this Section 15.3 that would by its terms adversely affect any holders of Units in a manner materially disproportionate to the other holders of Units, in their capacities as such, shall be effective against such holders without the written consent of holders of at least a majority in interest (with respect to the applicable Units) of such disproportionately materially adversely affected holders.

(b) Notwithstanding anything to the contrary in Section 15.3(a) above, for so long as the Ekbatani Holder owns three percent (3%) or more of the LLC's outstanding Common Units, the following may not be amended in a manner adverse to Ekbatani or the Ebkatani Holder without the consent of Ekbatani: (i) Section 3.5 (Preemptive Rights), Section 6.12 (Initial Public Offering) (and the Exhibit A referenced therein), Section 10.4 (Participation Rights), Section 10.6 (Drag-Along Rights) and this Section 15.3(b) (and any of the defined terms used in any such Sections) and (ii) any rights given to Ekbatani or the Ekbatani Holder herein by name in this Agreement. For the avoidance of doubt, the LLC may, subject to Section 3.5, freely authorize and issue LLC Interests at any time, including LLC Interests which have preferred rights of any type or nature as compared to the rights of any existing Unitholders, and the LLC may make any such amendments, modifications or supplements to this Agreement as necessary to give effect to any such authorization and/or issuance of LLC Interests (including amending this

Agreement to incorporate the rights, preferences or privileges in respect of such equity interests) without obtaining the consent of Ekbatani.

15.4. Title to LLC Assets. LLC assets shall be deemed to be owned by the LLC as an entity, and no Unitholder, individually or collectively, shall have any ownership interest in such LLC assets or any portion thereof. Legal title to any or all LLC assets may be held in the name of the LLC or one or more nominees, as the Board may determine. The Board hereby declares and warrants that any LLC assets for which legal title is held in its name or the name of any nominee shall be held in trust by the Board or such nominee for the use and benefit of the LLC in accordance with the provisions of this Agreement. All LLC assets shall be recorded as the property of the LLC on its books and records, irrespective of the name in which legal title to such LLC assets is held.

15.5. Remedies. Each Unitholder and the LLC shall have all rights and remedies set forth in this Agreement and all rights and remedies which such Person has been granted at any time under any other agreement or contract and all of the rights which such Person has under any law. Each party hereto acknowledges that the remedies at law of the other parties for a breach or threatened breach of this Agreement would be inadequate and, in recognition of this fact, any party to this Agreement, without posting any bond, and in addition to all other remedies that may be available, shall be entitled to obtain equitable relief in the form of specific performance, a temporary restraining order, a temporary or permanent injunction or any other equitable remedy that may then be available (including, without limitation, with respect to the enforcement of Section 3.11 and Section 3.12).

15.6. Successors and Assigns. All covenants and agreements contained in this Agreement shall bind and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, legal representatives, and permitted assigns, whether so expressed or not.

15.7. Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal, or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality, or unenforceability will not affect any other provision or the effectiveness or validity of any provision in any other jurisdiction, and this Agreement will be reformed, construed, and enforced in such jurisdiction as if such invalid, illegal, or unenforceable provision had never been contained herein.

15.8. Regulatory Matters. The LLC shall and shall cause its Subsidiaries to keep the Unitholders informed, on a current basis, of any events, discussions, notices or changes with respect to any criminal or regulatory investigation or action involving the LLC or any of its Subsidiaries, so that the Unitholders will have the opportunity to take appropriate steps to avoid or mitigate any regulatory consequences to them that might arise from such investigation or action. Additionally, upon and to the extent of a prior written

request therefor, the LLC shall provide to the Unitholders reasonable access during normal business hours to personnel, books and records and such other information as any Unitholder may reasonably require for tax or regulatory purposes that are customary for investments of this type, including all rights necessary to satisfy venture capital operating company rules.

15.9. Notice to Unitholder of Provisions. By executing this Agreement, each Unitholder acknowledges that he, she or it has actual notice of (a) all of the provisions hereof (including the restrictions on the transfer set forth herein), and (b) all of the provisions of the Certificate.

15.10. Counterparts. This Agreement may be executed in multiple counterparts with the same effect as if all signing parties had signed the same document. All counterparts shall be construed together and constitute the same instrument.

15.11. Consent to Jurisdiction. Each Unitholder irrevocably submits to the exclusive jurisdiction of the United States District Court for the State of Delaware and the state courts of the State of Delaware for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby. Each Unitholder further agrees that service of any process, summons, notice or document by United States certified or registered mail to such Unitholder's respective address set forth in the LLC's books and records or such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party shall be effective service of process in any action, suit or proceeding in Delaware with respect to any matters to which it has submitted to jurisdiction as set forth above in the immediately preceding sentence. Each Unitholder irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in the United States District Court for the State of Delaware or the state courts of the State of Delaware and hereby irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in such court has been brought in an inconvenient forum.

15.12. Descriptive Headings; Interpretation. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a substantive part of this Agreement. Whenever required by the context, any pronoun used in this Agreement shall include the corresponding masculine, feminine, or neuter forms, and the singular form of nouns, pronouns, and verbs shall include the plural and vice versa. The use of the word "including" in this Agreement shall be by way of example rather than by limitation. Except as otherwise indicated herein, the terms "herein", "hereof", "hereto", "hereunder" and similar terms refer to this Agreement generally rather than to the particular provision in which such term is used. Reference to any agreement, document, or instrument means such agreement, document, or instrument as amended or otherwise modified from time to time in accordance with the terms thereof, and, if applicable, hereof (including as relates to the Advisory Agreement). Without limiting the generality of the immediately preceding

sentence, no amendment or other modification to any agreement, document, or instrument that requires the consent of any Person pursuant to the terms of this Agreement or any other agreement will be given effect hereunder unless such Person has consented in writing to such amendment or modification. Unless the context otherwise requires, any reference herein to any Person shall be construed to include such Person's successors and assigns. Wherever required by the context, references to a Fiscal Year shall refer to a portion thereof. The use of the words "or," "either," and "any" shall not be exclusive. It is the intention of the parties that every covenant, term, and provision of this Agreement shall be construed simply according to its fair meaning and not strictly for or against any party (notwithstanding any rule of law requiring an Agreement to be strictly construed against the drafting party), it being understood that the parties to this agreement are sophisticated and have had adequate opportunity and means to retain counsel to represent their interests and to otherwise negotiate the provisions of this Agreement. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement. Wherever a conflict exists between this Agreement and any other agreement, this Agreement shall control but solely to the extent of such conflict.

15.13. Applicable Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware.

15.14. MUTUAL WAIVER OF JURY TRIAL. BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, EACH PARTY TO THIS AGREEMENT (INCLUDING THE LLC) HEREBY WAIVES ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE BETWEEN OR AMONG ANY OF THE PARTIES HERETO, WHETHER ARISING IN CONTRACT, TORT, OR OTHERWISE, ARISING OUT OF, CONNECTED WITH, RELATED OR INCIDENTAL TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY AND/OR THE RELATIONSHIPS ESTABLISHED AMONG THE PARTIES HEREUNDER.

15.15. Addresses and Notices. All notices, demands, or other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given or made when (a) delivered personally to the recipient, (b) telecopied to the recipient (with hard copy sent to the recipient by reputable overnight courier service (charges prepaid) that same day) if telecopied before 5:00 p.m. New York, New York time on a Business Day, and otherwise on the next Business Day, or (c) one Business Day after being sent to the recipient by reputable overnight courier service (charges prepaid). Such notices, demands, and other communications shall be sent to the address for such recipient set forth in the LLC's books and records, or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party. Any notice to the Board or the LLC shall be deemed given if received by the Board at the principal office of the LLC designated pursuant to Section 2.7, and any such notice shall also be delivered to each of the Principal Investors.

15.16. Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the LLC or any of their Affiliates (other than any Affiliate in its capacity as a Unitholder and party hereto), and no creditor who makes a loan to the LLC or any of its Affiliates may have or acquire (except pursuant to the terms of a separate agreement executed by the LLC in favor of such creditor) at any time as a result of making the loan any direct or indirect interest in LLC Profits, Losses, Distributions, capital, or property other than as a secured creditor.

15.17. Waiver. No failure by any party to insist upon the strict performance of any covenant, duty, agreement, or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute a waiver of any such breach or any other covenant, duty, agreement, or condition. Notwithstanding the other provisions of this Agreement, Section 18-305(a) of the Delaware Act shall not apply to the LLC and no Unitholder shall have any rights thereunder.

15.18. Further Action. The parties shall execute and deliver all documents, provide all information, and take or refrain from taking such actions as may be reasonably necessary or appropriate to achieve the purposes of this Agreement.

15.19. Offset. Whenever the LLC is to pay any sum to any Unitholder or any Affiliate or related person thereof, any amounts that such Unitholder or such Affiliate or related person owes to the LLC may be deducted from that sum before payment; provided, that (other than with respect to Section 4.6(g), which shall not be subject to this proviso) with respect to the Rollover Holders, the LLC shall be permitted to offset such amounts pursuant to this Section 15.19 if and to the extent that a court of competent jurisdiction has issued a final, non-appealable ruling validating that such amounts are due and owing to the LLC or to the extent that the Rollover Holders otherwise agree in writing.

15.20. Entire Agreement. This Agreement, those documents expressly referred to herein (including the Subscription Agreement and the Advisory Agreement) and the other documents of even date herewith, embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements, or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

15.21. Delivery by Facsimile. This Agreement, the agreements referred to herein, and each other agreement or instrument entered into in connection herewith or therewith or contemplated hereby or thereby, and any amendments hereto or thereto, to the extent signed and delivered by means of a facsimile machine or in "portable document format", shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such agreement or instrument, each other party hereto or thereto shall re-execute original forms thereof and deliver them to all other parties. No party hereto or to any such agreement or instrument shall raise the use of a facsimile machine or "portable document format" to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine or electronic mail as a defense to the formation or enforceability of a contract and each such party forever waives any such defense.

