Attachment B.11-A:

Kracke-B.10-Kracke Resume

REDACTED

REDACTED

Attachment B.11-B:

Kracke-B.27 References

Attachment B.11-C:
LogistiCare-B.4-Litigation

REDACTED

REDACTED

REDACTED

REDACTED

REDACTED

REDACTED

Attachment B.11-D:

LogistiCare-B.7-Providence

2009-2010 10K

PROVIDENCE SERVICE CORP (PRSC)

10-K

Annual report pursuant to section 13 and 15(d)
Filed on 03/11/2011
Filed Period 12/31/2010

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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Management's Report on Internal Control Over Financial Reporting

Our management has the responsibility for establishing and maintaining adequate internal control over financial reporting for the registrant, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f). Under the supervision and with the participation of our principal executive officer and principal financial officer, we conducted an assessment, as of December 31, 2010, of the effectiveness of our internal control over financial reporting based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control–Integrated Framework.

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.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

Based on our assessment, we concluded our internal control over financial reporting is effective as of December 31, 2010.

KPMG LLP, an independent registered public accounting firm, which audited our consolidated financial statements included in this report on Form 10-K has issued an attestation report on the effectiveness of our internal control over financial reporting. KPMG LLP's attestation report is also included in this report on Form 10-K.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Providence Service Corporation:

We have audited The Providence Service Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Providence Service Corporation'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 annual report on internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of The Providence Service Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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.

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 U.S. 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 U.S. 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.

In our opinion, The Providence Service Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Providence Service Corporation and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated March 11, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Phoenix, Arizona
March 11, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Providence Service Corporation:

We have audited the accompanying consolidated balance sheets of The Providence Service Corporation and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedules contained in Item 15(a)(2). These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Providence Service Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 11, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Phoenix, Arizona
March 11, 2011

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The Providence Service Corporation

Consolidated Balance Sheets

	December 31, 2009	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 51,157,429	$ 61,260,661
Accounts receivable—billed, net of allowance of $2.9 million in 2009 and $5.3 million in 2010	80,458,245	75,845,917
Accounts receivable—unbilled	329,577	265,691
Management fee receivable(1)	7,160,001	5,839,735
Other receivables	4,118,213	3,929,866
Restricted cash	8,153,610	7,314,535
Prepaid expenses and other(2)	12,439,613	15,478,221
Deferred tax assets	3,558,034	1,633,644
Total current assets	167,374,722	171,568,270
Property and equipment, net	11,166,272	16,401,107
Goodwill	113,672,945	113,783,389
Intangible assets, net	73,963,261	66,441,817
Restricted cash, less current portion	5,941,924	9,079,563
Other assets	10,987,542	9,659,349
Total assets	$ 383,106,666	$386,933,495
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term obligations	$ 17,480,918	$ 18,113,512
Accounts payable	4,010,560	2,887,837
Accrued expenses	33,389,729	33,551,129
Accrued transportation costs	40,907,527	41,868,694
Deferred revenue	8,347,258	5,373,742
Interest rate swap	372,408	—
Reinsurance liability reserve	12,644,670	11,898,200
Total current liabilities	117,153,070	113,693,114
Long-term obligations, less current portion	186,732,342	164,190,260
Other long-term liabilities	5,143,322	8,721,610
Deferred tax liabilities	11,740,340	11,579,849
Total liabilities	320,769,074	298,184,833
Commitments, contingencies and subsequent events (Notes 19, 22 and 24)		
Stockholders' equity		
Common stock: Authorized 40,000,000 shares; $0.001 par value; 13,521,959 and 13,580,385 issued and outstanding (including treasury shares)	13,522	13,580
Additional paid-in capital	170,551,301	172,540,912
Retained deficit	(102,128,229)	(78,501,586)
Accumulated other comprehensive loss, net of tax	(1,675,572)	(880,814)
Treasury shares, at cost, 619,768 shares	(11,383,967)	(11,383,967)
Total Providence stockholders' equity	55,377,055	81,788,125
Non-controlling interest	6,960,537	6,960,537
Total stockholders' equity	62,337,592	88,748,662
Total liabilities and stockholders' equity	$ 383,106,666	$386,933,495

(1) Includes related party management fee receivable of approximately $281,000 and $237,000 at December 31, 2009 and 2010, respectively.
(2) Includes related party prepaid travel expenses of approximately $108,000 at December 31, 2009 and 2010.

See accompanying notes to the consolidated financial statements

The Providence Service Corporation

Consolidated Statements of Operations

	Year ended December 31, 2008	2009	2010
Revenues:			
Home and community based services	$ 258,003,077	$ 289,006,655	$ 292,735,117
Foster care services	32,343,247	37,283,711	35,547,733
Management fees(1)	20,217,211	14,447,586	13,637,781
Non-emergency transportation services	381,106,735	460,275,314	537,776,026
	691,670,270	801,013,266	879,696,657
Operating expenses:			
Client service expense(2)	253,652,123	275,126,619	289,152,011
Cost of non-emergency transportation services	356,271,344	415,299,812	474,128,586
General and administrative expense(2)	48,411,826	44,009,666	46,460,682
Asset impairment charges	169,930,171	—	—
Depreciation and amortization	12,721,494	12,852,107	12,652,027
Total operating expenses	840,986,958	747,288,204	822,393,306
Operating income (loss)	(149,316,688)	53,725,062	57,303,351
Other (income) expense:			
Interest expense	19,578,404	20,798,250	16,267,881
Interest income	(978,877)	(365,853)	(256,033)
Income (loss) before income taxes	(167,916,215)	33,292,665	41,291,503
Provision (benefit) for income taxes	(12,311,542)	12,167,058	17,664,860
Net income (loss)	$ (155,604,673)	$ 21,125,607	$ 23,626,643
Earnings (loss) per common share:			
Basic	$ (12.42)	$ 1.61	$ 1.79
Diluted	$ (12.42)	$ 1.60	$ 1.78
Weighted-average number of common shares outstanding:			
Basic	12,531,869	13,130,092	13,194,226
Diluted	12,531,869	13,211,393	14,964,516

(1) Includes related party management fees of approximately $509,000, $292,000 and $270,000 for the years ended December 31, 2008, 2009 and 2010, respectively.

(2) Includes related party expenses of approximately $321,000, $388,000 and $520,000 for the years ended December 31, 2008, 2009 and 2010, respectively.

See accompanying notes to the consolidated financial statements

The Providence Service Corporation

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)

	Common Stock		Additional Paid-In Capital	Common Stock Subscription Receivable	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Non-Controlling Interest	Total
	Shares	Amount					Shares	Amount		
Balance at December 31, 2007	12,756,392	$ 12,756	$ 159,176,594	$ (714,654)	$ 32,350,837	$ 1,093,367	612,026	$(11,259,207)	$ 7,648,946	$ 188,308,639
Stock-based compensation	—	—	8,760,435	—	—	—	—	—	—	8,760,435
Restricted stock issued/withheld	567,645	567	(567)	—	—	—	7,742	(124,760)		(124,760)
Exercise of employee stock options including income tax shortfall of $1.3 million	33,504	34	(843,672)	—	—	—	—	—	—	(843,638)
Unregistered stock issued to former members of WD Management, L.L.C.	78,740	79	2,223,381	—	—	—	—	—	—	2,223,460
PSC of Canada Exchange Corp. shares exchanged	14,379	14	382,439	—	—	—	—	—	(382,453)	—
Stock option cancellation and exchange—Logisticare	11,696	12	(12)	—	—	—	—	—	—	—
Common stock subscription receivable	—	—	—	714,654	—	—	—	—	—	714,654
Change in fair value of derivative, net of income tax benefit of $653,241	—	—	—	—	—	(991,091)	—	—	—	(991,091)
Foreign currency translation adjustments	—	—	—	—	—	(4,551,823)	—	—	—	(4,551,823)
Net loss	—	—	—	—	(155,604,673)	—	—	—	—	(155,604,673)
Total comprehensive loss										(161,147,587)
Balance at December 31, 2008	13,462,356	13,462	169,698,598	—	(123,253,836)	(4,449,547)	619,768	(11,383,967)	7,266,493	37,891,203
Stock-based compensation	—	—	302,071	—	—	—	—	—	—	302,071
Exercise of employee stock options, including net tax benefit of $95,068	48,100	48	244,688		—	—	—	—	—	244,736
PSC of Canada Exchange Corp. shares exchanged	11,503	12	305,944	—	—	—	—	—	(305,956)	—
Change in fair value of derivative and impact of de-designation, net of income tax of $543,929	—	—	—	—	—	820,121	—	—	—	820,121
Foreign currency translation adjustments	—	—	—	—	—	1,953,854	—	—	—	1,953,854
Net income	—	—	—	—	21,125,607	—	—	—	—	21,125,607
Total comprehensive income										23,899,582
Balance at December 31, 2009	13,521,959	13,522	170,551,301	—	(102,128,229)	(1,675,572)	619,768	(11,383,967)	6,960,537	62,337,592
Stock-based compensation	—	—	1,694,371	—	—	—	—	—	—	1,694,371
Exercise of employee stock options, including net tax shortfall of $175,589	57,760	57	295,241	—	—	—	—	—	—	295,298
Restricted stock issued	666	1	(1)	—	—	—	—	—	—	—
Change in fair value of derivative, net of income tax of $94,449	—	—	—	—	—	170,970	—	—	—	170,970
Foreign currency translation adjustments	—	—	—	—	—	623,788	—	—	—	623,788
Net income	—	—	—	—	23,626,643	—	—	—	—	23,626,643
Total comprehensive income										24,421,401
Balance at December 31, 2010	13,580,385	$ 13,580	$ 172,540,912	$ —	$ (78,501,586)	$ (880,814)	619,768	$(11,383,967)	$ 6,960,537	$ 88,748,662

See accompanying notes to the consolidated financial statements

The Providence Service Corporation

Consolidated Statements of Cash Flows

	Year ended December 31, 2008	2009	2010
Operating activities			
Net income (loss)	$ (155,604,673)	$ 21,125,607	$ 23,626,643
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	4,505,214	4,689,709	4,952,722
Amortization	8,216,280	8,162,398	7,699,305
Amortization of deferred financing costs	2,698,184	2,979,515	2,445,848
Provision for doubtful accounts	4,084,333	4,479,094	4,899,377
Deferred income taxes	(14,553,560)	2,299,614	1,369,316
Stock based compensation	8,760,435	302,071	1,694,371
Excess tax benefit upon exercise of stock options	(184,908)	(140,312)	(66,372)
Asset impairment charges	169,930,171	—	—
Other	27,878	109,212	87,566
Changes in operating assets and liabilities, net of effects of acquisitions:			
Billed and unbilled accounts receivable	(9,276,794)	(10,542,465)	28,979
Management fee receivable	(2,364,483)	542,357	1,320,267
Other receivables	(417,295)	(1,109,999)	97,397
Restricted cash	(214,098)	112,043	5,333
Prepaid expenses and other	(5,828,653)	3,005,629	(3,387,496)
Reinsurance liability reserve	2,621,087	4,114,560	1,511,582
Accounts payable and accrued expenses	(6,680,776)	7,046,947	(906,472)
Accrued transportation costs	7,474,815	8,856,202	961,167
Deferred revenue	(702,259)	4,885,641	(3,011,441)
Other long-term liabilities	(104,912)	183,519	697,127
Net cash provided by operating activities	12,385,986	61,101,342	44,025,219
Investing activities			
Purchase of property and equipment, net	(4,664,007)	(3,699,385)	(10,265,944)
Acquisition of businesses, net of cash acquired	(3,597,766)	(1,037,650)	—
Acquisition of management agreement	(418,462)	(100,000)	—
Acquisition earnout payments	(6,670,655)	—	—
Restricted cash for contract performance	2,506,353	(1,196,637)	(2,303,897)
Purchase of short-term investments, net	(185,515)	(194,304)	(120,733)
Collection of notes receivable	3,291,943	599,841	—
Net cash used in investing activities	(9,738,109)	(5,628,135)	(12,690,574)
Financing activities			
Repurchase of common stock, for treasury	(124,760)	—	—
Proceeds from common stock issued pursuant to stock option exercise	469,320	149,667	470,887
Excess tax benefit upon exercise of stock options	184,908	140,312	66,372
Repayment of long-term debt	(8,650,000)	(33,545,345)	(21,909,488)
Debt financing costs	(88,775)	(802,329)	(61,053)
Capital lease payments	(1,012)	(69,413)	(13,364)
Net cash used in financing activities	(8,210,319)	(34,127,108)	(21,446,646)
Effect of exchange rate changes on cash	(451,956)	447,083	215,233
Net change in cash	(6,014,398)	21,793,182	10,103,232
Cash at beginning of period	35,378,645	29,364,247	51,157,429
Cash at end of period	$ 29,364,247	$ 51,157,429	$ 61,260,661