15.22. Survival. Articles I and VII, and Sections 4.3, 6.1, 6.6, 6.7 6.8, 6.9, 6.11, 13.2, 15.2, 15.5, 15.6, 15.9, 15.10, 15.11, 15.12, 15.13, 15.14, 15.15, 15.16, 15.17, 15.20, 15.21 and this 15.22 shall survive and continue in full force in accordance with their terms notwithstanding any termination of this Agreement or the dissolution of the LLC.

15.23. Deemed Transfer of Units. If the LLC or any other Person acquiring Units of a Unitholder in accordance with the terms herein shall make available, at the time and place and in the amount and form provided in such unit transfer or similar agreement ("Unit Transfer Agreement"), the consideration for the Units to be repurchased in accordance with the provisions of such Unit Transfer Agreement, then from and after such time, the Person from whom such Units are to be repurchased shall no longer have any rights (including rights to Distributions hereunder) as a holder of such Units (other than the right to receive payment of such consideration in accordance with such Unit Transfer Agreement), and such Units shall be deemed purchased in accordance with the applicable provisions hereof and the LLC or any other Person acquiring such Units shall be deemed the owner and holder of such Units, whether or not the certificates therefor have been delivered as required by such Unit Transfer Agreement.

15.24. Recapitalization. If any securities are issued in respect of, in exchange for, or in substitution of, any Units by reason of any reorganization, recapitalization, reclassification, merger, consolidation, spin-off, partial or complete liquidation, stock dividend, split-up, sale of assets, distribution to stockholders or combination of the Units

or any other change in capital structure of the LLC, in each case in accordance with the terms herein, appropriate adjustments shall be made with respect to the relevant provisions of this Agreement so as fairly and equitably to preserve, as far as practicable, the original rights and obligations of the parties hereto under this Agreement.

15.25. Acknowledgement.

(a) Ray Ekbatani, the LLC and each of the Unitholders hereby agree and acknowledge that for all purposes of this Agreement that (i) Ray Ekbatani and the Ray Ekbatani Trust are to be deemed the same Person for all purposes under this Agreement, (ii) any and all actions or omissions taken by Ray Ekbatani (including any actions or omissions in connection with Ray Ekbatani's employment with, or service to, the LLC or any Subsidiary) shall be deemed actions or omissions taken by the Ray Ekbatani Trust hereunder, (iii) any and all actions or omissions taken by the Ray Ekbatani Trust shall be deemed actions or omissions taken by Ray Ekbatani hereunder, and (iv) any and all rights and obligations of the Ray Ekbatani Trust are intended to, and shall, apply to and bind Ray Ekbatani as if Ray Ekbatani owned directly the LLC Interests held by the Ray Ekbatani Trust hereunder.

(b) Shawn Ekbatani, the LLC and each of the Unitholders hereby agree and acknowledge that for all purposes of this Agreement that (i) Shawn Ekbatani and the Shawn Ekbatani Trust are to be deemed the same Person for all purposes under this Agreement, (ii) any and all actions or omissions taken by Shawn Ekbatani (including any actions or omissions in connection with Shawn Ekbatani's employment with, or service to, the LLC or any Subsidiary) shall be deemed actions or omissions taken by the Shawn Ekbatani Trust hereunder, (iii) any and all actions or omissions taken by the Shawn Ekbatani Trust shall be deemed actions or omissions taken by Shawn Ekbatani hereunder, and (iv) any and all rights and obligations of the Shawn Ekbatani Trust are intended to, and shall, apply to and bind Shawn Ekbatani as if Shawn Ekbatani owned directly the LLC Interests held by the Shawn Ekbatani Trust hereunder.

* * * * *

IN WITNESS WHEREOF, the undersigned have executed or caused to be executed on their behalf this Amended and Restated Limited Liability Company Agreement as of the date first written above.

PROMETHEUS HOLDCO, LLC

By: The Providence Service Corporation,
Its sole and managing member

By: /s/ David Shackelton
Name: David Shackelton
Title: Chief Financial Officer

MERCURY FORTUNA BUYER, LLC

By: /s/ Ben J. Magnano
Name: Ben J. Magnano
Title: President, Treasurer

MERCURY Parent, LLC

By: /s/ John J. Hopkins
Name: John J. Hopkins
Title: General Counsel & Secretary

JAMES EKBATANI

By: /s/ J. Ekbatani

THE DIGNITY TRUST

By: /s/ Shahrzad Ekbatani, Trustee
Name: Shahrzad Ekbatani
Title: Trustee

THE NOBILITY TRUST

By: /s/ Shahrzad Ekbatani, Trustee
Name: Shahrzad Ekbatani
Title: Trustee

TERENCE DIAZ

By: /s/ Terry Diaz

SHAWN EKBATANI

By: /s/ Shawn Ekbatani

RAMIN EKBATANI

By: /s/ Ramin Ekbatani

Exhibit 10.27

THE PROVIDENCE SERVICE CORPORATION
NON-QUALIFIED STOCK OPTION

To:

Date of Grant:

You are hereby granted an option, effective as of the date hereof, to purchase up to [ ] shares of common stock, $.001 ("Common Stock"), of The Providence Service Corporation, a Delaware corporation (the "Company"), at the price of $[ ] per share, the closing price of the Common Stock on the Nasdaq Global Select Market on the Date of Grant, pursuant to the terms and conditions set forth below, and pursuant to the Company's 2006 Long-Term Incentive Plan, as amended (the "Plan"), which shall control in the event of any inconsistency or conflict with the terms of this grant.

This option shall terminate and is not exercisable after 11:59 p.m. eastern time on [ ] (the "Scheduled Termination Date"), except if terminated earlier as hereafter provided.

Your option granted hereunder shall be fully vested and may be exercised on and after [ ], and prior to the Scheduled Termination Date; provided that this option shall become fully vested upon a "Change in Control" (as defined in the Plan), termination of your employment by the Company without "Cause" (as defined in the 2015 Holding Company LTI Program, a sub-plan to the Plan), or termination of your employment by you for "Good Reason" (as defined below) occurring prior to [ ].

As used herein, "Good Reason" shall have the meaning ascribed to it in an employment agreement in effect between you and the Company or, in the absence of an employment agreement, shall mean the occurrence of any of the following, without your consent, that is not cured by the Company within thirty (30) days of the Company's receipt of your written notice that the occurrence constitutes Good Reason: (i) a material reduction of your position, duties, or responsibilities with the Company, (ii) a reduction of your base salary, other than a reduction which is generally applicable to all executives of the Company, (iii) a material breach by Company of an employment agreement between you and the Company; or (iv) requiring you to move or relocate your primary place of employment more than 75 miles from the then current place of employment; provided that (A) any resignation for Good Reason must be made within sixty (60) days of the occurrence set forth in (i) - (iv) above and (B) any resignation by you while the Company has "Cause" for termination of your employment shall be considered to be a resignation without Good Reason; and provided further, that you shall not have the right to terminate your employment for Good Reason unless you actually terminate employment within ninety (90) days following receipt of, and in accordance with, your written notice.

You may exercise your option granted hereunder by giving written notice to the Secretary of the Company on forms supplied by the Company at its then principal executive office, accompanied by payment of the option price for the total number of shares you specify that you wish to purchase. The payment may be in any of the following forms: (a) cash, which may be evidenced by a check and includes cash received from a stock brokerage firm in a so-called "cashless exercise"; (b) (unless prohibited by the Administrator) certificates representing shares of Common Stock of the Company, which will be valued by the Secretary of the Company at the fair market value per share of the Company's Common Stock (as determined in accordance with the Plan) on the date of delivery of such certificates to the Company, accompanied by an assignment of the stock to the Company; or (c) (unless prohibited by the Administrator) any combination of cash and Common Stock of the Company valued as provided in clause (b). Any transfer of stock in payment of the option price for the options granted hereunder shall be in a form and substance satisfactory to the Secretary of the Company, including guarantees of signature(s) and payment of all transfer taxes if the Secretary deems such guarantees necessary or desirable.

Your vested option will, to the extent not previously exercised by you, terminate on [ ], if your Employment (as defined in the Plan) by the Company or a Company subsidiary corporation is terminated (whether such termination be voluntary or involuntary) other than by reason of Disability (as defined in the Plan) or death.

If you die while employed by the Company or a Company subsidiary corporation, your executor or administrator, as the case may be, may, at any time after the date of your death (but in no event later than the Scheduled Termination Date), exercise the option as to any shares which you had a vested right to purchase and did not purchase during your lifetime. If your Employment with the Company or a Company parent or subsidiary corporation is terminated by reason of your Disability, you or your legal guardian or custodian may at any time within one (1) year after the date of such termination (but in no event later than the Scheduled Termination Date), exercise the option as to any shares which you had a vested right to purchase and did not purchase prior to such termination. Your executor, administrator, guardian or custodian must present proof of his authority satisfactory to the Company prior to being allowed to exercise this option.

After the date your Employment is terminated, as aforesaid, you may exercise this option only for the number of shares then available for purchase under this option on the date your Employment terminated. If you are employed by a Company subsidiary corporation, your Employment shall be deemed to have terminated on the date your employer ceases to be a Company subsidiary corporation, unless you are on that date transferred to the Company or another Company subsidiary corporation. Your Employment shall not be deemed to have terminated if you are transferred from the Company to a Company subsidiary corporation, or vice versa, or from one Company subsidiary corporation to another Company subsidiary corporation.

In the event of any change in the outstanding shares of the Common 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 option and the option price of such shares 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.

In the event of a liquidation or proposed liquidation of the Company, including (but not limited to) a transfer of assets followed by a liquidation of the Company, or in the event of a Change in Control that is anticipated to be effected pursuant to a definitive agreement with a third party for sale of the Company to the third party, the Administrator shall have the right to require you to exercise this option upon thirty (30) days prior written notice to you. If at the time such written notice is given this option is not otherwise exercisable, the written notice will set forth your right to exercise this option even though it is not otherwise exercisable conditioned on the Change in Control actually occurring. In the event this option is not exercised by you within the thirty (30) day period set forth in such written notice, this option shall terminate on the last day of such thirty (30) day period, notwithstanding anything to the contrary contained in this option.

This option is not transferable otherwise than by will or the laws of descent and distribution, and is exercisable during your lifetime only by you, including, for this purpose, your legal guardian or custodian in the event of Disability. Until the option price has been paid in full pursuant to due exercise of this option and the purchased shares are delivered to you, you do not have any rights as a shareholder of the Company. The Company reserves the right not to deliver to you the shares purchased by virtue of the exercise of this option during any period of time in which the Company deems, in its sole discretion, that such delivery would violate a federal, state, local or securities exchange rule, regulation or law.

Notwithstanding anything to the contrary contained herein, this option is not exercisable until all the following events occur and during the following periods of time:

(a) During any period of time in which the Company deems that the exercisability of this option, the offer to sell the shares optioned hereunder, or the sale thereof, 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 than the Company is legally entitled to issue or sell;

(b) Until you have paid or made suitable arrangements to pay (which may include payment through the surrender of Common Stock, unless prohibited by the Administrator) (i) all federal, state, local and foreign tax withholding required by the Company in connection with the option exercise and (ii) the employee's portion of other federal, state, local and foreign payroll and other taxes due in connection with the option exercise.

Further, nothing herein guarantees you employment for any specified period of time. You recognize that, for instance, you may terminate your Employment or the Company or any of its Affiliates may terminate your Employment prior to the date on which your option becomes vested or exercisable.

You understand and agree that the existence of this option 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.

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.

Any dispute or disagreement between you and the Company with respect to any portion of this option 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 option 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.

This option shall be subject to the terms of the Plan in effect on the date this option is granted, which terms are hereby incorporated herein by reference and made a part hereof. In the event of any conflict between the terms of this option and the terms of the Plan in effect on the date of this option, the terms of the Plan shall govern. This option constitutes the entire understanding between the Company and you with respect to the subject matter hereof and no amendment, supplement or waiver of this option, in whole or in part, shall be binding upon the Company unless in writing and signed by an authorized officer of the Company (other than you). This option and the performances of the parties hereunder shall be construed in accordance with and governed by the laws of the State of Delaware.

Please sign the copy of this option and return it to the Company's Secretary, thereby indicating your understanding of and agreement with its termination and conditions.

THE PROVIDENCE SERVICE CORPORATION

By: ____

Title: ____

ACKNOWLEDGMENT

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 this option. I hereby signify my understanding of, and my agreement with, the terms and conditions of the Plan and of this option. 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 option. I accept this option 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 ______________________, 20_____

____
Signature of Optionee

____
Name of Optionee

Exhibit 10.29

[PROVIDENCE SERVICE CORPORATION LETTERHEAD]

Date: September 21, 2015

Dear Mr. Matt Umscheid,

We are pleased to extend an offer of employment to you for the position of Senior Vice President of Strategic Services. The position reports to the Chief Executive Officer. As a new employee of Providence Service Corporation you will become an important part of the company dedicated to the delivery of innovative an exceptional service to our customers. The following outlines our employment offer to you:

Hire Date:	November 2, 2015
Status:	Full-Time, Exempt
Bi-Weekly Salary:	$13,461.54
Short-Term Bonus:	You shall be entitled to payment of a Short-Term Bonus in the amount of seventy-five percent (75%) of Base Salary (the "Term Bonus") upon the achievement by Providence of one hundred (100%) of its budgeted EBITDA performance and acceptable performance by the Employee, in each case as determined by Providence's Board of Directors (the "Board") or Providence's Compensation Committee of the Board, subject to the discretion of the Board or a committee thereof to take into account or disregard extraordinary events. The Term Bonus shall be payable promptly following the completion and filing of the Providence's annual audited financial statements for the calendar year, and Employee's rights to receive the Term Bonus shall be contingent upon being employed by Providence or any of its affiliates on the date the payment of the Term Bonus is made, except as otherwise expressly provided. The 2016 Short-term bonus has not been determined, but your bonus opportunity will be consistent with Providence's senior executives.
Long-Term Incentive:	You will be eligible to participate in our Long-Term Incentive Plan (LTIP) at 10% of the Holdco pool. This plan is offered to select leaders who have been identified as key to the company's long-term growth and success.
Executive Benefits:	You will be entitled to life insurance benefits consistent with our executive team. Plus, our long term disability gap coverage.
Bonus:	$5,000 to cover transitional employment expenses.

Providence provides for a variety of benefits to eligible employees, including: health, dental and vision, life insurance, company-sponsored 401(k) plan, paid vacation and sick time as well as paid holidays. The eligibility for these benefits is outlined in our Employee Handbook. You are required to read this handbook during your initial orientation period and sign and return the Acknowledgement form.

Eligibility for participation in our company's 401(k) Retirement Plan begins on the first day of the month, after two full months of continuous employment for your "hire date." On the eligibility date, you are automatically enrolled at 3% of your earnings and the company with match your contribution as described in the Employee Handbook. If you do not want to participate in the 401(k) plan, you must elect to not participate in the 401(k) plan by going on-line or calling the toll free number during your first
2 months of employment, otherwise you will be automatically enrolled at 3% of your income. You are able to change your contribution percentage or waive/decline on-line or by telephone. GO to: www.mykplan.com or call 1-888-822-9238.

This employment offer is contingent upon satisfactory background, academic and reference checks. The Providence Service Corporation reserves the right to rescind this employment offer (or your employment if you are already working here), if the results of any of these checks are not satisfactory.

Your signature below will indicate your acceptance of the position offered. We look forward to your contributions in delivering innovative human services. Please return a signed copy of this employment offer letter. Welcome aboard!

Sincerely,

/s/ James Lindstrom
James Lindstrom
President and CEO

I accept this employment offer with the terms stated above. I understand I am employed at will by Providence Service Corporation. I may resign at any time, for any reason; and may be separated from my employment by Providence Service Corporation at any time, for any reason, except those prohibited by law, with or without notice. Any modification or alteration of the at will term of your employment can only be made in writing and signed by you and the current CEO of Providence Service Corporation

/s/ Matthew Umscheid	September 21, 2015
Employee Signature	Date

Exhibit 12.1

The Providence Service Corporation
Ratio of Earnings to Fixed Charges

	For the Years Ended December 31,				
	2013	**2014**	**2015**	**2016**	**2017**
	(in thousands, except ratios)				
Earnings:					
Pre-tax income (loss) from continuing operations before adjustment for (gain) loss from equity investee	$ 19,730	$ 32,800	$ 876	$ 8,409	$ 52,150
Add: Fixed charges	12,330	20,900	26,739	25,277	23,784
Less: Noncontrolling interest in pre-tax income (loss) of subsidiaries that have not incurred fixed charges	—	—	(502)	(2,082)	451
Earnings	$ 32,060	$ 53,700	$ 28,117	$ 35,768	$ 75,483
Fixed charges:					
Interest expense	$ 7,032	$ 10,424	$ 2,456	$ 1,767	$ 1,637
Interest element of rentals	5,298	10,476	20,348	19,091	17,729
Preferred dividend	—	—	3,935	4,417	4,418
Fixed charges	$ 12,330	$ 20,900	$ 26,739	$ 25,275	$ 23,784
Ratio of earnings to fixed charges	2.60	2.57	1.05	1.42	3.17

Exhibit 21.1

Name of Subsidiary	State/Country of Incorporation
Social Services Providers Captive Insurance Co.	Arizona
Ingeus Australasia Pty Ltd	Australia
Ingeus Australia Pty Ltd	Australia
Ingeus Pty Limited	Australia
Ingeus Victoria Pty Ltd	Australia
Ingeus Australia Holdings Pty Ltd (Formally Pinnacle Australia Bidco Pty Ltd)	Australia
Ingeus Australia Investments Pty Ltd (Formally Pinnacle Australia Holdco Pty Ltd)	Australia
0798576 B.C. LTD	Canada
Aboriginal Jobwave Inc.	Canada
PSC of Canada Exchange Corp.	Canada
WCG International Consultants Ltd.	Canada
Providence IT Procurement, LLC	Connecticut
Health Trans, Inc.	Delaware
Ingeus America, LLC	Delaware
LogistiCare Solutions, LLC	Delaware
Pinnacle Acquisitions LLC	Delaware
Prometheus Holdco, LLC	Delaware
Ride Plus LLC	Delaware
Ross Innovative Employment Solutions Corp.	Delaware
Provado Technologies, LLC	Florida
Red Top Transportation, Inc.	Florida
Ingeus SAS (France)	France

Ingeus GmBH (Germany)	Germany
Ingeus Co. Ltd. (Korea)	Korea
LogistiCare Solutions Independent Practice Association, LLC	New York
Ingeus LLC (Saudi Arabia)	Saudi Arabia
Ingeus Scotland Limited	Scotland
Ingeus PTE. LTD (Singapore)	Singapore
Ingeus S.L. (Spain)	Spain
Ingeus AG (Switzerland)	Switzerland
Ingeus Europe Limited	United Kingdom
Ingeus Investments Limited	United Kingdom
Ingeus UK Holdings Limited (formerly Pinnacle UK Bidco Limited)	United Kingdom
Ingeus UK Limited	United Kingdom
ITL Training Limited	United Kingdom
The Derbyshire Leicestershire Nottinghamshire & Rutland Community Rehabilitation Company Limited	United Kingdom
The Reducing Reoffending Partnership Limited	United Kingdom
The Staffordshire and West Midlands Community Rehabilitation Company Limited	United Kingdom
Zodiac Training Limited	United Kingdom
Invisage Limited	United Kingdom

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
The Providence Service Corporation:

We consent to the incorporation by reference in the registration statements (Nos. 333-212888, 333-183339, 333-166978, 333-151079, 333-135126, and 333-145843) on Form S-8 of The Providence Service Corporation and subsidiaries of our reports dated March 9, 2018, with respect to the consolidated balance sheets of The Providence Service Corporation and subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement schedule II (collectively, the "consolidated financial statements"), and the effectiveness of internal control over financial reporting as of December 31, 2017, which reports appear in the December 31, 2017 annual report on Form 10-K of The Providence Service Corporation.