See accompanying notes to the consolidated financial statements

The Providence Service Corporation

Supplemental Cash Flow Information

	Year ended December 31,		
	2008	2009	2010
Supplemental cash flow information			
Cash paid for interest	$ 16,773,008	$ 17,789,734	$ 14,581,039
Cash paid for income taxes	$ 4,177,798	$ 7,066,871	$ 19,820,184
Note payable obtained to finance prepaid insurance	$ 989,925	$ —	$ —
Stock issued to former members of WD Management, L.L.C.	$ 2,223,460	$ —	$ —
PSC of Canada Exchange Corp. shares exchanged	$ 382,453	$ 305,956	$ —
Change in fair value of derivative and impact of de-designation	$ (991,091)	$ 820,121	$ 170,970
Business acquisitions:			
Purchase price	$ 8,900,000	$ 29,478	$ —
Costs of acquisition	599,291	213,193	—
Less:			
Cash (received) paid for working capital adjustment	(479,716)	269,979	—
Amount due to former shareholder	(525,000)	525,000	—
Credit for indebtedness of management fees	(4,827,425)	—	—
Cash acquired	(69,384)	—	—
Acquisition of business, net of cash acquired	$ 3,597,766	$ 1,037,650	$ —

See accompanying notes to the consolidated financial statements

The Providence Service Corporation

Notes to Consolidated Financial Statements

December 31, 2010

1. Nature of Operations

Description of Business

The Providence Service Corporation (the "Company") is a government outsourcing privatization company. The Company operates in the following two segments: Social Services and Non-Emergency Transportation Services ("NET Services"). As of December 31, 2010, the Company operated in 43 states, and the District of Columbia, United States, and British Columbia, Canada.

The Social Services operating segment responds to governmental privatization initiatives in adult and juvenile justice, corrections, social services, welfare systems, education and workforce development by providing home-based and community-based counseling services and foster care services to at-risk families and children. These services are purchased primarily by state, county and city levels of government, and are delivered under block purchase, cost based and fee-for-service arrangements. The Company also contracts with not-for-profit organizations to provide management services for a fee.

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

Seasonality

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

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

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its subsidiaries, including its foreign wholly-owned subsidiary WCG International Ltd. ("WCG"). All intercompany accounts and transactions have been eliminated in consolidation.

3. Basis of Accounting

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") that the Company follows. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants, which the Company is required to follow. References to GAAP issued by the FASB in these footnotes are to the FASB *Accounting Standards Codification* ("ASC"), which serves as a single source of authoritative non-SEC accounting and reporting standards to be applied by nongovernmental entities. The FASB finalized the ASC effective for periods ending on or after September 15, 2009. Prior FASB standards like FASB Statement of Accounting Standards and FASB Staff Positions are no longer being issued by the FASB.

4. Significant Accounting Policies

Foreign Currency Translation

The financial position and results of operations of WCG are measured using WCG's local currency (Canadian Dollar) as the functional currency. Revenues and expenses of WCG have been translated into U.S. dollars at average exchange rates prevailing during the period. Assets and liabilities have been translated at the rates of exchange on the balance sheet date. The resulting translation gain and loss adjustments are recorded directly as a separate component of stockholders' equity. At present and for the foreseeable future, the Company intends to reinvest any undistributed earnings of its foreign subsidiary in foreign operations. As a result, the Company is not providing for U.S. or additional foreign withholding taxes on its foreign subsidiary's undistributed earnings. Generally, such earnings become subject to U.S. tax upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of unrecognized deferred tax liability for temporary differences that are essentially permanent in duration on such undistributed earnings.

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 Federal Deposit Insurance Corporation (FDIC) and the Canada Deposit Insurance Corporation (CDIC) insurance limits.

At December 31, 2009 and 2010, approximately $4.4 million and $3.8 million, respectively, of cash was held by WCG and is not freely transferable without unfavorable tax consequences between the Company and WCG.

Restricted Cash

The Company had approximately $14.1 million and $16.4 million of restricted cash at December 31, 2009 and 2010 as follows:

	December 31, 2009	December 31, 2010
Collateral for letters of credit—Contractual obligations	$ 418,000	$ 243,000
Contractual obligations	786,801	781,468
Subtotal restricted cash for contractual obligations	1,204,801	1,024,468
Collateral for letters of credit—Reinsured claims losses	4,041,000	4,808,921
Escrow—Reinsured claims losses	8,849,733	10,560,709
Subtotal restricted cash for reinsured claims losses	12,890,733	15,369,630
Total restricted cash	14,095,534	16,394,098
Less current portion	8,153,610	7,314,535
	$ 5,941,924	$ 9,079,563

Of the restricted cash amount at December 31, 2009 and 2010:

- $418,000 and $243,000 served as collateral for irrevocable standby letters of credit that provide financial assurance that the Company will fulfill certain contractual obligations;
- approximately $787,000 and $781,000 was held to fund the Company's obligations under arrangements with various governmental agencies through the correctional services business acquired by the Company in 2006 ("Correctional Services");
- approximately $4.0 million and $4.8 million served as collateral for irrevocable standby letters of credit to secure any reinsured claims losses under the Company's general and professional liability and workers' compensation reinsurance programs and was classified as noncurrent assets in the accompanying consolidated balance sheets;
- approximately $1.6 million and $4.0 million was restricted and held in trust for reinsurance claims losses under the Company's general and professional liability reinsurance program; and
- approximately $7.2 million and $6.5 million was restricted in relation to our auto liability program.

At December 31, 2010, approximately $5.1 million, $4.0 million, $6.3 million and $250,000 of the restricted cash was held in custody by the Bank of Tucson, Wells Fargo, Fifth Third Bank and Bank of America, respectively. The cash is restricted as to withdrawal or use and is currently invested in certificates of deposit or short-term marketable securities. The remaining balance of approximately $781,000 is also restricted as to withdrawal or use, and is currently held in various non-interest bearing bank accounts related to Correctional Services.

Short-Term Investments

As part of its cash management program, the Company from time to time maintains short-term investments. These investments have a term to earliest maturity of less than one year and are comprised of certificates of deposit. These investments are carried at cost, which approximates market and are classified as "Prepaid expenses and other" in the accompanying consolidated balance sheets.

Derivative Instruments and Hedging Activities

The Company held a derivative financial instrument for the purpose of hedging interest rate risk. The type of risk hedged related to the variability of future earnings and cash flows caused by movements in interest rates applied to the Company's floating rate long-term debt. The Company documented its risk management strategy and hedge effectiveness at the inception of the hedge and continued to assess its effectiveness during the term of the hedge. The Company designated the interest rate swap as a cash flow hedge under ASC Topic 815-*Derivatives and Hedging* ("ASC 815").

Derivatives that have been designated and qualify as cash flow hedging instruments are reported at fair value. The Company measures hedge effectiveness by formally assessing, at least quarterly, the correlation of the expected future cash flows of the hedged item and the derivative hedging instrument. The gain or loss on the effective portion of the hedge (i.e. change in fair value) is reported as a component of accumulated other comprehensive loss. The remaining gain or loss of the ineffective portion of the hedge, if any, is recognized in earnings. The fair value of the cash flow hedging instrument was a liability of approximately $372,000 as of December 31, 2009, which was classified as "Interest rate swap" in the accompanying consolidated balance sheets. As of December 31, 2010, the Company did not have any hedging instruments.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, management fee receivable and accounts payable approximate their fair value because of the relatively short-term maturity of these instruments. The fair value of the Company's long-term obligations is estimated based on interest rates for the same or similar debt offered to the Company having same or similar remaining maturities and collateral requirements. The carrying amount of the long-term obligations approximates its fair value.

Accounts Receivable and Allowance for Doubtful Accounts

Clients are referred to the Company through governmental social services programs and it only provides services at the direction of a payer under a contractual arrangement. These circumstances have historically minimized any uncollectible amounts for services rendered. However, the Company recognizes that not all amounts recorded as accounts receivable will ultimately be collected.

The Company records all accounts receivable amounts at their contracted 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 specific client collection issues. The Company pays particular attention to amounts outstanding for 365 days and longer. Any account receivable older than 365 days is generally deemed uncollectible and written off or fully reserved unless the Company has specific information from the payer that payment for those amounts is forthcoming or has other evidence which the Company believes supports that amounts older than 365 days will be collected. In circumstances where the Company is aware of a specific payer's inability to meet its financial obligation, the Company records a specific addition to its allowance for doubtful accounts to reduce the net recognized receivable to the amount the Company reasonably expects to collect.

Under certain of the Company's contracts, billings do not coincide with revenue recognized on the contract due to payer administrative issues. These unbilled accounts receivable represent revenue recorded for which no amount has been invoiced and for which the Company expects an invoice will not be provided to the payer within the normal billing cycle. Unbilled amounts are considered current when billed, which generally occurs within one year from the date of service.

The Company's write-off experience for each of the years ended December 31, 2008, 2009 and 2010 was approximately 1% of the Company's revenue.

Property and Equipment

Property and equipment are stated at historical cost, or at fair value if acquired by acquisition. Depreciation is provided using the straight-line method over the estimated useful life of the assets. Maintenance and repairs are charged to expense when they are incurred. Upon the disposition of any asset, its accumulated depreciation is deducted from the original cost, and any gain or loss is reflected in operating expense.

Impairment of Long-Lived Assets

Goodwill

The Company analyzes the carrying value of goodwill at the end of each fiscal year and between annual valuations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. In connection with its analysis of the carrying value of goodwill, the Company reconciles the aggregate fair value of its reporting units to the Company's market capitalization including a control premium that is reasonable within the context of industry data on premiums paid. When determining whether goodwill is impaired, the Company compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of the reporting unit goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value. The Company's annual evaluation of goodwill completed as of December 31, 2010 resulted in no impairment loss.

Intangible assets subject to amortization

The Company separately values all acquired identifiable intangible assets apart from goodwill. The Company allocated a portion of the purchase consideration to customer relationships, developed technology, management contracts, restrictive covenants and software licenses acquired in the years 2006–2008 based on the expected direct or indirect contribution to future cash flows on a discounted cash flow basis over the useful life of the assets.

The Company assesses whether any relevant factors limit the period over which acquired assets are expected to contribute directly or indirectly to future cash flows for amortization purposes. With respect to acquired management contracts, the useful life is limited by the stated terms of the agreements. The Company determines an appropriate useful life for acquired customer relationships based on the expected period of time it will provide services to the payer.

While the Company uses discounted cash flows to value the acquisition of intangible assets, the Company has elected to use the straight-line method of amortization to determine amortization expense. If applicable, the Company assesses the recoverability of the unamortized balance of its long-lived assets based on undiscounted expected future cash flows. Should this analysis indicate that the carrying value is not fully recoverable, the excess of the carrying value over the fair value of any intangible asset is recognized as an impairment loss.