/s/ KPMG LLP

Stamford, Connecticut
March 9, 2018

Exhibit 23.2

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Numbers 333- 212888, 333-183339, 333-166978, 333-151079, 333-135126, and 333-145843) on Form S-8 of our report dated March 9, 2018, relating to the consolidated financial statements of Mercury Parent, LLC and its subsidiaries as of and for the year ended December 31, 2017 included in the Annual Report on Form 10-K of The Providence Service Corporation for the year ended December 31, 2017.

/s/ Deloitte & Touche LLP

Phoenix, Arizona

March 9, 2018

Exhibit 23.3

Consent of Independent Auditors

The Board of Directors
Mercury Parent, LLC:

We consent to the incorporation by reference in the registration statements (Nos. 333-212888, 333-183339, 333-166978, 333-151079, 333-135126, and 333-145843) on Form S-8 of The Providence Service Corporation and subsidiaries of our report dated March 10, 2017, with respect to the consolidated balance sheet of Mercury Parent, LLC as of December 31, 2016, and the related consolidated statements of operations, members' equity and cash flows for the period from October 19, 2016 to December 31, 2016, which report appears in the December 31, 2017, annual report on Form 10-K of The Providence Service Corporation dated March 9, 2018.

/s/ KPMG LLP

Phoenix, Arizona
March 9, 2018

Exhibit 31.1

CERTIFICATIONS

I, R. Carter Pate, certify that:

1. I have reviewed this annual report on Form 10-K of The Providence Service Corporation;

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

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

4. The registrant's other certifying 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer 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: March 9, 2018

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

Exhibit 31.2

CERTIFICATIONS

I, David Shackelton, certify that:

1. I have reviewed this annual report on Form 10-K of The Providence Service Corporation;

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

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

4. The registrant's other certifying 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer 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: March 9, 2018

By: /s/ David C. Shackelton
David C. Shackelton
Chief Financial Officer
(*Principal Financial Officer*)

Exhibit 32.1

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 Annual Report of the Company on Form 10-K for the year ended December 31, 2017 (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: March 9, 2018

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

Exhibit 32.2

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 Annual Report of the Company on Form 10-K for the year ended December 31, 2017 (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: March 9, 2018

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

Exhibit 99.1

Mercury Parent, LLC

Consolidated Financial Statements as of
December 31, 2017 and 2016, and for the
Year Ended December 31, 2017 and the Period
from October 19, 2016 to December 31, 2016, and
Independent Auditors' Report

MERCURY PARENT, LLC

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Mercury Parent, LLC and its subsidiaries (the "Company") as of December 31, 2017, the related consolidated statements of operations, changes in members' equity, and cash flows, for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Deloitte & Touche LLP

Phoenix, Arizona
March 9, 2018

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

Independent Auditors' Report

The Board of Directors
Mercury Parent, LLC:

We have audited the accompanying consolidated financial statements of Mercury Parent, LLC (the Company) and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of operations, members' equity, and cash flows for the period from October 19, 2016 to December 31, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercury Parent, LLC and its subsidiaries as of December 31, 2016, and the results of their operations and their cash flows in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2 to the consolidated financial statements, effective October 19, 2016, Frazier Healthcare Partners acquired 53.2% of the equity interest in CCHN Group Holdings, Inc. and subsidiaries (predecessor entity) in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial information for the periods after the acquisition is presented on a different cost basis than that for the periods before the acquisition.

/s/ KPMG LLP

Phoenix, Arizona
March 10, 2017

MERCURY PARENT, LLC

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(Amounts in thousands, except unit and per unit amounts)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 15,020	$ 5,308
Clinical assessment and other accounts receivable (net of allowances of $737 and $953, respectively)	17,813	15,776
Income taxes receivable	1,619	810
Escrow deposits	-	3,632
Prepaid expenses and other current assets (including related party of $0 and $812, respectively)	3,111	3,063
Total current assets	37,563	28,589
PROPERTY AND EQUIPMENT—Net	16,869	11,183
GOODWILL	353,864	351,381
INTANGIBLE ASSETS—Net	226,762	252,079
OTHER LONG-TERM ASSETS	118	198
TOTAL ASSETS	$ 635,176	$ 643,430
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 3,652	$ 2,983
Accrued liabilities (including related party of $529 and $396, respectively)	14,624	18,933
Other short-term liabilities	1,065	447
Current portion of long-term debt	8,377	3,428
Total current liabilities	27,718	25,791
DEFERRED TAX LIABILITY—Net	60,580	93,582
OTHER LONG-TERM LIABILITIES	1,039	473
LONG-TERM DEBT—Net of current portion	178,894	187,293
Total liabilities	268,231	307,139
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
MEMBERS' EQUITY:		
Common units (352,950,000 and 351,600,000 units authorized, issued, and outstanding, liquidity preference $1 per unit)	366,945	336,291
Series A units (39,066,667 units authorized, 7,816,520 and 0 units issued and outstanding, participate in dividends and distributions in excess of $1 per common unit)	-	-
Series B units (18,170,543 units authorized, 3,635,591 and 0 units issued and outstanding, participate in dividends and distributions in excess of $1 per common unit)	-	-
Series C units (14,777,249 units authorized, 2,956,655 and 0 units issued and outstanding, participate in dividends and distributions in excess of $1 per common unit)	-	-
Series D units (15,885,542 units authorized, 3,178,404 and 0 units issued and outstanding, participate in dividends and distributions in excess of $1 per common unit)	-	-
Total members' equity	366,945	336,291
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 635,176	$ 643,430

See accompanying notes to consolidated financial statements.

MERCURY PARENT, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017
AND THE PERIOD OCTOBER 19, 2016 TO DECEMBER 31, 2016
(Amounts in thousands)

	Year Ended December 31, 2017	Period from October 19, 2016 to December 31, 2016
NET REVENUES	$227,872	$41,635
OPERATING EXPENSES:		
Service expense	176,582	36,489
General and administrative	2,742	530
Depreciation and amortization	33,512	6,356
Loss on disposition of assets	23	5
Management fees	3,143	2,334
Total operating expenses	216,002	45,714
INCOME (LOSS) FROM OPERATIONS	11,870	(4,079)
INTEREST EXPENSE	(14,818)	(2,949)
LOSS BEFORE TAXES	(2,948)	(7,028)
INCOME TAX BENEFIT	29,613	2,828
NET INCOME (LOSS)	$ 26,665	$ (4,200)

See accompanying notes to consolidated financial statements.

MERCURY PARENT, LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017 AND
FOR THE PERIOD OCTOBER 19, 2016 TO DECEMBER 31, 2016
(Amounts in thousands)

Successor Company	**Common Units**	**Series A**	**Series B**	**Series C**	**Series D**	**Total Members' Equity**
Recapitalization and Issuance of Members' Equity	$ 340,084	$ -	$ -	$ -	$ -	$ 340,084
Net loss from October 19 to December 31	(4,200)	-	-	-	-	(4,200)
Equity-based compensation	407	-	-	-	-	407
BALANCE AT DECEMBER 31, 2016	336,291	-	-	-	-	336,291
Capital contributions	1,350	-	-	-	-	1,350
Net income	26,665	-	-	-	-	26,665
Equity-based compensation	2,639	-	-	-	-	2,639
BALANCE AT DECEMBER 31, 2017	$ 366,945	$ -	$ -	$ -	$ -	$ 366,945

See accompanying notes to consolidated financial statements.

MERCURY PARENT, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017 AND
FOR THE PERIOD OCTOBER 19, 2016 TO DECEMBER 31, 2016
(Amounts in thousands)

	Year Ended December 31, 2017	Period from October 19, 2016 to December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 26,665	$ (4,200)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	33,512	6,356
Amortization of debt issuance costs	1,535	330
Change in deferred income taxes	(34,512)	(2,843)
Equity-based compensation	2,639	407
Provision for sales allowances	(407)	218
Loss on disposal of property and equipment	23	5
Changes in operating assets and liabilities, net of effects of pushdown accounting:		
Clinical assessment and other accounts receivable	(419)	7,327
Prepaid expenses and other current assets	3,672	(2,251)
Other long-term assets	81	3,559
Accounts payable and accrued liabilities	(4,702)	(4,573)
Other liabilities	606	-
Income taxes receivable	(809)	(810)
Net cash provided by operating activities	27,884	3,525
CASH FLOWS FROM INVESTING ACTIVITIES:		
Business acquisition, net of cash acquired	(3,455)	-
Purchases of property and equipment	(11,042)	(3,364)
Net cash used in investing activities	(14,497)	(3,364)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contributions	1,350	-
Payment of financing fees	-	(2,633)
Payment of contingent transaction expenses	-	(1,414)
Draw on term loan	-	193,024
Payments on term loan	(4,950)	(380,000)
Proceeds from issuance of members' equity	-	180,924
Return of capital to Providence	(75)	(5,172)
Net cash used in financing activities	(3,675)	(15,271)
NET INCREASE (DECREASE) IN CASH	9,712	(15,110)
CASH—Beginning of the period	5,308	20,418
CASH—End of the period	$ 15,020	$ 5,308
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 13,147	$ 3,737
Cash paid for income taxes	5,520	147
NONCASH INVESTING AND FINANCING TRANSACTIONS:		
Additions to property and equipment financed through accounts payable and accrued expenses	$ 828	$ -

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND NATURE OF OPERATIONS

Nature of Operations—Mercury Parent, LLC ("Mercury Parent" and collectively with its subsidiaries and affiliates, the "Company") is a Delaware limited liability company formed on October 19, 2016, as a holding company for CCHN Group Holdings, Inc. ("Group"), CCHN Holdings, LLC ("Holdings"), and Community Care Health Network, LLC and its subsidiaries ("CCHN") (collectively "Matrix"). Matrix is a national provider of in-home care optimization and care management solutions, including comprehensive health assessments (CHAs), to members of managed care organizations.