Accrued Transportation Costs

Transportation costs are estimated and accrued in the month the services are rendered by outsourced providers utilizing gross reservations for transportation services less cancellations and average costs per transportation service by customer contract. Average costs per contract are derived by utilizing historical cost trends. Actual costs relating to a specific accounting period are monitored and compared to estimated accruals. Adjustments to those accruals are made based on reconciliations with actual costs incurred. Accrued transportation costs amounted to approximately $40.9 million and $41.9 million at December 31, 2009 and 2010, respectively.

Deferred Financing Costs

The Company capitalizes direct expenses incurred in connection with its long-term debt obligations and amortizes them over the term of the respective debt agreements. The Company incurred approximately $10.6 million in deferred financing costs in connection with the credit facility with its senior creditor entered into in December 2007 and the amendment to the credit facility in March 2009, as described in note 13 below. In addition, the Company incurred approximately $2.3 million in deferred financing costs in connection with its senior subordinated notes issued in November 2007. Deferred financing costs are amortized to interest expense on a straight-line basis or the effective interest method over the term of the credit facility. Deferred financing costs, net of amortization, totaling approximately $7.5 million and $5.1 million at December 31, 2009 and 2010, are included in "Other assets" in the accompanying consolidated balance sheets.

Revenue Recognition

The Company recognizes revenue at the time services are rendered at predetermined amounts stated in its contracts and when the collection of these amounts is considered to be reasonably assured.

At times the Company may receive funding for certain services in advance of services actually being rendered. These amounts are reflected in the accompanying consolidated balance sheets as deferred revenue until the actual services are rendered.

As services are rendered, documentation is prepared describing each service, time spent, and billing code under each contract to determine and support the value of each service provided. This documentation is used as a basis for billing under the Company's contracts. The billing process and documentation submitted under its contracts vary among payers. The timing, amount and collection of the Company's revenues under these contracts are dependent upon its ability to comply with the various billing requirements specified by each payer. Failure to comply with these requirements could delay the collection of amounts due to the Company under a contract or result in adjustments to amounts billed.

The performance of the Company's contracts is subject to the condition that sufficient funds are appropriated, authorized and allocated by each state, city or other local government. If sufficient appropriations, authorizations and allocations are not provided by the respective state, city or other local government, we are at risk of immediate termination or renegotiation of the financial terms of the Company's contracts.

Social Services segment

Fee-for-service contracts. Revenues related to services provided under fee-for-service contracts are recognized as revenue at the time services are rendered and collection is determined to be probable. Such services are provided at established billing rates.

Cost based service contracts. Revenues from the Company's cost based service contracts are recorded based on a combination of direct costs, indirect overhead allocations, and stated contractual margins on those incurred costs. These revenues are compared to annual contract budget limits and, depending on reporting requirements, allowances may be recorded for certain contingencies such as projected costs not incurred or excess cost per service over the allowable contract rate. This policy results in recognizing revenue from these contracts based on allowable costs incurred. The annual contract amount is based on projected costs to provide services under the contracts with adjustments for changes in the total contract amount. The Company annually submits projected costs for the coming year, which assist the contracting payers in establishing the annual contract amount to be paid for services provided under the contracts. After the contracting payers' year end, the Company submits cost reports which are used by the contracting payers to determine the amount, if any, by which funds paid to the Company for services provided under the contracts were greater than the allowable costs to provide these services. Completion of this review process may range from one month to several years from the date the Company submits the cost report. In cases where funds paid to the Company exceed the allowable costs to provide services under contract, the Company may be required to pay back the excess funds.

The Company's cost reports are routinely audited by payers on an annual basis. The Company periodically reviews its provisional billing rates and allocation of costs and provides for estimated adjustments from the contracting payers. The Company believes that adequate provisions have been made in its consolidated financial statements for any adjustments that might result from the outcome of any cost report audits. Differences between the amounts provided and the settlement amounts, which historically have not been material, are recorded in the Company's consolidated statement of operations in the year of settlement.

Annual block purchase contract. The Company's annual block purchase contract with The Community Partnership of Southern Arizona ("CPSA") requires it to provide or arrange for behavioral health services to eligible populations of beneficiaries as defined in the contract. The Company must provide a complete range of behavioral health clinical, case management, therapeutic and administrative services. The Company is obliged to provide services only to those clients with a demonstrated medical necessity. The annual funding allocation amount is subject to increase when the Company's encounters exceed the contract amount; however, such increases in the annual funding allocation amount are subject to government appropriation and may not be approved. There is no contractual limit to the number of eligible beneficiaries that may be assigned to the Company, or a specified limit to the level of services that may be provided to these beneficiaries if the services are deemed to be medically necessary. Therefore, the Company is at-risk if the costs of providing necessary services exceed the associated reimbursement.

The Company is required to regularly submit service encounters to CPSA electronically. On an on-going basis and at the end of CPSA's June 30 fiscal year, CPSA is obligated to monitor the level of service encounters. If the encounter data is not sufficient to support the year-to-date payments made to the Company, unless waived, CPSA has the right to prospectively reduce or suspend payments to the Company.

For revenue recognition purposes, the Company's service encounter value (which represents the value of actual services rendered) must equal or exceed 90% of the revenue recognized under its annual block purchase contract for the contract year. The remaining 10% of revenue recognized in each reporting period represents payment for network overhead administrative costs incurred in order to fulfill the Company's obligations under the contract. Administrative costs include, but are not limited to, intake services, clinical liaison oversight for each behavioral health recipient, cultural liaisons, financial assessments and screening, data processing and information systems, staff training, quality and utilization management functions, coordination of care and subcontract administration.

The Company recognizes revenue from its annual block purchase contract corresponding to the service encounter value. If the Company's service encounter value is less than 90% of the amounts received from CPSA for the contract year, unless waived, the Company recognizes revenue equal to the service encounter value and records a liability for any excess amounts received. CPSA has not reduced, withheld, or suspended any material payments that have not been subsequently reimbursed. The Company believes its encounter data is sufficient to have earned all amounts recorded as revenue under this contract.

If the Company's service encounter value equals 90% of the amounts received from CPSA for the contract year, the Company recognizes revenue at the contract amount, which is one-twelfth of the established annual contract amount each month.

If the Company's service encounter value exceeds 90% of the contract amount, the Company recognizes revenue in excess of the annual funding allocation amount if collection is reasonably assured. The Company evaluates factors such as cash receipt and written confirmation regarding payment probability related to the determination of whether any such additional revenue over the contractual amount is considered to be reasonably assured. The terms of the contract may be reviewed prospectively and amended as necessary to ensure adequate funding of the Company's contractual obligations, however, we cannot guaranty that amendments will be completed.

Management agreements. The Company maintains management agreements with a number of not-for-profit social services organizations whereby it provides certain management services for these organizations. In exchange for the Company's services, the Company receives a management fee that is either based on a percentage of the revenues of these organizations or a predetermined fee.

The Company recognizes management fees revenue from its management agreements as such amounts are earned, as defined by the respective management agreements, and collection of such amount is considered reasonably assured.

The costs associated with generating the Company's management fee revenue are accounted for in client service expense and in general and administrative expense in the accompanying consolidated statements of operations.

NET Services segment

Capitation contracts. Approximately 89% of the Company's non-emergency transportation services revenue is generated under capitated contracts where the Company assumes the responsibility of meeting the transportation needs of a specific geographic population. Revenues under capitation contracts with the Company's payers result from per-member monthly fees based on the number of participants in its payer's program.

Fee-for-service contracts. Revenues earned under fee-for-service contracts are recognized when the service is provided. Revenues under these types of contracts are based upon contractually established billing rates less allowance for contractual adjustments. Estimates of contractual adjustments are based upon payment terms specified in the related agreements.

Non-Controlling Interest

In connection with the Company's acquisition of WCG in August 2007, PSC of Canada Exchange Corp. ("PSC"), a subsidiary established by the Company to facilitate the purchase of all of the equity interest in WCG, issued 287,576 exchangeable shares as part of the purchase price consideration. The exchangeable shares were valued at approximately $7.8 million in accordance with the provisions of the purchase agreement ($7.6 million for accounting purposes). The shares are exchangeable at each shareholder's option, for no additional consideration, into shares of the Company's common stock on a one-for-one basis ("Exchangeable Shares"). Of the 287,576 Exchangeable Shares, 25,882 were exchanged as of December 31, 2010.

The Exchangeable Shares are non-participating such that they are not entitled to any allocation of income or loss of PSC. The Exchangeable Shares represent ownership in PSC and are accounted for as "Non-controlling interest" included in stockholders' equity in the accompanying consolidated balance sheets in the amount of approximately $7.0 million at December 31, 2009 and 2010.

The Exchangeable Shares and the 25,882 shares of the Company's common stock issued upon the exchange of the same number of Exchangeable Shares noted above are subject to a Settlement and Indemnification Agreement dated November 17, 2009 ("Indemnification Agreement") by and between the Company and the sellers of WCG. The Indemnification Agreement secures the Company's claims for indemnification and associated rights and remedies provided by the Share Purchase Agreement (under which the Company acquired all of the equity interest in WCG on August 1, 2007) arising from actions taken by British Columbia to strictly enforce a contractually imposed revenue cap on a per client basis and contractually mandated pass-throughs subsequent to August 1, 2007. The actions taken by British Columbia resulted in an approximate CAD $3.0 million dispute and termination of one of its six provincial contracts with WCG, which the Company is disputing. Under the Indemnification Agreement, the sellers have agreed to transfer their rights to the Exchangeable Shares and 25,882 shares of the Company's common stock issued upon the exchange of the same number of Exchangeable Shares to the Company to indemnify the Company against any losses suffered by the Company as the result of an unfavorable ruling upon the conclusion of arbitration.

Effective April 14, 2010, an arbitrator issued an award with respect to the dispute between WCG and British Columbia regarding British Columbia's actions to strictly enforce a contractually imposed revenue cap on a per client basis and contractually mandated pass-throughs subsequent to August 1, 2007. Under the arbitration award, essentially all amounts disputed shall be paid to WCG (except for approximately CAD $13,000 which will be subject to the terms of the Indemnification Agreement) plus interest. The award affirmed the termination of one of the six provincial contracts that had been terminated effective October 31, 2008. During the second quarter of 2010, British Columbia filed a petition for leave to appeal the arbitration award. There is no financial statement impact related to these events included in our financial results for the year ended December 31, 2010. The petition for leave to appeal is still pending at December 31, 2010.

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.

Other Comprehensive Loss

Other comprehensive loss is defined as the change in equity of a business during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments. Other comprehensive loss was derived from foreign currency translation adjustments and the change in fair value of the Company's interest rate swap (as more fully described in note 14 below). The components of the ending balances of accumulated other comprehensive loss are as follows:

	December 31, 2009	December 31, 2010
Cumulative foreign currency translation adjustments	$ (1,504,602)	$ (880,814)
Unrealized losses on cash flow derivative hedges, net	(170,970)	—
	$ (1,675,572)	$ (880,814)

Income Taxes

Deferred income taxes are determined by the liability method in accordance with ASC Topic 740-*Income Taxes* ("ASC 740"). 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 will be in effect when the differences are expected to reverse. The Company records a valuation allowance which includes amounts for state net operating loss carryforwards, as more fully described in note 21 below, for which the Company has concluded that it is more likely than not that these net operating loss 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.

Loss Reserves for Certain Reinsurance and Self-funded Insurance Programs

The Company reinsures a substantial portion of its general and professional liability and workers' compensation costs under reinsurance programs though the Company's wholly-owned subsidiary Social Services Providers Captive Insurance Company ("SPCIC"). SPCIC is a licensed captive insurance company domiciled in the State of Arizona. SPCIC maintains reserves for obligations related to the Company's reinsurance programs for its general and professional liability and workers' compensation coverage.