Through a national network of more than 5,800 clinical practitioners, Matrix primarily generates revenue from CHAs, which gather a health plan members' information related to health status, social, environmental, and medication risks to help health plans improve the accuracy of such data and optimize care for the health plan member.

Description of Transaction—Prior to October 19, 2016, CCHN was wholly owned by The Providence Service Corporation ("Providence"), a Delaware corporation. On October 19, 2016, affiliates of Frazier Healthcare Partners ("Buyer") purchased a 53.2% equity interest in CCHN with Providence retaining a 46.8% equity interest. As a result of the transaction, Buyer gained control of CCHN. Concurrent with the transaction, Buyer and Providence exchanged their equity interests in CCHN for similar ownership in Mercury Parent, with CCHN becoming a wholly owned subsidiary of Mercury Parent.

Basis of Presentation—As a result of the above transactions, Buyer applied the provisions of purchase accounting for business combinations. The year ended December 31, 2017, and the 2016 Successor Period consolidated financial statements represent those of the acquired entity. As such, the Company has elected to adopt pushdown accounting and reflect the use of the acquirer's basis in the preparation of its consolidated financial statements beginning with the date of the change of control. This adoption of pushdown accounting causes the Company's consolidated financial statements prior to October 19, 2016, to not be comparable with the consolidated financial statements for periods on or after October 19, 2016. References to "Successor" and "2016 Successor Period" refer to the Company on or after October 19, 2016, the period from October 19, 2016 to December 31, 2016, and the year ended December 31, 2017, respectively.

See Note 2 for further description of the transaction and the application of pushdown accounting.

For periods prior to October 19, 2016, CCHN was a wholly owned subsidiary of Providence. As such, its financial statements were not prepared on a stand-alone basis. The Company has adopted the guidance for carve-out financial statements and has made adjustments to its consolidated financial statements to 1) record the effects of certain financing activities that occurred at the Providence level and 2) to record a provision for income taxes using a separate return method. See Notes 8 and 9.

2. CHANGE OF CONTROL TRANSACTION

As indicated in Note 1, on October 19, 2016 (the "Close Date"), Buyer obtained control of the Company, and the Company has applied pushdown accounting effective as of the Close Date.

The following transactions occurred contemporaneously with closing:

Inflows:

- Buyer funded $187.1 million of cash for its equity interest, including $180.6 million for its acquisition of a 53.2% interest of CCHN and $6.5 million for its pro rata share of the additional capital contribution made at closing.

- The Company received net debt proceeds of $193 million under a new lending arrangement.

Outflows:

- The Company repaid its existing debt plus interest of $381.2 million owed to Providence.

- The Company paid $13.3 million, consisting of $0.6 million of Providence-related expenses, $1.5 million of expenses which were contingent on the close of the transaction and thus not reflected as an expense in the successor period, $2.7 million of prepaid expenses for management fees, $6.2 million of equity issuance costs, and $2.3 million of debt transaction costs.

Fair Value of Consideration Transferred—The fair value of the consideration transferred was $180.9 million of proceeds (net of equity issuance costs) received for the units issued to Buyer, representing a 53.2% equity interest in the Company. The enterprise value of the Company as of the date of the transaction was $340.1 million, and the fair value of the equity interest retained by Providence (46.8%) was determined to be $159.2 million.

Allocation of Consideration Transferred—The transaction has been accounted for by Buyer using the acquisition method of accounting as of the date of change of control. Acquisition method of accounting requires, among other things, that assets acquired and liabilities assumed be measured at their acquisition-date fair values. The excess of the enterprise value over the net fair value of assets acquired and liabilities assumed was recorded as goodwill. Goodwill is not amortized, but is tested for impairment at least annually. The Company elected to push down the effects of the acquisition method as of the Close Date.

The Company allocated the enterprise value of $340.2 million to the estimated fair value of acquired assets (assumed liabilities) as follows (in millions):

Cash and cash equivalents	$ 6.0
Accounts receivable	23.3
Prepaid expenses and other current assets	5.1
Property and equipment	8.7
Intangible assets	257.6
Goodwill	353.2
Other long-term assets	3.8
Accounts payable	(0.3)
Accrued liabilities	(25.7)
Other short-term liabilities	(0.7)
Deferred tax liability	(97.9)
Other long-term liabilities	(2.2)
Long-term debt—net	(190.7)
	$ 340.2

Included in the allocation are measurement period adjustments of $1.4 million to establish a reserve for state tax credits, $0.1 million to true-up income tax refunds due to seller, and $0.1 million final net working capital adjustment. Intangible assets in the table above consist of customer relationships of $180 million and developed technology of $46.2 million that will be amortized over their estimated useful lives of 10 and 5 years, respectively. Indefinite-lived intangible assets consist of trade names and trademarks of $31.4 million, which are not subject to amortization.

The estimates of the fair value of the assets or rights acquired and liabilities assumed at the date of the change of control were subject to adjustment during the measurement period (up to one year from the date of the change of control). The primary areas of the accounting for the change of control that were not yet finalized relate to the fair value of certain tangible and intangible assets acquired, residual goodwill, and any related tax impact. The fair values of these net assets acquired were based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. During the measurement period, the Company reduced the fair value of deferred tax assets by $1.4 million of deferred tax assets for which it is not more likely than not that such assets will be realized. A final net working capital settlement of $0.1 million was paid during the measurement period. The effect of this measurement period adjustment to the estimated fair value was reflected as if the adjustment had been completed on the date of the change of control.

Goodwill recorded in connection with the change of control was attributable to the value of assembled workforce and future synergies expected to be achieved. Currently, the Company has only one reporting unit referred to as the Core Reporting Unit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Revenue Recognition—The Company contracts with health plans to provide clinical assessments for its members that meet certain predetermined criteria as defined by the providers. An assessment is a comprehensive physical examination of an individual performed by one of the Company's physicians or nurse practitioners. The clients for whom the Company performs these examinations use the assessment reports to impact care management of the members and properly report the cost of care of those members. Revenue is recognized using the proportional performance method in the period in which the services are rendered. All costs associated with the acquisition of new customers or contracts are expensed as incurred.

The Company also contracts directly with health plans and offers care management services billed monthly. Revenue is recognized in the period in which the services are rendered. All costs associated with the acquisition of new customers or contracts are expensed as incurred.

Concentration of Credit Risk—For the year ended December 31, 2017 and the 2016 Successor Period, two health plans made up approximately 58% and 42% of net revenues, respectively. Accounts receivable from these two health plans at December 31, 2017 and 2016, were approximately 21% and 29%, respectively, of total accounts receivable.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could materially differ from those assumptions and estimates. The most significant

assumptions and estimates underlying these consolidated financial statements and accompanying notes involve the recognition of revenues and receivables, allowances for contractual discounts and uncollectible accounts, long-lived assets, accounting for income taxes, insurance reserves, fair value estimates, and share-based payments.

Cash and Cash Equivalents—The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are maintained at financial institutions, and at times, balances may exceed federally insured limits. At December 31, 2017 and 2016, the Company has $14.7 million and $5.3 million, respectively, of interest-bearing and non-interest-bearing cash balances with one financial institution that exceed federally insured limits.

Accounts Receivable and Sales Allowances—The Company records accounts receivable amounts at the contractual amount, less an allowance for unbillable assessments. The Company maintains an allowance at an amount it estimates to be sufficient to cover the risk that an assessment will not be able to be billed and collected. The Company regularly evaluates its accounts receivable and reassesses its sales allowances based on updated information.

Property and Equipment—Property and equipment are recorded at cost, less accumulated depreciation, and are depreciated using the straight-line method over the following estimated useful lives of the related assets:

	Useful Life
Computer applications	3 years
Computer equipment	3 years
Office equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	Shorter of lease term or 5 years

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized. For items that are disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the consolidated statements of operations.

In accordance with ASC 360-10-35, "*Impairment or Disposal of Long-Lived Assets*," the Company evaluates the carrying amount of its property and equipment whenever changes in circumstances or events indicate that the value of such assets may not be fully recoverable. An impairment loss is recorded when the sum of the undiscounted future cash flows is less than the carrying amount of the asset and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Software Development Costs—The Company capitalizes certain development costs incurred in connection with its internal-use software in accordance with ASC 350-40, "*Internal-Use Software*." The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. Internal-use software is included as a component of property and equipment, and amortization begins when the computer software is ready for

its intended use. Internal-use software is amortized on a straight-line basis over the estimated useful lives of the related software applications, which are generally three to five years.

For the year ended December 31, 2017 and the 2016 Successor Period, $11 million and $1.9 million, respectively, were capitalized as internally developed software, which is a component of computer software included in property and equipment.

Goodwill—Goodwill represents the excess of the purchase price over the fair value of tangible net assets of acquired businesses after amounts are allocated to other intangible assets.

In accordance with ASC 350-20, "*Intangibles—Goodwill and Other*," the Company evaluates goodwill for impairment on an annual basis as of the first day of the fourth quarter of each calendar year-end and on an interim basis should events and circumstances warrant. To test for impairment, the Company first performs a qualitative assessment of relevant circumstances and events to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If it is determined that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then the Company would perform the two-step goodwill impairment test. Step one is carried out by comparing the fair value of a reporting unit containing the goodwill with its carrying amount, including the goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired. However, if the carrying amount exceeds the fair value, the Company performs step two of the test, which compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The excess carrying amount of the goodwill is considered impaired and an impairment loss is recorded.