SPCIC reinsures third-party insurers for general and professional liability exposures for the first dollar of each and every loss up to $1.0 million per loss and $5.0 million in the aggregate. Additionally, SPCIC reinsures a third-party insurer for worker's compensation insurance for the first dollar of each and every loss up to $250,000 per occurrence with a $6.0 million annual policy aggregate limit. As of December 31, 2009 and 2010, the Company had reserves of approximately $4.6 million and $6.8 million, respectively, for the general and professional liability and workers' compensation programs. The reserves are classified as "Reinsurance liability reserve" and "Other long-term liabilities" in the accompanying consolidated balance sheets.

In addition, the Company owns Provado Insurance Services, Inc. ("Provado"), which is a licensed captive insurance company domiciled in the State of South Carolina. Provado has historically provided reinsurance for policies written by a third party insurer for general liability, automobile liability, and automobile physical damage coverage to various members of the network of subcontracted transportation providers and independent third parties within the Company's NET Services operating segment. Effective February 15, 2011, Provado does not intend to renew its reinsurance agreement and will not assume liabilities for policies incepting after that date. It will continue to administer existing policies for the foreseeable future and resolve remaining and future claims related to these policies.

Under a reinsurance agreement with a third party insurer, Provado reinsures the third party insurer for the first $250,000 of each loss for each line of coverage, subject to an annual aggregate equal to 107.7% of gross written premium, and certain claims in excess of $250,000 to an additional aggregate limit of $1.1 million. Provado maintains reserves for obligations related to the reinsurance programs for general liability, automobile liability, and automobile physical damage coverage. As of December 31, 2009 and 2010, Provado had reserves of approximately $7.2 million and $6.5 million, respectively. The reserves are classified as "Reinsurance liability reserve" in the accompanying consolidated balance sheets.

These reserves are reflected in the Company's consolidated balance sheets as reinsurance liability reserves. The Company utilizes analyses prepared by third party administrators and independent actuaries based on historical claims information with respect to the general and professional liability coverage, workers' compensation coverage, automobile liability, automobile physical damage, and health insurance coverage to determine the amount of required reserves.

The Company 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 to $200,000 per person and for a maximum potential claim liability based on member enrollment. 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, 2009 and 2010, the Company had approximately $1.6 million and $1.3 million, respectively, in reserve for its self-funded health insurance programs. The reserves are classified as "Reinsurance liability reserve" in the accompanying consolidated balance sheets.

The Company continually 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 lags between the claims' incurred date, reported dates and paid dates, and the frequency and severity of claims. The Company is at risk for differences between actual settlement amounts and recorded reserves and any resulting adjustments are included in expense once a probable amount is known. There were no significant adjustments recorded in the periods covered by this report. Any significant increase in the number of claims or costs associated with claims made under these programs above the Company's reserves could have a material adverse effect on its financial results.

5. Concentration of Credit Risk

Contracts with governmental agencies and other entities that contract with governmental agencies accounted for approximately 85%, 82% and 81% of the Company's revenue for the years ended December 31, 2008, 2009 and 2010, respectively. The related contracts are subject to possible statutory and regulatory changes, rate adjustments, administrative rulings, rate freezes and funding reductions. Reductions in amounts paid under these contracts for the Company's services or changes in methods or regulations governing payments for the Company's services could materially adversely affect its revenue and profitability.

For the years ended December 31, 2008, 2009 and 2010, the Company conducted a portion of its operations in Canada through WCG. At December 31, 2009 and 2010, approximately $13.9 million, or 22.2%, and $13.8 million, or 15.6%, of the Company's net assets, respectively, were located in Canada. Additionally, approximately $28.0 million, or 4.0%, $22.5 million, or 2.8%, and $22.2 million, or 2.5%, of the Company's consolidated revenue for the years ended December 31, 2008, 2009 and 2010, respectively, was generated from the Company's Canadian operations. The Company is subject to the risks inherent in conducting business across national boundaries, any one of which could adversely impact its business. In addition to currency fluctuations, these risks include, among other things: (i) economic downturns; (ii) changes in or interpretations of local law, governmental policy or regulation; (iii) restrictions on the transfer of funds into or out of the country; (iv) varying tax systems; (v) delays from doing business with governmental agencies; (vi) nationalization of foreign assets; and (vii) government protectionism. The Company intends to continue to evaluate opportunities to establish additional operations in Canada. One or more of the foregoing factors could impair the Company's current or future operations and, as a result, harm its overall business.

6. Use of Estimates

The Company has made a number of estimates relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with GAAP. The Company based its estimates on historical experience and on various other assumptions the Company believes to be reasonable under the circumstances.

However, actual results may differ from these estimates under different assumptions or conditions. Some of the more significant estimates impact revenue recognition, accounts receivable and allowance for doubtful accounts, accounting for business combinations, goodwill and other intangible assets, accrued transportation costs, accounting for management agreement relationships, loss reserves for reinsurance and self-funded insurance programs, stock-based compensation, foreign currency translation, derivative instruments and hedging activities and income taxes.

7. New and Pending Accounting Pronouncements

New Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06-*Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"). ASU 2010-06 amends certain disclosure requirements of Subtopic 820-10 and provides additional disclosures for transfers in and out of Levels I and II and for activity in Level III. This ASU also clarifies certain other existing disclosure requirements including level of desegregation and disclosures around inputs and valuation techniques. The final amendments to the ASC will be effective for annual or interim reporting periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activity for purchases, sales, issuances, and settlements on a gross basis. That requirement will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. ASU 2010-06 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. The Company adopted ASU 2010-06 as of January 1, 2010 with respect to the provisions required to be adopted as of January 1, 2010. The adoption of these provisions of ASU 2010-06 did not have a material impact on the Company's consolidated financial statements. The Company does not believe that the provisions of ASU 2010-06 that are effective for fiscal years beginning after December 15, 2010 will have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-08-*Technical Corrections to Various Topics* ("ASU 2010-08"). ASU 2010-08 is the result of the FASB's review of its standards to determine if any provisions are outdated, contain inconsistencies, or need clarifications to reflect the FASB's original intent. The FASB believes the amendments do not fundamentally change U.S. GAAP. However, certain clarifications on embedded derivatives and hedging (Subtopic 815-15) may cause a change in the application of that Subtopic and special transition provisions are provided for those amendments. The ASU contains various effective dates. The clarifications of the guidance on embedded derivatives and hedging (Subtopic 815-15) are effective for fiscal years beginning after December 15, 2009. The amendments to the guidance on accounting for income taxes in a reorganization (Subtopic 852-740) applies to reorganizations for which the date of the reorganization is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. All other amendments are effective as of the first reporting period (including interim periods) beginning after February 2, 2010. On January 1, 2010, the Company adopted ASU 2010-08. The adoption of ASU 2010-08 did not have a material impact on the Company's consolidated financial statements.

Pending Accounting Pronouncements

In December 2010, the FASB issued ASU No. 2010-28-*Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* ("ASU 2010-28"). The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted.

The Company believes that ASU 2010-28 will not have a material impact on its consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29-*Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations* ("ASU 2010-29"). The amendments in this ASU affect any public entity as defined by Topic 805, Business Combinations, that enters into business combinations that are material on an individual or aggregate basis. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company believes that ASU 2010-29 will not have a material impact on its consolidated financial statements.

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

8. Fair Value Measurements

ASC Topic 820-*Fair Value Measurement and Disclosures* ("ASC 820") defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis at December 31, 2009 and 2010:

		Fair Value Measurement Using		
	Total Carrying Value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Interest rate swap at December 31, 2009	$ (372,408)	$ —	$ (372,408)	$ —
Interest rate swap at December 31, 2010	$ —	$ —	$ —	$ —

The Company's interest rate swap is carried at fair value measured on a recurring basis. The Company has elected to use the income approach to value the derivatives, using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present amount assuming that participants are motivated, but not compelled to transact. Level 2 inputs for the swap valuations are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts) and inputs other than quoted prices that are observable for the asset or liability (e.g., LIBOR cash and swap rates and credit risk at commonly quoted intervals as published by Bloomberg on the last day of the period for financial institutions with the same credit rating as the counterparty). Mid-market pricing is used as a practical expedient for fair value measurements. Key inputs, including the cash rates for short term, futures rates and swap rates beyond the derivative maturity are used to interpolate the spot rates at the three month rate resets specified by each swap. A credit default swap rate based on the current credit rating of the counterparty is applied to all cash flows when the swap is in an asset position. The Company uses the floating rate factor related to its variable rate debt (6.5%) to discount all cash flows when the derivative is in a liability position to reflect the potential credit risk to lenders.

9. Other Receivables

At December 31, 2009 and 2010, insurance premiums of approximately $3.3 million and $3.1 million, respectively, were receivable from third parties related to the reinsurance activities of the Company's two captive subsidiaries. The insurance premiums receivable is classified as "Other receivables" in the accompanying consolidated balance sheets. In addition, the Company's expected losses related to workers' compensation and general and professional liability in excess of the Company's liability under its associated reinsurance programs at December 31, 2009 were approximately $2.3 million, of which approximately $805,000 was classified as "Other receivables" and approximately $1.5 million was classified as "Other assets" in the accompanying consolidated balance sheets. The Company's expected losses related to workers' compensation and general and professional liability in excess of the Company's liability under its associated reinsurance programs at December 31, 2010 were approximately $2.9 million, of which approximately $698,000 was classified as "Other receivables" and approximately $2.2 million was classified as "Other assets" in the accompanying consolidated balance sheets. The Company recorded a corresponding liability, which offset these expected losses. This liability was classified as "Reinsurance liability reserve" in current liabilities and "Other long-term liabilities" in the accompanying consolidated balance sheets.

10. Prepaid Expenses and Other

Prepaid expenses and other comprised the following:

	December 31, 2009	December 31, 2010
Prepaid payroll	$ 2,578,670	$ 2,411,556
Prepaid insurance	2,242,499	3,365,500
Prepaid taxes	1,576,956	2,889,515
Prepaid rent	743,402	828,807
Provider advances	83,265	279,068
Prepaid maintenance agreements and copier leases	634,474	707,672
Prepaid bus tokens and passes	1,076,377	992,432
Prepaid commissions and brokerage fees	608,566	523,680
Interest receivable—certificates of deposit	889,156	1,009,888
Other	2,006,248	2,470,103
Total prepaid expenses and other	$ 12,439,613	$ 15,478,221

11. Goodwill and Intangibles

Changes in goodwill were as follows:

	Social Services	NET Services	Consolidated Total
Balances at December 31, 2008			
Goodwill	$ 78,285,906	$ 191,185,511	$ 269,471,417
Accumulated impairment losses	(60,700,851)	(96,000,000)	(156,700,851)
	17,585,055	95,185,511	112,770,566
AW working capital true-up and other adjustments	554,078	—	554,078
WCG foreign currency translation adjustment	317,672	—	317,672
CCC additional acquisition costs	1,151	—	1,151
Safecar Services, LLC acquisition	—	29,478	29,478
Balances at December 31, 2009			
Goodwill	79,158,807	191,214,989	270,373,796
Accumulated impairment losses	(60,700,851)	(96,000,000)	(156,700,851)
	18,457,956	95,214,989	113,672,945
WCG foreign currency translation adjustment	110,444	—	110,444
Balances at December 31, 2010			
Goodwill	79,269,251	191,214,989	270,484,240
Accumulated impairment losses	(60,700,851)	(96,000,000)	(156,700,851)
	$ 18,568,400	$ 95,214,989	$ 113,783,389

When the Company acquires a business the Company's pricing is typically based upon a multiple of the target entity's historical earnings before interest, taxes, depreciation and amortization ("EBITDA") and over the years the Company has been a successful competitor using this basis for determining the value of and price paid for its acquisitions. The Company believes this pricing method is also used by its competitors to value their business combinations and is typical in the mergers and acquisition market. During the six months ended December 31, 2008, the Company believed the market for mergers and acquisitions deteriorated such that by the end of 2008, the EBITDA multiples being used to price acquisitions had dropped to approximately half of what they had been for the Company historically. In addition, during the six months ended December 31, 2008, the Company had a significant and sustained decline in market capitalization due to the decrease in the market price of its common stock. The Company believes this decrease in stock price resulted primarily from its lower than anticipated financial results during such period. These financial results were caused by significant changes in the climate of the Company's business, the uncertainty in the state governmental payer environment, the impact of related budgetary decisions, and by the sharp down turn in the United States economy generally. The $169.9 million non-cash asset impairment charge recorded by the Company for the year ended December 31, 2008, all of which was recorded during the six months ended December 31, 2008, reflects the magnitude of both the decline in its market capitalization and the deterioration of the mergers and acquisitions market (including peer group guideline company multiples of EBITDA) during that six-month period, all as explained further below.

In connection with the Company's annual asset impairment analysis, the Company reduced the total aggregate fair value of its reporting units to reconcile it to the Company's substantially decreased market capitalization plus a reasonable control premium as of December 31, 2008. In subsequently determining whether or not the Company had goodwill impairment to report for 2008, the Company considered both a market-based valuation approach and an income-based valuation approach when estimating the fair values of its reporting units with goodwill balances as of such date. Under the market approach, the fair value of the reporting unit is determined using one or more methods based on current values in the market for similar businesses. Under the income approach, the fair value of the reporting unit is based on the cash flow streams expected to be generated by the reporting unit over an appropriate period and then discounting the cash flow to present value using an appropriate discount rate. The income approach is dependent on a number of significant management assumptions, including estimates of future revenue and expenses, growth rates and discount rates.

In arriving at the fair value of the reporting units in the Company's Social Services operating segment, greater weight was attributed to the market approach due to the continuing market deterioration reflected in current market comparables. For these reporting units, the Company weighted the market-based valuation results at 75% and the income-based valuation results at 25%. In arriving at the fair value for its NET Services operating segment, the Company used the indications of value received by it from potential acquirers of this segment as they represented prices that market participants were willing to offer for this reporting unit under the then current market conditions at that time.

As a result of the Company's annual impairment test, it recorded a total goodwill impairment charge for the year ended December 31, 2008 of $156.7 million, which is included in "Asset impairment charges" in the accompanying consolidated statements of operations. Of this non-cash impairment charge, approximately $60.7 million was related to the Company's Social Service operating segment and approximately $96.0 million was related to its NET Services operating segment.

The total amount of goodwill that was deductible for income tax purposes for acquisitions as of December 31, 2009 and 2010 was approximately $35.6 million and $35.8 million, respectively.

Intangible assets are comprised of acquired customer relationships, developed technology, management contracts, restrictive covenants and software licenses. The Company valued customer relationships and the management contracts acquired in these acquisitions based upon expected future cash flows resulting from the underlying contracts with state and local agencies to provide social services in the case of customer relationships, and management and administrative services provided to the managed entity with respect to the acquired management contract.

Intangible assets consisted of the following:

		December 31,			
		2009		2010	
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Management contracts	10 Yrs	$ 12,849,562	$ (6,169,122)	$ 12,849,562	$ (7,535,023)
Customer relationships	15 Yrs	75,487,152	(13,505,600)	75,698,777	(18,551,748)
Customer relationships	10 Yrs	1,417,000	(460,525)	1,417,000	(602,225)
Developed technology	6 Yrs	6,000,000	(2,067,204)	6,000,000	(3,067,204)
Software licenses	5 Yrs	801,708	(443,742)	824,549	(619,693)
Restrictive covenants	5 Yrs	144,209	(90,177)	144,678	(116,856)
Total	13.6 Yrs*	$ 96,699,631	$ (22,736,370)	$ 96,934,566	$ (30,492,749)

* Weighted-average amortization period

No significant residual value is estimated for these intangible assets. Amortization expense was approximately $8.2 million, $8.2 million and $7.7 million for the years ended December 31, 2008, 2009 and 2010, respectively. The total amortization expense is estimated to be approximately $7.7 million for 2011, $7.5 million for 2012, $7.3 million for 2013, $6.2 million for 2014 and $5.6 million for 2015, based on completed acquisitions as of December 31, 2010.

In connection with its annual asset impairment analysis conducted as of December 31, 2008, the Company determined that the same factors that required it to conduct goodwill impairment tests with respect to the

Company's reporting units as of December 31, 2008 also required the Company to conduct impairment tests with respect to the other intangible assets in these reporting units. In conducting such tests, the Company compared the undiscounted cash flow associated with each such intangible asset over its remaining life to the carrying value of such asset. If there was an indication of impairment, a discounted cash flow analysis was performed to determine the fair value of the intangible asset as of December 31, 2008, which was then compared to its carrying value.

As a result of its annual impairment tests, the Company recorded a total asset impairment charge related to other intangible assets for the year ended December 31, 2008 of $13.2 million, which is included in "Asset impairment charges" in the accompanying consolidated statements of operations. This non-cash impairment charge includes the $11.0 million recorded with respect to the Company's NET Services operating segment as of September 30, 2008 and the $2.2 million recorded with respect to its Social Services operating segment as of December 31, 2008.

12. Detail of Other Balance Sheet Accounts

Property and equipment consisted of the following:

	Estimated Useful Life	December 31, 2009	December 31, 2010
Land	—	$ 20,000	$ 754,702
Building	39 years	230,000	993,405
Furniture and equipment	3-7 years	25,571,835	33,384,132
		25,821,835	35,132,239
Less accumulated depreciation		14,655,563	18,731,132
		11,166,272	16,401,107

Depreciation expense was approximately $4.5 million, $4.7 million and $5.0 million for the years ended December 31, 2008, 2009 and 2010, respectively.

Accrued expenses consisted of the following:

	December 31, 2009	December 31, 2010
Accrued compensation	$ 18,168,094	$ 19,257,580
Income taxes payable	2,155,109	—
Accrued interest payable	1,528,605	823,402
Other	11,537,921	13,470,147
	$ 33,389,729	$ 33,551,129

13. Long-Term Obligations

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

	December 31, 2009	December 31, 2010
5% unsecured, subordinated note to former stockholder of acquired company, interest payable semi-annually beginning December 2005 and all unpaid principal and any accrued and unpaid interest was paid in June 2010	$ 618,680	$ —
4% unsecured, subordinated note to former owner of acquired company, interest payable semi-annually beginning April 2008 with principal of $300,000 due April 2008, but withheld due to a dispute, and all remaining unpaid principal and any accrued and unpaid interest due April 2010, which was paid in April 2010	1,800,000	—
6.5% convertible senior subordinated notes, interest payable semi-annually beginning May 2008 with principal due May 2014	70,000,000	70,000,000
$30,000,000 revolving loan, LIBOR plus 6.5% (effective rate of 6.77% at December 31, 2010) through December 2012	—	—
$173,000,000 term loan, LIBOR plus 6.5% with principal and interest payable quarterly (as described below) through December 2013	131,794,580	112,303,772
	204,213,260	182,303,772
Less current portion	17,480,918	18,113,512
	$186,732,342	$164,190,260

The carrying amount of the long-term obligations approximated its fair value at December 31, 2009 and 2010. The fair value of the Company's long-term obligations was estimated based on interest rates for the same or similar debt offered to the Company having same or similar remaining maturities and collateral requirements.

Annual maturities of long-term obligations as of December 31, 2010 are as follows:

Year	Amount
2011	$ 18,113,512
2012	21,736,214
2013	72,454,046
2014	70,000,000
Total	$ 182,303,772

Convertible senior subordinated notes.

On November 13, 2007, the Company issued $70.0 million in aggregate principal amount of 6.5% Convertible Senior Subordinated Notes due 2014 (the "Notes"), under the amended note purchase agreement dated November 9, 2007 to the purchasers named therein. The proceeds of $70.0 million were initially placed into escrow and were released on December 7, 2007 to partially fund the cash portion of the purchase price of LogistiCare. The Notes are general unsecured obligations subordinated in right of payment to any existing or future senior debt including the Company's credit facility with CIT Capital Securities LLC ("CIT") described below.

In connection with the Company's issuance of the Notes, the Company entered into an Indenture between the Company, as issuer, and The Bank of New York Trust Company, N.A., as trustee (the "Indenture").

The Company will pay interest on the Notes in cash semiannually in arrears on May 15 and November 15 of each year beginning on May 15, 2008. The Notes will mature on May 15, 2014.

The Notes are convertible, under certain circumstances, into common stock at a conversion rate, subject to adjustment as provided for in the Indenture, of 23.982 shares per $1,000 principal amount of Notes. This conversion rate is equivalent to an initial conversion price of approximately $41.698 per share. On and after the occurrence of a fundamental change (as defined below), the Notes will be convertible at any time prior to the close of business on the business day before the stated maturity date of the Notes. In the event of a fundamental change as described in the Indenture, each holder of the notes shall have the right to require the Company to repurchase the Notes for cash. A fundamental change includes among other things: (i) the acquisition in a transaction or series of transactions of 50% or more of the total voting power of all shares of the Company's capital stock; (ii) a merger or consolidation of the Company with or into another entity, merger of another entity into the Company, or the sale, transfer or lease of all or substantially all of the Company's assets to another entity (other than to one or more of the Company's wholly-owned subsidiaries), other than any such transaction (A) pursuant to which holders of 50% or more of the total voting power of the Company's capital stock entitled to vote in the election of directors immediately prior to such transaction have or are entitled to receive, directly or indirectly, at least 50% or more of the total voting power of the capital stock entitled to vote in the election of directors of the continuing or surviving corporation immediately after such transaction or (B) which is effected solely to change the jurisdiction of incorporation of the Company and results in a reclassification, conversion or exchange of outstanding shares of the Company's common stock into solely shares of common stock; (iii) if, during any consecutive two-year period, individuals who at the beginning of that two-year period constituted the Company's board of directors, together with any new directors whose election to the Company's board of directors or whose nomination for election by the Company's stockholders, was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously approved, cease for any reason to constitute a majority of the Company's board of directors then in office; (iv) if a resolution approving a plan of liquidation or dissolution of the Company is approved by its board of directors or the Company's stockholders; and (v) upon the occurrence of a termination of trading as defined in the Indenture.

The Indenture contains customary terms and provisions that provide that upon certain events of default, including, without limitation, the failure to pay amounts due under the Notes when due, the failure to perform or observe any term, covenant or agreement under the Indenture, or certain defaults under other agreements or instruments, occurring and continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of the Notes then outstanding may declare the principal of the Notes and any accrued and unpaid interest through the date of such declaration immediately due and payable. Upon any such declaration, such principal, premium, if any, and interest shall become due and payable immediately. In the case of certain events of bankruptcy or insolvency relating to the Company or any significant subsidiary of the Company, the principal amount of the Notes together with any accrued interest through the occurrence of such event shall automatically become and be immediately due and payable without any declaration or other act of the Trustee or the holders of the Notes.

Credit facility.

The following disclosure is as of December 31, 2010. On March 11, 2011, the Company refinanced the senior credit facility described below. See note 24 below for additional information regarding the Company's long-term debt refinancing

On December 7, 2007, the Company entered into a Credit and Guaranty Agreement (the "Credit Agreement") with CIT Healthcare LLC, as administrative agent, Bank of America, N.A. and SunTrust Bank, as co-documentation agents, ING Capital LLC and Royal Bank of Canada, as co-syndication agents, other lenders party thereto, and CIT, as sole lead arranger and bookrunner. The Credit Agreement replaced the Company's previous credit facility with CIT Healthcare LLC.

The Credit Agreement, as amended, provided the Company with a senior secured first lien credit facility in aggregate principal amount of $203.0 million comprised of a $173.0 million, six year term loan and a $30.0 million, five year revolving credit facility ("Credit Facility"). On December 7, 2007, the Company borrowed the entire amount available under the term loan facility and used the proceeds of the term loan to (i) fund a portion of the purchase price paid by the Company to acquire LogistiCare; (ii) refinance all of the then existing indebtedness under its second amended loan agreement with CIT Healthcare LLC in the amount of approximately $17.3 million; and (iii) pay fees and expenses related to the acquisition of LogistiCare and the financing thereof. The revolving credit facility must be used to (i) provide funds for general corporate purposes of the Company; (ii) fund permitted acquisitions; (iii) fund ongoing working capital requirements; (iv) collateralize letters of credit; and (v) make capital expenditures.