Impairment, if any, is based on the excess of the carrying amount over the fair value, based on market value when available, or discounted expected cash flows of those assets and is recorded in the period in which the determination is made.

Other Intangible Assets—Other intangible assets consist of customer relationships, trade names and trademarks, and developed technologies acquired in business combination transactions. Intangible assets (excluding indefinite-lived assets) are amortized over their estimated useful lives using the straight-line method.

In accordance with ASC 360-10-35, "*Impairment or Disposal of Long-Lived Assets*," the Company evaluates the carrying amount of its intangible long-lived assets whenever changes in circumstances or events indicate that the value of such assets may not be fully recoverable. An impairment loss is recorded when the sum of the undiscounted future cash flows is less than the carrying amount of the asset and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Operating Leases—The Company has certain operating leases for its vehicle fleet and its administrative facilities and office equipment in California, Arizona, and Florida. Leases that do not transfer substantially all benefits and risks of ownership to the Company or meet any of the other criteria for capitalization are classified as operating leases. These lease payments are recognized as an expense on a straight-line basis over the lease term.

Debt Issuance Costs—Debt issuance costs are deferred and amortized to interest expense using the effective interest method over the term of the related debt. For the year ended December 31, 2017 and the 2016 Successor Period, the Company recognized

interest expense of $1.5 million and $0.3 million, respectively, from the amortization of debt issuance costs. Unamortized debt issuance costs are $5.8 million and $7.3 million at December 31, 2017 and 2016, respectively, and are a reduction of current and long-term debt.

Defined Contribution Plans—The Company maintains defined contribution plans (the "Plans") for the benefit of eligible employees under the provision of Section 401(k) of the U.S. Internal Revenue Code (IRC). The Company provides matching contributions that vest over three years. Unvested matching contributions are forfeitable upon employee termination. Employee contributions are fully vested and nonforfeitable. The assets of the Plans are held separately from those of the Company and are independently managed and administered. The Company's contributions to these plans were $1.1 million and $0.3 million for the year ended December 31, 2017 and the 2016 Successor Period, respectively.

Income Taxes—The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in its consolidated financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax law or rates.

While Mercury Parent is a pass-through entity, affiliates and subsidiaries in these consolidated financial statements are taxable entities, giving rise to the tax provisions contained in these consolidated financial statements.

The Company reviews its filing positions for all open tax years in all U.S. federal and state jurisdictions where it is required to file for uncertain tax positions. The Company recognizes a liability for each uncertain tax position at the amount estimated to be required to settle the issue. The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company recognized expense of $0.3 million during 2017 related to uncertain tax provisions.

Equity-Based Compensation—The Company accounts for equity-based compensation in accordance with ASC 718, "*Compensation-Stock Compensation*." In accordance with ASC 718, equity-based compensation cost is measured at the grant date based on the fair value of the award. As described in "Recent Accounting Pronouncements" below, the Company early adopted ASU 2016-09 during the year ended December 31, 2017, and elected to account for forfeitures as they occur.

The Company uses an option-pricing model to determine the fair value of stock-based awards. The assumptions for expected terms were determined using the simplified method outlined in Staff Accounting Bulletin No. 110, as the Company does not have sufficient historical evidence for determining expected terms. The risk-free interest rate is based on the U.S. Treasury rates at the grant date with maturity dates approximately equal to the expected term at the grant date. The historical volatility of a representative group of peer companies' stock is used as the basis for the volatility assumption.

Related-Party Management Fees—In connection with the change of control transaction described in Note 2, the Company entered into a management services agreement with an affiliate of its majority member. Under the terms of the agreement, the Company prepaid a management fee of $2.8 million, which was recorded as a prepaid expense and was being

amortized over a term of 3.5 months. For the 2016 Successor Period, the Company amortized $1.9 million of prepaid expense, and the remaining amount was recognized during the year ended December 31, 2017. As part of the agreement, the Company is also obligated to pay to its members an ongoing management fee that equals a combined 4% of consolidated EBITDA, as such term is defined in the agreement, to be distributed based upon each members' relative share of ownership.

The Company recognized management fee expense of $3.1 million and $2.3 million for the year ended December 31, 2017 and the 2016 Successor Period, respectively.

Recent Accounting Pronouncements—In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which delayed the effective date of ASU 2014-09 by one year. In 2016 and 2017, the FASB issued accounting standards updates that amended several aspects of ASU 2014-09. ASU 2014-09, as amended, is effective for the Company beginning January 1, 2019, and allows for full retrospective or modified retrospective methods of adoption. The Company has elected to adopt ASU 2014-09 early as of January 1, 2018, under the modified retrospective method and is currently evaluating the potential impact of adopting this guidance on its consolidated financial statements. However, the Company's preliminary analysis indicates that there is no change to revenue recognition for any of its revenue streams.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU 2016-02, a lessee will be required to recognize assets and liabilities for leases with terms of more than 12 months. Lessor accounting remains substantially similar to current GAAP. In addition, disclosures of leasing activities are to be expanded to include qualitative along with specific quantitative information. ASU 2016-02 will be effective for the Company beginning December 1, 2019 (with early adoption permitted). ASU 2016-02 mandates a modified retrospective transition method. The Company is currently evaluating the potential impact of adopting this guidance on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), which simplifies several aspects of the accounting for share-based payment transactions. ASU 2016-09 requires excess tax benefits and deficiencies from share-based payment awards to be recorded in income tax expense in the statement of operations. Currently, excess tax benefits and deficiencies are recognized in paid-in capital in the balance sheet. This change is required to be applied prospectively. In addition, ASU 2016-09 changes the accounting for statutory tax withholding requirements classification in the statement of cash flows and provides an option to continue to estimate forfeitures or account for forfeitures as they occur. The Company early adopted ASU 2016-09 for the year ended December 31, 2017, and elected to account for forfeitures as they occur. The Company expects ASU 2016-09 to result in increased volatility to its income tax expense in its consolidated statements of operations in 2018 and future periods, the magnitude of which will depend on, among other things, the timing and volume of equity-based compensation awards and the timing and volume of forfeitures.

In August 2016, the FASB issued Accounting Standards Update 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 on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. ASU 2016-15 will be effective for the Company beginning January 1, 2019 (with early adoption permitted). The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update 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. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. ASU 2016-18 will be effective for the Company beginning January 1, 2019 (with early adoption permitted), and will be applied using a retrospective transition method to each period presented. The Company do not expect the adoption of ASU 2016-18 to have a material impact on its consolidated financial statements.

4. ACQUISITIONS

On November 30, 2017, the Company acquired 100% of the equity interests of LP Health Services, LLC and LP Health Network LLC (collectively "LP Health" or the "Membership Interests"). Immediately prior to the transaction, the assets and liabilities related to the Membership Interests were owned by Munich Atlanta Financial Corporation and were contributed into the Membership Interests for the purpose of carving out the specific assets and liabilities to be sold. LP Health is a leading provider of quality and wellness visits on behalf of primarily Medicaid/Duals managed care plans via a national network of providers.

Pursuant to the Membership Interest purchase agreement governing the transaction, the Company acquired all the assets and liabilities of LP Health for an aggregate purchase price of $3.8 million of cash consideration after working capital adjustments and transaction expenses.

The Company has accounted for this transaction as a purchase under ASC 805, "*Business Combinations*." Accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their respective preliminary fair values at the date of the acquisition due to the proximity of the acquisition to the end of the year. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. The Company may adjust the preliminary purchase price allocation, as necessary, for up to one year after the acquisition closing date if it obtains more information regarding asset valuations and liabilities assumed.

The goodwill of $0.9 million resulting from this transaction is attributable to the synergies gained with the Company's existing business. Goodwill also includes an identified assembled workforce with an associated value of $0.3 million which does not qualify for separate acquired asset recognition in a business combination. The goodwill recognized is expected to be deductible for tax purposes. The Company has determined that it will maintain one Core Reporting Unit.

The following table summarizes the preliminary allocation of the total purchase consideration at the date of the acquisition based on current estimates of the fair value of assets acquired and liabilities assumed:

Cash and cash equivalents	$ 0.3
Accounts receivable	1.2
Prepaid expenses and other current assets	0.1
Intangible assets	2.0
Goodwill	0.9
Accrued liabilities	(0.5)
Other short-term liabilities	(0.2)
	$ 3.8

Intangible assets in the table above consist of customer relationships of $1.4 million and developed technology of $0.6 million that will be amortized over their useful lives of eight years and one year, respectively. Indefinite-lived intangible assets consist of trade names and trademarks of $20 thousand, which are not subject to amortization.

5. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2017 and 2016, consists of the following (in millions):

	December 31, 2017	**December 31, 2016**
Computer equipment	$ 3.5	$ 2.9
Computer software	16.0	5.2
Furniture and fixtures	0.8	0.9
Leasehold improvements	0.6	0.6
Work in process	2.5	2.4
	23.4	12.0
Accumulated depreciation	(6.5)	(0.8)
Property and equipment—net	$ 16.9	$ 11.2

Depreciation expense on property and equipment was $6.2 million and $0.8 million for the year ended December 31, 2017 and the 2016 Successor Period, respectively.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill of $353.9 million consists of $352.9 million attributable to the change of control transaction that occurred on October 19, 2016, and $0.9 million attributable to the acquisition of LP Health that occurred on November 30, 2017 (amounts do not total due to rounding of individual components). See Notes 2 and 4. There were no goodwill impairment charges recognized for the year ended December 31, 2017 and the 2016 Successor Period.

Goodwill consists of the following (in millions):

Goodwill:	
Change of control	$ 351.4
Balance at December 31, 2016	$ 351.4
Measurement period adjustments	1.6
LP Acquisition	0.9
Balance at December 31, 2017	$ 353.9

Other intangible assets—net consist of the following (in millions):

	As of December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized intangible assets:			
Customer relationships	$181.4	$(21.6)	$159.8
Developed technologies	46.8	(11.2)	35.6
Indefinite-lived assets— trade names and trademarks	31.4	-	31.4
	$259.6	$(32.8)	$226.8

	As of December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized intangible assets:			
Customer relationships	$180.0	$ (3.6)	$176.4
Developed technologies	46.2	(1.9)	44.3
Indefinite-lived assets— trade names and trademarks	31.4	-	31.4
	$257.6	$ (5.5)	$252.1

At December 31, 2017, the remaining net book value of customer relationships and developed technologies is expected to be amortized over a weighted-average period of 10 years and 5 years, respectively. Trade names and trademarks are indefinite-lived intangible assets and are not subject to amortization.

Other intangible assets are amortized using the straight-line method over the following useful lives:

	Useful Life
Customer relationships	8–10 years
Internal use technology	1–5 years

The Company recognized amortization expense related to other intangible assets of $27.3 million and $5.5 million for the year ended December 31, 2017 and the 2016 Successor Period, respectively.

Estimated future amortization expense of the other intangible assets with finite lives is as follows for each of the fiscal years ending December 31 (in millions):

2018	$ 28.0
2019	27.4
2020	27.4
2021	25.5
2022	18.2
Thereafter	68.9
Total	$ 195.4

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in millions):

	December 31, 2017	**December 31, 2016**
Salaries, payroll taxes, and benefits	$ 4.6	$ 4.9
Accrued interest	0.1	-
Accrued bonuses	2.1	8.4
Other accruals	7.8	5.6
Total accrued liabilities	$ 14.6	$ 18.9

8. LONG-TERM DEBT

Long-term debt consists of the following (in millions):

	December 31, 2017	December 31, 2016
Term loan	$ 193.1	$ 198.0
Unamortized debt issuance costs	(5.8)	(7.3)
Total term loan	187.3	190.7
Less current portion of long-term debt	8.4	3.4
Long-term debt—net of current portion	$ 178.9	$ 187.3

In 2016, the Company entered into a credit facility agreement with a national bank that provides for an initial term loan facility in the amount of $198 million and a revolving credit line amount of $10 million. The term loan bears interest at a rate of London InterBank Offered Rate (LIBOR) plus 5.5% (6.9% at December 31, 2016). Principal and interest payments are due and payable quarterly through the maturity date of October 19, 2021. The Company incurred debt issuance costs of $7.8 million (consisting of $2.3 million paid at the date of funding, an original issue discount of $5 million, and an additional $0.5 million of costs paid subsequent to the date of funding), which have been recorded as a direct reduction to the carrying value of the loan and will be amortized over the life of the loan. Amortization of debt issuance costs for the 2017 and 2016 Successor Periods was $1.5 million and $0.3 million, respectively. As of December 31, 2017 and 2016, unamortized debt issuance costs were $5.8 million and $7.3 million, respectively. The revolving credit line has a variable interest rate that adjusts to the Company's secured net leverage ratio. The interest rate of the revolving credit line is LIBOR plus a margin between 4.5% and 4.75%. The unused portion of the revolving credit line is subject to a commitment fee rate up to 0.5%. Commitment fees incurred on the revolving credit line were $37 thousand and $7 thousand, respectively, for the 2017 and 2016 Successor Periods.

Annual maturities of long-term debt are as follows for the years ending December 31 (in millions):

2018	$ 9.9
2019	9.9
2020	9.9
2021	163.4
Thereafter	-
Total	$ 193.1

9. INCOME TAXES

The components of the Company's income tax provision are as follows (in millions):

	Year Ended December 31, 2017	Period from October 19, 2016 to December 31, 2016
Current:		
Federal	$ 4.2	$ -
State—net of state tax credits	0.7	-
Total current	4.9	-
Deferred:		
Federal	(29.0)	(2.5)
State	(5.5)	(0.3)
Total deferred	(34.5)	(2.8)
Total income tax (benefit) expense	$ (29.6)	$ (2.8)

A reconciliation of the provision for income taxes with the expected provision for income taxes computed by applying the federal statutory income tax rate of 34% to the net loss before provision for income taxes for the year ended December 31, 2017 and the 2016 Successor Period is as follows (in millions):

	Year Ended December 31, 2017	Period from October 19, 2016 to December 31, 2016
Federal income tax at statutory rate	$ (0.9)	$ (2.4)
State income tax benefit—net of federal income tax effect	-	(0.3)
Change in blended rate	(29.2)	-
Research and development tax credits	(1.1)	-
Transaction costs	0.1	-
Change in uncertain tax positions	0.3	-
Tax credits—U.S.	-	-
Change in valuation allowance	0.6	0.1
Nonincludable income from pass-through	0.8	-
Other—net	(0.2)	(0.2)
Total income tax (benefit) expense	$ (29.6)	$ (2.8)

The primary difference between the federal statutory income tax rate and the Company's effective tax rate for 2017 is due to a change in federal income tax rate.

The primary difference between the federal statutory income tax rate and the Company's effective tax rate for 2016 is due to meals and entertainment, business gifts, state income taxes, and change in valuation allowance.

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

	December 31, 2017	**December 31, 2016**
Deferred tax assets:		
Accrued incentive compensation	$ 0.7	$ 2.5
Accrued PTO	0.4	0.7
Allowance for doubtful accounts	0.3	0.4
Deferred rent	0.3	0.2
Cash bonus plan payable	-	0.6
Loss carryforwards	1.0	2.9
Credit carryforwards	2.5	1.7
Other accrued expenses	0.6	0.5
Total deferred tax assets	5.8	9.5
Deferred tax liabilities:		
Fixed assets	(0.5)	(2.4)
Intangible assets	(59.7)	(98.8)
Internally developed software	(3.1)	(0.8)
Total deferred tax liabilities	(63.3)	$ (102.0)
Valuation allowance	(3.1)	(1.1)
Net deferred tax liabilities	$ (60.6)	$ (93.6)

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 35% to 21%, and many other significant changes to the U.S. tax code. At December 31, 2017, the Company has completed and applied its accounting for the tax effects enactment of the Act.

The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. The amount recorded related to the remeasurement of the Company's deferred tax balance was a benefit of $29.2 million. The benefit is included as a component of income tax expense.

At December 31, 2017, the Company has Arizona and California state research and development tax credits of $4.2 million available to offset future income taxes, if any, for those jurisdictions. The Arizona research and development tax credits will begin to expire in 2026. California research and development credits may be carried forward indefinitely.

The valuation allowance of $3.1 million at December 31, 2017, relates to separate legal entities that operate at breakeven for tax purposes and Arizona research and development credits. The Company believes that it is not more likely than not that these entities will be able to realize the tax benefit related to their net operating losses and credits. A portion of the deferred tax assets for Arizona research and development state credits and federal and state net operating losses have been offset by a valuation allowance to reflect this expectation.

The Company has gross federal and state net operating loss carryforwards of $2.9 million and $30.2 million, respectively, at December 31, 2017. Federal net operating loss carryforwards will begin to expire in 2026, and state loss carryforwards will begin to expire in 2022.

Under IRC Section 382 ("Section 382"), the annual utilization of the Company's state net operating loss and research and development carryforwards may be limited. The Company has determined that the annual limitation did not affect net operating loss or research and development utilization in 2017. The Company continues to evaluate the impact of Section 382 on its existing attributes, which may result in the limitation of those attributes in future periods.

In February 2017, CCHN received notice of an Internal Revenue Service (IRS) examination of the federal tax return for the period ending October 23, 2014. CCHN was notified on November 30, 2017, that the IRS completed its examination and made no changes to the reported tax. Management is not aware of any other impending audits.

With exceptions due to the generation and utilization of net operating losses or credits, as of December 31, 2017, CCHN Group Holdings, Inc. & Subsidiaries and the affiliated entities are no longer subject to federal or state examinations by tax authorities for tax years before 2014 and 2013, respectively.

The Company expects no material amount of the unrecognized tax benefits to be recognized during the next 12 months. The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company has no interest or penalties accrued. A reconciliation of the liability for unrecognized income tax benefits is as follows:

	December 31, 2017	**December 31, 2016**
Unrecognized tax benefits—beginning of year	$ 0.8	$ 0.3
Increase related to prior-year tax positions	-	0.4
Increase related to current-year tax positions	0.3	0.1
Unrecognized tax benefits—end of year	$ 1.1	$ 0.8

10. MEMBERS' EQUITY

Capital Structure—During the 2016 Predecessor Period, Matrix was organized with CCHN as its parent, with 500,000 shares of common stock authorized and 112,264 shares outstanding. As part of the change of control transaction described in Note 2, CCHN became a wholly owned subsidiary of Mercury Parent, a limited liability company. At December 31, 2017, Mercury Parent had an authorized capital structure consisting of the following units:

- Common units—353 million units authorized and outstanding, voting rights, liquidation preference of $1 per unit
- Series A units—39.1 million units authorized, no voting rights, participation in distributions in excess of $1 per common unit
- Series B units—18.2 million units authorized, no voting rights, participation in distributions in excess of $2 per common unit
- Series C units—14.8 million units authorized, no voting rights, participation in distributions in excess of $3 per common unit
- Series D units—15.9 million units authorized, no voting rights, participation in distributions in excess of $4 per common unit

For the year ended December 31, 2017, the Company issued an aggregate of 1.4 million common units to its members in exchange for proceeds of $1.4 million.

Equity-Based Compensation—2017 and 2016 Successor Periods—On October 19, 2016, the Company's board of directors adopted a Value Unit Plan (the "Plan") for certain executives within the Company. The Plan provides for awarding of up to 39.1 million Series A units, 18.2 million Series B units, 14.8 million Series C units, and 15.9 million Series D units, with each series of units being nonvoting and vesting at a rate of 25% after the first-year anniversary of the date of grant and 1/36 of the remaining to be vested in each successive month following the first-year anniversary. Each of the units shall participate in distributions provided that minimum value thresholds are met as defined in the Plan. At December 31, 2017, there were 11.4 million of Series A units, 5.3 million of Series B units, 4.3 million of Series C units, and 4.7 million of Series D units available for issuance under the Plan.