The Credit Agreement contained customary representations and warranties, affirmative and negative covenants, yield protection, indemnities, expense reimbursement, material adverse change clauses, and events of default and other terms and conditions. In addition, the Company is required to maintain certain financial covenants under the amendment to the Credit Agreement described below. As of December 31, 2010, the Company was in compliance with all of the financial covenants under the amendment to the Credit Agreement. Further, the Company was prohibited from paying cash dividends if there was a default under the facility or if the payment of any cash dividends would result in default.

On March 11, 2009, the Company agreed with its creditors to amend certain terms in the Credit Agreement ("Amendment No. 1 to the Credit Agreement" and, together with the Credit Agreement, the "Amended Credit Agreement") to, among other things:

- decrease the revolving credit facility from $40 million to $30 million;
- increase the interest rate spread on the annual interest rate from LIBOR plus 3.5% to LIBOR plus 6.5% and, with respect to Base Rate Loans (as such terms are defined in the Credit Agreement), increase the interest rate spread on the annual interest rate from Base Rate plus 2.5% to Base Rate plus 5.5% effective March 11, 2009; provided the interest rate will be adjusted upwards and the Company will incur a fee if certain consolidated senior leverage ratios exceed the corresponding ratio ceilings set forth in Amendment No. 1 to the Credit Agreement determined as of September 30, 2009 and December 31, 2009;
- amend certain financial covenants to change the requirements to a level where the Company met the requirements for the fourth quarter of 2008 and would likely meet the requirements for the fiscal year 2009;
- establish a new financial covenant through December 31, 2009 based upon the Company's operations maintaining a minimum earnings before interest, taxes, depreciation and amortization level (as such term is defined in Amendment No. 1 to the Credit Agreement) commencing with the three months ending March 31, 2009; and,
- require the Company to deliver to the lenders monthly consolidated financial statements and a 13-week rolling cash flow forecast each week from the effective date of Amendment No. 1 to the Credit Agreement to December 31, 2009.

In exchange for the amendments described above, the Company paid an amendment fee to certain lenders equal to $565,000 (0.40% of the aggregate amount of the Revolving Commitment and Term Loan outstanding related to those lenders (as such terms are defined in the Amended Credit Agreement)), which was capitalized as deferred financing fees and is included in "Other assets" in the accompanying consolidated balance sheet at December 31, 2009. In addition, in connection with this transaction, the Company incurred fees and expenses of approximately $2.0 million, including arrangement, legal, accounting and other related costs. These fees and expenses are reflected in "General and administrative expense" in the amount of approximately $1.7 million and "Interest expense" in the amount of approximately $348,000 in the accompanying consolidated statement of operations for the year ended December 31, 2009. The Company determined that the amendment did not represent a substantial modification of terms of the agreement.

Under the Amended Credit Agreement the outstanding principal amount of the loans accrued interest at the per annum rate of LIBOR plus 6.5% or the Base Rate plus 5.5% at the Company's election. The Company was permitted, from time-to-time, request to convert the loan (whether borrowed under the term loan facility or the revolving credit facility) from a Base Rate Loan (subject to the per annum rate of the Base Rate plus 5.5%) to a LIBOR Loan (subject to the per annum rate of LIBOR plus 6.5%). The conversion to a LIBOR Loan had to have been selected for a period of one, two, three or six months with interest payable on the last day of the period selected except where a period of six months is selected by the Company interest is payable quarterly. If not renewed by the Company subject to CIT approval, the loan would automatically convert back to a Base Rate Loan at the end of the conversion period. The interest rate applied to the Company's term loan at December 31, 2010 was 6.77%. In addition, the Company is subject to a 0.75% fee per annum on the unused portion of the available funds as well as other administrative fees. No amounts were borrowed under the revolving credit facility as of December 31, 2010, but the entire amount available under this facility may be allocated to collateralize certain letters of credit. As of December 31, 2009, there were five letters of credit in the amount of approximately $7.3 million and three letters of credit as of December 31, 2010 in the amount of approximately $3.7 million collateralized under the revolving credit facility. At December 31, 2009 and 2010, the Company's available credit under the revolving credit facility was $22.7 million and $26.3 million, respectively.

The Company's obligations under the Credit Facility were guaranteed by all of its present and future domestic subsidiaries (the "Guarantors") other than the Company's insurance subsidiaries and managed entities. The Company's and each Guarantors' obligations under the Credit Facility were secured by a first priority lien, subject to certain permitted encumbrances, on the Company's assets and the assets of each Guarantor, including a pledge of 100% of the issued and outstanding stock of the Company's domestic subsidiaries and 65% of the issued and outstanding stock of its first tier foreign subsidiaries. If an event of default occurred, including, but not limited to, failure to pay any installment of principal or interest when due, failure to pay any other charges, fees, expenses or other monetary obligations owing to CIT when due or particular covenant defaults, as more fully described in the Credit Agreement, the required lenders could have caused CIT to declare all unpaid principal and any accrued and unpaid interest and all fees and expenses immediately due. Under the Credit Agreement, the initiation of any bankruptcy or related proceedings would automatically cause all unpaid principal and any accrued and unpaid interest and all fees and expenses to become due and payable. In addition, it is an event of default under the Credit Agreement if the Company defaulted on any indebtedness having a principal amount in excess of $5.0 million.

Each extension of credit under the Credit Facility was conditioned upon: (i) the accuracy in all material respects of all representations and warranties in the definitive loan documentation; and (ii) there being no default or event of default at the time of such extension of credit. Under the repayment terms of the Credit Agreement, the Company is obligated to repay the term loan in quarterly installments on the last day of each calendar quarter, which commenced on March 31, 2008, so that the following percentages of the term loan borrowed on the closing date are paid as follows: 5% in 2008, 7.5% in 2009, 10% in 2010, 12.5% in 2011, 15% in 2012 and the remaining balance in 2013. With respect to the revolving credit facility, the Company was required to repay the outstanding principal balance and any accrued but unpaid interest by December 2012. The Company was permitted at any time and from time-to-time prepay the Credit Facility without premium or penalty, provided that it may not re-borrow any portion of the term loan repaid.

The Credit Facility also required the Company to prepay the loan in an aggregate amount equal to 100% of the net cash proceeds of any disposition, or, to the extent the applicable net cash proceeds exceed $500,000. Notwithstanding the foregoing, if at the time of the receipt or application of such net cash proceeds no default or event of default has occurred and was continuing and the Company delivered to the Administrative Agent a certificate, executed by the Company's chief financial officer, that it intended within three hundred sixty-five days after receipt thereof to use all or part of such net cash proceeds either to purchase assets used in the ordinary course of business of the Company and its subsidiaries or to make capital expenditures, the Company could use all or part of such net cash proceeds in the manner set forth in such certificate; provided, however, that, (A) any such net cash proceeds not so used within the period set forth in such certificate would have, on the first business day immediately following such period, be applied as a prepayment and (B) any assets so acquired would have been subject to the security interests under the collateral documents in the same priority (subject to permitted liens) as the assets subject to such disposition or involuntary disposition.

The Company agreed with CIT to subordinate its management fee receivable pursuant to management agreements established with the Company's managed entities, which have stand-alone credit facilities with CIT Healthcare LLC, to the claims of CIT in the event one of these managed entities defaults under its credit facility. During 2009, these entities obtained stand-alone credit facilities from other lenders and, as of December 31, 2009, none of these entities had stand-alone credit facilities with CIT Healthcare LLC. As a result, as of December 31, 2009 and 2010, the Company's management fee receivable related to these managed entities was not subject to the subordination agreement.

Liquidity Matters

The Company's board of directors authorized an additional prepayment of $5.0 million of the Company's term loan debt under the Amended Credit Agreement in January 2010. The prepayment was made on January 11, 2010. The $5.0 million voluntary prepayment, in addition to regularly scheduled principal payments in the aggregate amount of $14.5 million during 2010, brought the balance of the Company's term loan to approximately $112.3 million at December 31, 2010.

The Credit Facility requires the Company to prepay an aggregate principal amount of the loan in an amount equal to 75% of its Excess Cash Flow, as defined, for each fiscal year. Excess Cash Flow is calculated based on the Company's consolidated net income plus decreases or minus increases in net working capital plus non-cash depreciation and amortization and other non-cash charges, minus capital expenditures, certain transaction fees and expenses related to the Company's acquisition of LogistiCare and the negotiation of the Credit Facility and the Notes, principal amortization with respect to capital leases, all regularly scheduled principal payments and voluntary principal prepayments under the Credit Facility and earn out payments related to completed acquisitions permitted by the lender as more fully described in the Amended Credit Agreement. For 2009, the Company prepaid an aggregate principal amount of approximately $4.1 million representing 75% of its Excess Cash Flow. Due to the refinancing of the Company's debt subsequent to December 31, 2010, the Excess Cash Flow calculation for 2010 was not performed. Additional information regarding the Company's long-term debt refinancing is included in note 24 below.

14. Interest Rate Swap

In February 2008, the Company entered into an interest rate swap to convert a portion of its floating rate long-term debt expense to fixed rate debt expense. The purpose of this instrument was to hedge the variability of the Company's future earnings and cash flows caused by movements in interest rates applied to its floating rate long-term debt. The Company held this derivative only for the purpose of hedging such risks, not for speculation. Under the swap agreement, the Company paid 3.026% and received three-month LIBOR on a notional amount of $86.5 million through February 2010. The Company designated the interest rate swap as a cash flow hedge under ASC 815. Prior to amending the Company's Credit Agreement, the Company anticipated that it would not be in compliance with certain financial covenants as of December 31, 2008. As a result, during the first quarter of 2009, the Company's long-term debt was converted from a LIBOR Loan to a Base Rate Loan in accordance with the terms of the Credit Agreement beginning February 27, 2009 through April 1, 2009. The swap was de-designated and all changes in the fair value of the swap from the last effective date (January 31, 2009) were recognized in earnings. Additionally, the balance in other comprehensive loss at January 31, 2009 was recognized to income ratably through the maturity date of the swap in February 2010. On March 31, 2009, the swap was re-designated as a cash flow hedge under ASC 815 and beginning April 2, 2009 the Company's long-term debt was converted from a Base Rate Loan to a LIBOR Loan.

Upon the expiration of the interest rate swap discussed above, the Company entered into a new interest rate swap to convert its floating rate long-term debt to fixed rate debt effective March 11, 2010. The purpose of this instrument is to hedge the variability of the Company's future earnings and cash flows caused by movements in interest rates applied to its floating rate long-term debt. The Company holds this derivative only for the purpose of hedging such risks, not for speculation. The Company entered into the interest rate swap with a notional amount of $63.4 million that matured on December 13, 2010. Under the swap agreement, the Company received interest equivalent to one-month LIBOR and payed a fixed rate of interest of .58% with settlement occurring monthly. The Company had designated the interest rate swap as a cash flow hedge under ASC 815. Additionally, the swap's effectiveness was evaluated monthly and effective gains and losses were accumulated in other comprehensive loss until the hedged interest expense was accrued.

The fair value amounts in the consolidated balance sheet at December 31, 2009 and 2010, related to the Company's interest rate swap were as follows:

	Liability Derivatives		
	Balance Sheet Location	Fair Value of Swap Liability	
		December 31, 2009	December 31, 2010
Derivatives designated as hedging instruments under ASC 815			
Interest rate contracts	Interest rate swap	$ 372,408	$ —
Total derivatives designated as hedging instruments under ASC 815		$ 372,408	$ —
Total derivatives		$ 372,408	$ —

The derivative gains and losses in the consolidated statements of operations for the years ended December 31, 2009 and 2010, related to the Company's interest rate swap were as follows:

Derivatives in ASC 815 cash flow hedging relationship	Pretax loss recognized in Other Comprehensive Income on effective portion of derivative	Pretax loss on effective portion of derivative reclassified from Accumulated Other Comprehensive Loss into Income		Ineffective portion of gain (loss) on derivative recognized in Income	
	Amount	Location	Amount	Location	Amount
Interest rate contract for the year ended:					
December 31, 2009	$ (246,256)	Interest expense	$ (1,610,306)	Interest expense	$ (177,848)
December 31, 2010	$ (148,679)	Interest expense	$ (428,962)	Interest expense	$ 1,337

Derivatives not designated as hedging instruments under ASC 815	Location of amounts recognized in income on derivative	Amount of loss recognized in income on derivative
Interest rate contract for the year ended:		
December 31, 2009	Interest expense	$ (132,029)
December 31, 2010	Interest expense	$ —

Additional information regarding the Company's interest rate swap is included in notes 4 and 8 above.

15. Business Segments

The Company's operations are organized and reviewed by management along its services lines. The Company operates in two reportable segments: Social Services and NET Services. The Company operates these reportable segments as separate divisions and differentiates the segments based on the nature of the services they offer. The following describes each of the Company's segments and its corporate services area.

Social Services. Social Services includes government sponsored social services consisting of home and community based counseling, foster care and not-for-profit management services. Through Social Services the Company provides services to a common customer group, principally individuals and families. All of the operating entities within Social Services follow similar operating procedures and methods in managing their operations and each operating entity works within a similar regulatory environment, primarily under Medicaid regulations. The Company manages the activities of Social Services by actual to budget comparisons within each operating entity rather than by comparison between entities. The Company's budget related to Social Services is prepared on an entity-by-entity basis which represents the aggregation of individual location operating budgets within each Social Services entity and is comprised of:

- Payer specific revenue streams based upon contracted amounts;
- Payroll and related employee expenses by position corresponding to the contracted revenue streams; and
- Other operating expenses such as facilities costs, employee training, mileage and communications in support of operations.

The actual operating contribution margins of the operating entities that comprise Social Services ranged from approximately 1.3% to 12.3% for the year ended December 31, 2010. The Company believes that the long term operating contribution margins of the operating entities that comprise Social Services will approximate between 8% and 12% as the respective entities' markets mature, the Company cross sells its services within markets, and standardizes its operating model among entities including acquisitions.

In evaluating the financial performance and economic characteristics of Social Services, the Company's chief operating decision maker regularly reviews the following types of financial and non-financial information for each operating entity within Social Services:

- Consolidated financial statements;
- Separate condensed financial statements for each individual operating entity versus their budget;
- Monthly non-financial statistical information;
- Productivity reports; and
- Payroll reports.

While the Company's chief operating decision maker evaluates performance in comparison to budget based on the operating results of the individual operating entities within Social Services, the operating entities are aggregated into one reporting segment for financial reporting purposes because the Company believes that the operating entities exhibit similar long term financial performance. In conjunction with the financial performance trends, the Company believes the similar qualitative characteristics of the operating entities it aggregates within Social Services and budgetary constraints of the Company's payers in each market provide a foundation to conclude that the entities that the Company aggregates within Social Services have similar economic characteristics. Thus, the Company believes the economic characteristics of its operating entities within Social Services meet the criteria for aggregation into a single reporting segment under ASC Topic 280, "*Segment Reporting*".

NET Services. NET Services includes managing the delivery of non-emergency transportation services. The Company operates NET Services as a separate division of the Company with operational management and service offerings distinct from the Company's Social Services operating segment. Financial and operating performance reporting is conducted at a contract level and reviewed weekly at both the operating entity level as well as the corporate level by the Company's chief operating decision maker. Gross margin performance of individual contracts is consolidated under the associated operating entity and direct general and administrative expenses are allocated to the operating entity.

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

Segment asset disclosures include property and equipment and other intangible assets. The accounting policies of the Company's segments are the same as those of the consolidated Company. The Company evaluates performance based on operating income. Operating income is revenue less operating expenses (including client service expense, cost of non-emergency transportation services, general and administrative expense and depreciation and amortization) but is not affected by other income/expense or by income taxes. Other income/expense consists principally of interest expense and interest income. In calculating operating income for each segment, general and administrative expenses incurred at the corporate level are allocated to each segment based upon their relative direct expense levels excluding costs for purchased services. All intercompany transactions have been eliminated.

The following table sets forth certain financial information attributable to the Company's business segments for the years ended December 31, 2008, 2009 and 2010. In addition, none of the segments have significant non-cash items other than depreciation, amortization and asset impairment charges in reported income.

	For the year ended December 31, 2008			
	Social Services(c)(d)	NET Services(e)	Corporate(a)(b)	Consolidated Total
Revenues	$ 310,529,499	$ 381,106,735	$ 34,036	$ 691,670,270
Depreciation and amortization	$ 5,534,242	$ 7,187,252	$ —	$ 12,721,494
Operating income (loss)	$ (50,975,738)	$ (98,374,986)	$ 34,036	$ (149,316,688)
Net interest expense (income)	$ (506,992)	$ 19,106,519	$ —	$ 18,599,527
Total assets	$ 153,891,688	$ 204,847,944	$ 6,923,601	$ 365,663,233
Capital expenditures	$ 1,470,170	$ 2,487,557	$ 706,280	$ 4,664,007

	For the year ended December 31, 2009			
	Social Services(c)	NET Services	Corporate(a)(b)	Consolidated Total
Revenues	$ 340,737,952	$ 460,275,314	$ —	$ 801,013,266
Depreciation and amortization	$ 6,443,423	$ 6,408,684	$ —	$ 12,852,107
Operating income	$ 24,219,690	$ 29,505,372	$ —	$ 53,725,062
Net interest expense (income)	$ (178,110)	$ 20,610,507	$ —	$ 20,432,397
Total assets	$ 148,459,757	$ 219,928,437	$ 14,718,472	$ 383,106,666
Capital expenditures	$ 1,606,453	$ 1,621,783	$ 471,149	$ 3,699,385

	For the year ended December 31, 2010			
	Social Services(c)	NET Services	Corporate(a)(b)	Consolidated Total
Revenues	$ 341,920,631	$ 537,776,026	$ —	$ 879,696,657
Depreciation and amortization	$ 6,193,718	$ 6,458,309	$ —	$ 12,652,027
Operating income	$ 10,121,320	$ 47,182,031	$ —	$ 57,303,351
Net interest expense (income)	$ (190,540)	$ 16,202,388	$ —	$ 16,011,848
Total assets	$ 148,305,013	$ 204,085,367	$ 34,543,115	$ 386,933,495
Capital expenditures	$ 1,734,495	$ 2,968,148	$ 5,563,301	$ 10,265,944

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

(b) Corporate assets as of December 31, 2009 and 2010 include cash totaling approximately $12.2 million and $27.0 million, property and equipment totaling approximately $1.3 million and $6.2 million, prepaid expenses of approximately $768,000 and $921,000, and other assets of approximately $403,000 and $450,000, respectively.
(c) Excludes intersegment revenues of approximately $182,000 for the years ended December 31, 2008 and 2009, and $671,000 for the year ended Decmeber 31, 2010, that have been eliminated in consolidation.
(d) Includes a non cash impairment charge to goodwill and certain intangible assets of approximately $60.7 million and $2.2 million, respectively.
(e) Includes a non cash impairment charge to goodwill and certain intangible assets of approximately $96.0 million and $11.0 million, respectively.

The following table details the Company's revenues, net income (loss) and long-lived assets by geographic location.

	For the year ended December 31, 2008		
	United States(a)(b)	Canada(a)(b)	Consolidated Total
Revenue	$ 663,712,020	$ 27,958,250	$ 691,670,270
Net loss	$ (149,039,617)	$ (6,565,056)	$ (155,604,673)
Long-lived assets	$ 199,787,519	$ 6,522,002	$ 206,309,521
	For the year ended December 31, 2009		
	United States(b)	Canada(b)	Consolidated Total
Revenue	$ 778,504,781	$ 22,508,485	$ 801,013,266
Net income	$ 20,572,881	$ 552,726	$ 21,125,607
Long-lived assets	$ 191,782,887	$ 7,019,591	$ 198,802,478
	For the year ended December 31, 2010		
	United States(b)	Canada(b)	Consolidated Total
Revenue	$ 857,507,678	$ 22,188,979	$ 879,696,657
Net income	$ 23,321,638	$ 305,005	$ 23,626,643
Long-lived assets	$ 189,961,245	$ 6,665,068	$ 196,626,313

(a) Includes a non-cash impairment charge of $163.6 million related to our domestic operations and $6.3 million related to our Canadian operations, respectively.
(b) The Social Services and NET Services operating segments, on an aggregate basis, derived approximately 14.2%, 14.2% and 12.8% of the Company's consolidated revenue from one payer for the years ended December 31, 2008, 2009 and 2010, respectively.

16. Stockholders' Equity

The Company's second amended and restated certificate of incorporation provides that the Company's authorized capital stock consists of 40,000,000 shares of common stock, $0.001 par value per share, and 10,000,000 shares of preferred stock, $0.001 par value per share.

During the year ended December 31, 2010, the Company granted a total of 437,711 ten-year options under the 2006 Long-Term Incentive Plan ("2006 Plan") to purchase the Company's common stock at exercise prices equal to the market value of the Company's common stock on the date of grant. The options were granted to non-employee directors of its board of directors, executive officers and certain key employees. The option exercise price for all options granted ranged from $15.73 to $17.35 and the options vest in three equal installments on the first, second and third anniversaries of the date of grant. The weighted-average fair value of the options granted during the year ended December 31, 2010 totaled $12.23 per share.

The Company granted a total of 74,101 shares of restricted stock to non-employee directors of its board of directors and executive officers during the year ended December 31, 2010. The awards vests in three equal installments on the first, second and third anniversaries of the date of grant. The weighted-average fair value of these awards totaled $16.88 per share.

During the year ended December 31, 2010, the Company issued 56,331 shares of its common stock in connection with the exercise of employee stock options under the 2006 Plan. In addition, during the year ended December 31, 2010, the Company issued 1,429 shares of its common stock in connection with the exercise of employee stock options under the Company's 1997 Stock Option and Incentive Plan ("1997 Plan"). The Company also issued 666 shares of its common stock to a non-employee director upon the vesting of certain restricted stock awards granted in 2009 under the Company's 2006 Plan.

At December 31, 2009 and 2010, there were 13,521,959 and 13,580,385 shares of the Company's common stock outstanding, respectively, (including 619,768 treasury shares at December 31, 2009 and 2010) and no shares of preferred stock outstanding.

The following table reflects the total number of shares of the Company's common stock reserved for future issuance as of December 31, 2010:

Shares of common stock reserved for:	
Exercise of stock options and restricted stock awards	1,767,068
Exchangeable shares issued in connection with the acquisition of WCG that are exchangeable into shares of the Company's common stock	261,694
Convertible senior subordinated notes	2,224,320
Total shares of common stock reserved for future issuance	4,253,082

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 stockholders and are entitled to any dividends that may be declared by the Company's board of directors. 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.

On December 9, 2008, the Board declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of the Company's common stock, par value $0.001 per share. The dividend was payable on December 22, 2008 (the "Record Date") to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value $0.001 per share (the "Preferred Shares"), of the Company at a price of $15.00 per one one-hundredth of a Preferred Share, subject to adjustment. The description and terms of the Rights are set forth in the Preferred Stock Rights Agreement, dated December 9, 2008 (the "Rights Agreement"), between the Company and Computershare Trust Company, N.A., as Rights Agent, which provides for a stockholder rights plan.