The fair value of each Plan unit was established at the date of award based on an option-pricing model using the following assumptions:

	Year Ended December 31, 2017	Period from October 19, 2016 to December 31, 2016
Risk-free interest rate	1.73 %	1.47 %
Expected term	3.0 years	3.0 years
Volatility	57.0 %	57.5 %

The risk-free interest rate was based on the U.S. Federal Reserve rate in effect as of the date of grant, which corresponds to the expected term of the award. The expected term was based on management's estimated time to liquidation. The volatility was based on historical data for a group of peer companies for the expected term of the award.

The following is the activity for the awards for the period from October 19, 2016, to December 31, 2016, and for the year ended December 31, 2017:

	Series A Units	Fair Value per Unit	Series B Units	Fair Value per Unit	Series C Units	Fair Value per Unit	Series D Units	Fair Value per Unit
Awards outstanding at October 19, 2016	-	$ -	-	$ -	-	$ -	-	$ -
Awards granted	28,845,525	0.27	13,416,522	0.13	10,911,028	0.07	11,729,354	0.04
Awards outstanding at December 31, 2016	28,845,525	0.27	13,416,522	0.13	10,911,028	0.07	11,729,354	0.04
Awards granted	1,074,333	0.27	499,690	0.13	406,374	0.07	436,852	0.04
Awards forfeited	(2,295,167)	0.27	(1,067,519)	0.13	(868,163)	0.07	(933,276)	0.04
Awards outstanding at December 31, 2017	27,624,691	$ 0.27	12,848,693	0.13	10,449,239	$ 0.07	11,232,930	0.04
Awards vested and expected to vest at December 31, 2017	26,962,045	$ 0.27	12,540,486	$ 0.13	10,200,919	$ 0.07	10,963,481	$ 0.04
Awards vested at December 31, 2017	7,725,417	$ 0.27	3,593,217	$ 0.13	2,992,195	$ 0.07	3,141,359	$ 0.04

The Company issues the respective equity units upon reaching the vesting date. The grant-date fair value of all unit awards granted under the Plan during the year ended December 31, 2017 and the 2016 Successor Period, was $0.2 million and $9.5 million, respectively. During the year ended December 31, 2017, and the 2016 Successor Period, the Company recognized $2.5 million and $0.4 million, respectively, of compensation expense for these awards. All compensation expense is included in service expense in the consolidated statements of operations. Unrecognized compensation expense related to the Plan as of December 31, 2017, was $7.2 million, which is expected to be recognized over a weighted-average period of 1.5 years. All awards are classified as equity.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Company leases office space in Arizona, California, and Massachusetts under operating leases that expire through 2022. These leases contain rent escalation clauses that have been factored into determining rent expense on a straight-line basis over the respective lease term. Rent expense under these leases totaled $2.5 million and $0.5 million for the year ended December 31, 2017 and the 2016 Successor Period, respectively. The Company has subleased its office space in California, for which it received income of $0.1 million and $0 million for the year ended December 31, 2017 and the 2016 Successor Period, respectively. Under this sublease, the Company expects to receive $0.2 million in 2018 and $0.1 million in 2019.

In September 2012, the Company entered into a master lease agreement with a vehicle fleet service company. This agreement has a base term of one year and will continue indefinitely thereafter until canceled or terminated by either party. The minimum lease term for each vehicle is 367 days, beginning on the Company's acceptance of the vehicle.

Thereafter, the lease term may be renewed monthly for the lesser of the maximum lease term (up to 96 months) or the amortization term set in the respective vehicle order. Lease expense for the fleet lease for the year ended December 31, 2017 and the 2016 Successor Period totaled $3.7 million and $0.9 million, respectively.

At December 31, 2017, the approximate future minimum rental payments under the noncancelable operating leases are as follows (in millions, net of expected subleases):

2018	$ 3.2
2019	3.1
2020	3.1
2021	3.0
2022	2.3
Thereafter	-
Total	$ 14.7

Severance Agreements—The Company has entered into employment and termination agreements with key personnel that obligate the Company for salary continuation upon termination without cause. For the year ended December 31, 2017 and the 2016 Successor Period, the Company incurred $0.5 million and $0.1 million, respectively, of severance costs. At December 31, 2017, the Company had no accrued severance costs.

Bonus Incentive Plan—Year Ended December 31, 2017, and 2016 Successor Period—In connection with the change of control transaction described in Note 2, the Company implemented a new bonus plan which superseded the predecessor plan. Under the new plan, an aggregate of $8.8 million is payable to certain employees, with 50% payable on the 60-day anniversary of the change of control transaction and the other 50% payable on the six-month anniversary of the transaction. Such amounts are subject to continued employment. A portion of the amounts payable reflects a $2.2 million obligation that existed under the former bonus incentive plan as of the date of the change of control transaction. Upon the adoption of the new plan, the rights to the former bonus plan were surrendered. As such, the Company has reversed the existing $2.2 million accrual in the 2016 Successor Period and is recognizing $8.8 million as service expense over the period to which services are to be rendered. The Company recognized $2.7 million and $6.1 million of bonus expense related to this plan for the year ended December 31, 2017, and the 2016 Successor Period, respectively. For the year ended December 31, 2017, and the 2016 Successor Period, $4.4 million and $4.4 million, respectively, was paid under the plan. As of December 31, 2017 and 2016, the Company had $0 and $1.8 million accrued related to this plan.

Management Incentive Plan—The Company has a bonus incentive plan available for certain managers and executives of the Company. The bonus incentive plan is based on the financial results of the Company, which include certain benchmark thresholds that are determined annually to establish a baseline pool of the amounts to be distributed to the eligible participants. If the Company does not meet the requirements as defined annually by the board of directors, the baseline pool is established for distribution based on a sliding scale. Further, the distribution of the bonus amounts is based at least in part on the individual performance of the eligible participants. For the year ended December 31, 2017 and the 2016 Successor Period, the Company incurred $1.5 million and $0.8 million, respectively, of management incentive costs. At December 31, 2017 and 2016, the

Company had $1.8 million and $4.4 million, respectively, in accrued management incentive costs.

Cash Bonus Plan—In connection with Providence's acquisition of CCHN on October 23, 2014, a seller-funded $5 million bonus pool was established for the benefit of certain Company employees. Plan amounts are held in escrow with escrow releases each time amounts are paid under the plan. Original awards under the plan are to be paid 25%, 25%, and 50% on the first, second, and third anniversaries of the acquisition. Amounts under the plan are reallocated upon forfeiture with reallocation awards scheduled to be paid on or before December 31, 2017. For the year ended December 31, 2017 and the 2016 Successor Period, the Company incurred $1.6 million and $0.5 million, respectively, of bonus expense. At December 31, 2017, all such amounts have been paid.

Laws and Regulations—The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, Medicare and Medicaid fraud and abuse, false claims, and disguised payments in exchange for the referral of patients. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care service providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretations.

The Health Insurance Portability and Accountability Act (HIPAA) was enacted on August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Effective August 2009, the Health Information Technology for Economic and Clinical Health Act was introduced imposing notification requirements in the event of certain security breaches relating to protected health information. Organizations are required to be in compliance with HIPAA provisions and are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations.

Legal—The Company is a party to various legal actions arising in the ordinary course of business. The Company believes that potential liability, if any, under these claims will not have a material adverse effect on the consolidated financial position, results of operations, or cash flows.

As of December 31, 2017, the Company is defending several malpractice claims which arose from a discontinued legacy business. The Company believes it is reasonably possible that a loss has occurred; however, the Company is not able to reliably estimate the amount of loss. The Company does not believe the aggregate amount of liability that could be reasonably possible with respect to these matters would have a material adverse effect on its financial results.

Insurance—In the Predecessor Period, the Company maintained a large deductible workers' compensation plan (in all states except Ohio and Washington where workers' compensation is covered under a premium-only policy by a state-funded workers' compensation system). In the Successor Period, the Company established and maintained a fully funded, no deductible workers' compensation plan (in all states except Ohio and Washington as stated previously). The Company also maintains a self-insured medical plan for both the Predecessor and Successor periods. Other healthcare benefits such as vision and dental remained fully insured.

Determining reserves for losses in these self-insured programs involves significant judgments based upon the Company's experience and expectations of future events, including projected settlements for pending claims, known incidents which may result in claims, estimate of incurred but not yet reported claims, estimated litigation costs and other factors. Since these reserves are based on estimates, actual expenses may differ from the amount reserved. The Company had $11 thousand and $0.2 million of estimated workers' compensation plan losses and $0.8 million and $0.4 million of estimated medical plan losses included in accrued liabilities at December 31, 2017 and 2016, respectively

12. SUBSEQUENT EVENTS

On January 4, 2018, the Company entered into a definitive agreement to acquire a majority interest in DPN USA, LLC and Affiliates ("HealthFair") at a valuation of $160.0 million. HealthFair is the leading provider of mobile health risk assessments and diagnostic testing services and operates the nation's largest fleet of mobile health clinics which perform health screenings, diagnostics and lab testing for health plan members, communities, and employers nationwide. The transaction closed on February 16, 2018 at which time HealthFair rolled-over $36.4 million for the purchase of 24.2 million common units of the Company. The Company financed a portion of the acquisition price through the transaction described below.

On February 16, 2018, the Company entered into a financing transaction consisting of a $330.0 million first lien term loan and a $20.0 million revolving line of credit, of which none was drawn. The term loan bears interest at a rate of LIBOR plus 4.75% and is due and payable on February 15, 2025. The Company incurred debt issuance costs of $6.1 million associated with this financing.

The Company has evaluated all subsequent events that occurred after the consolidated balance sheet date through March 9, 2018, which represents the date the consolidated financial statements were available to be issued. The Company is not aware of any significant events that have not been disclosed herein that will have an impact of these consolidated financial statements.