Initially, the Rights are attached to all outstanding shares of the Company's common stock and no separate Rights certificates will be issued until the distribution date (as defined in the Rights Agreement). The Rights are not exercisable until the distribution date. The Rights will expire on December 9, 2011, unless this date is amended or unless the Rights are earlier redeemed or exchanged by the Company. In addition, the Rights Agreement also provides that the Rights among other things: (i) will not become exercisable in connection with a qualified fully financed offer for any or all of the outstanding shares of the Company' s common stock (as described in the Rights Agreement); (ii) permit each holder of a Right to receive, upon exercise, shares of the Company's common stock with a value equal to twice that of the exercise price of the Right if 20% or more of the Company's outstanding common stock is acquired by a person or group; and (iii) in the event that the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold after a person or group has acquired 20% or more of the Company's outstanding common stock, will allow each holder of a Right to receive, upon the exercise thereof at the then-current exercise price of the Right, that number of shares of common stock of the acquiring company, which at the time of such transaction will have a market value of two times the exercise price of the Right.

The number of outstanding Rights and the number of one one-hundredths of a Preferred Share to be issued upon exercise of each Right are subject to adjustment under certain circumstances. Because of the nature of the Preferred Shares' dividend, liquidation and voting rights, the value of the one one-hundredth interest in a Preferred Share purchasable upon exercise of each Right should approximate the value of one share of the Company's common stock. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends. The Rights will not prevent a takeover of the Company. However, the Rights may cause substantial dilution to a person or group that acquires 20% or more of the Company's outstanding common stock. The Rights however, should not interfere with any merger or other business combination approved by the Board.

Effective as of October 9, 2009, the Board unanimously approved and adopted an amendment to the Rights Agreement ("Rights Amendment No. 1"). The principal purpose of Rights Amendment No. 1 is to revise the definition of a "qualified offer" and the related process by which stockholders can request, following the Company's receipt of a "qualified offer," that a special meeting be called to redeem the Rights issued pursuant to the Rights Agreement, to be consistent with additional published guidance that was issued by a leading proxy advisory firm subsequent to the adoption by the Board of the Rights Agreement. In addition, Rights Amendment No. 1 requires that any amendment to the Rights Agreement that extends its term shall be submitted for ratification by the Company's stockholders within one year of the adoption by the Board of such an amendment.

17. Stock-Based Compensation Arrangements

The Company provides stock-based compensation under the Company's 1997 Plan, 2003 Stock Option Plan ("2003 Plan") and 2006 Plan to employees, non-employee directors, consultants and advisors. These plans have contributed significantly to the success of the Company by providing for the grant of stock-based and other incentive awards to enhance the Company's ability to attract and retain employees, directors, consultants, advisors and others who are in a position to make contributions to the success of the Company and any entity in which the Company owns, directly or indirectly, 50% or more of the outstanding capital stock as determined by aggregate voting rights or other voting interests and encourage such persons to take into account the long-term interests of the Company and its stockholders through ownership of the Company's common stock or securities with value tied to the Company's common stock. The Company, upon stockholder approval of the 2006 Plan in 2006, replaced the 1997 Plan and 2003 Plan with the 2006 Plan. While all awards outstanding under the 1997 Plan and 2003 Plan remain in effect in accordance with their terms, no additional grants or awards will be made under either plan.

To achieve the purposes of the Company's stock-based compensation program described above, 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.

Stock option awards granted under the 1997 Plan, 2003 Plan and 2006 Plan were generally ten year options granted at fair market value on the date of grant with time based vesting over a period determined at the time the options were granted, ranging from one to four years (which is equal to the requisite service period) prior to the acceleration of vesting noted below. The Company does not intend to pay dividends on unexercised options. New shares of the Company's common stock are issued when the options are exercised.

The following table summarizes the activity under the 1997 Plan, 2003 Plan and 2006 Plan as of December 31, 2010:

	Number of shares of the Company's common stock authorized for issuance	Number of shares of the Company's common stock remaining available for future grants	Number of shares of the Company's common stock subject to	
			Options	Stock Grants
1997 Plan	428,572	—	8,176	—
2003 Plan	1,400,000	—	701,366	—
2006 Plan	2,900,000(1)	644,183	982,091	75,435
Total	4,728,572	644,183	1,691,633	75,435

(1) On May 20, 2010, the Company's stockholders approved an amendment to the 2006 Plan to increase the number of shares of the Company's common stock authorized for issuance under the 2006 Plan by 1,100,000 shares from 1,800,000 shares to 2,900,000 shares.

The Company chose to follow the short-cut method prescribed by ASC 718 to calculate its pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of ASC 718 ("APIC pool"). There was no effect on the Company's financial results for 2008, 2009 or 2010 related to the application of the short-cut method to determine its APIC pool balance.

The Company calculates the fair value of stock options using the Black-Scholes-Merton option-pricing formula. Stock-based compensation expense for stock options granted prior to December 31, 2005 is not reflected in the Company's consolidated statements of operations for the years ended December 31, 2008, 2009 and 2010 as all of the outstanding stock options granted prior to December 31, 2005 were vested at December 31, 2005.

Stock-based compensation expense charged against income for stock options and stock grants awarded subsequent to December 31, 2005 (the date of acceleration of all of the then outstanding unvested stock options) for the year ended December 31, 2008 was based on the grant-date fair value adjusted for estimated forfeitures based on awards expected to vest in accordance with the provisions of ASC 718, and amounted to approximately $6.3 million (net of tax of $2.5 million). On December 30, 2008, the Compensation Committee of the Board approved, effective as of that date, the acceleration of the vesting dates of all outstanding unvested stock options and restricted stock awarded subsequent to December 31, 2005 to eligible employees, directors and consultants, including stock options and restricted stock granted to executive officers and non-employee directors, under the 2006 Plan; provided the equity holder was actively an employee, director or consultant of the Company on December 30, 2008. All other terms of the stock options and restricted stock remained the same. Stock-based compensation expense charged against income for stock options and stock grants awarded subsequent to December 30, 2008 for the years ended December 31, 2009 and 2010 was based on the grant-date fair value adjusted for estimated forfeitures based on awards expected to vest in accordance with the provisions of ASC 718 and totaled approximately $291,000 (net of tax of approximately $11,000) and $1.5 million (net of tax of approximately $156,000), respectively. ASC 718 requires forfeitures to be estimated at the time of grant and revised as necessary in subsequent periods if the actual forfeitures differ from those estimates.

For the years ended December 31, 2008, 2009 and 2010, the amount of excess tax benefits resulting from the exercise of stock options was approximately $185,000, $140,000 and $66,000, respectively. For the years ended

December 31, 2008, 2009 and 2010, the Company had tax shortfalls resulting from the exercise of stock options of approximately $1.5 million, $45,000 and $176,000, respectively. The excess tax benefits resulting from the exercise of stock options are reflected as cash flows from financing activities for the years ended December 31, 2008, 2009 and 2010 in the accompanying consolidated statements of cash flows.

Prior to the acceleration of vesting in December 2008, stock-based compensation expense was amortized over the vesting period of three to four years with approximately 32% recorded as client services expense, and 68% as general and administrative expense in the Company's consolidated statements of operations for the year ended December 31, 2008. For stock-based compensation awards granted subsequent to December 30, 2008, the associated expense is amortized over the vesting period of three years with approximately 55% and 16% recorded as client services expense, 36% and 38% as cost of non-emergency transportation services and 9% and 46% as general and administrative expense in the Company's consolidated statements of operations for the years ended December 31, 2009 and 2010, respectively.

The following table summarizes the stock option activity for the year ended December 31, 2010:

	Year ended December 31, 2010			
	Number of Shares Under Option	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at beginning of period	1,428,876	$ 20.84		
Granted	437,711	16.50		
Exercised	(57,760)	8.16		
Forfeited or expired	(117,194)	23.20		
Outstanding at end of period	1,691,633	$ 19.99	6.6	$ 1,941,414
Vested or expected to vest at end of period	1,662,288	$ 20.07	6.5	$ 1,898,752
Exercisable at end of period	1,164,259	$ 22.02	5.4	$ 1,384,256

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, 2008, 2009 and 2010 were as follows:

	Year ended December 31,		
	2008	2009	2010
Weighted-average grant date fair value	$ 6.85	$ 8.52	$ 12.23
Options exercised:			
Total intrinsic value	$ 488,921	$ 460,471	$ 454,088
Cash received	$ 469,320	$ 149,667	$ 470,888

The following table summarizes the activity of the shares and weighted-average grant date fair value of the Company's non-vested common stock during the year ended December 31, 2010:

	Shares	Weighted-average grant date fair value
Non-vested at December 31, 2009	2,000	$ 13.07
Granted	74,101	$ 16.88
Vested	(666)	$ 13.07
Forfeited	—	$ —
Non-vested at December 31, 2010	75,435	$ 16.82

Stock grants were not made prior to the approval of the 2006 Plan on May 25, 2006. The fair value of a non-vested stock grant is determined based on the closing market price of the Company's common stock on the date of grant.

As of December 31, 2010, there was approximately $5.7 million of unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the 2006 Plan. The cost is expected to be recognized over a weighted-average period of 2.3 years. The total fair value of shares vested was $10.0 million, $0 and $428,000 for the years ended December 31, 2008, 2009 and 2010, respectively.

The fair value of each stock option awarded during the years ended December 31, 2008, 2009 and 2010 was estimated on the date of grant using the Black-Scholes-Merton option-pricing formula and amortized over the option's vesting periods with the following assumptions:

	Year ended December 31,		
	2008	2009	2010
Expected dividend yield	0.0%	0.0%	0.0%
Expected stock price volatility	34.7%-89.3%	91.6%-95.7%	90.9%-91.2%
Risk-free interest rate	1.6%-3.5%	1.7%-2.7%	2.4%
Expected life of options (in years)	5-6	6	6

The risk-free interest rate was based on the U.S. Treasury security rate in effect as of the date of grant. The expected lives of options and the expected stock price volatility were based on the Company's historical data. Implied volatility was not considered due to the low volume of traded options on the Company's common stock.

18. Earnings (Loss) Per Share

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

	Year ended December 31,		
	2008	2009	2010
Numerator:			
Net income (loss), basic	$(155,604,673)	$21,125,607	$23,626,643
Effect of Interest related to Convertible Debt	—	—	2,942,004
Net income (loss) available to common stockholders, diluted	$(155,604,673)	$21,125,607	$26,568,647
Denominator:			
Denominator for basic earnings (loss) per share—weighted-average shares	12,531,869	13,130,092	13,194,226
Effect of dilutive securities:			
Common stock options and restricted stock awards	—	81,301	91,550
Convertible Debt	—	—	1,678,740
Denominator for diluted earnings (loss) per share—adjusted weighted-average shares assumed conversion	12,531,869	13,211,393	14,964,516
Basic earnings (loss) per share	$ (12.42)	$ 1.61	$ 1.79
Diluted earnings (loss) per share	$ (12.42)	$ 1.60	$ 1.78

All potentially dilutive securities were anti-dilutive for purposes of computing diluted earnings per share for the year ended December 31, 2008 as the Company recorded a net loss available to common stockholders for this period. For the years ended December 31, 2009 and 2010, employee stock options to purchase 11 and 1,620 shares, respectively, of common stock were not included in the computation of diluted earnings per share as the exercise price of these options was greater than the average fair value of the common stock for the period and, therefore, the effect of these options would have been anti-dilutive. The effect of issuing 1,678,740 shares of common stock on an assumed conversion basis related to the Notes was not included in the computation of diluted earnings per share for the years ended December 31, 2008 and 2009 as it would have been antidilutive.

19. Leases

Capital leases

The Company has various capital leases related to office equipment. The cost of equipment under capital leases is included in the accompanying consolidated balance sheet at December 31, 2009 and 2010 as property and equipment and was approximately $75,000. Accumulated amortization of the leased vehicles and equipment at December 31, 2009 and 2010 was approximately $13,000 and $29,000, respectively. Amortization of assets under capital leases is included in depreciation and amortization expense in the consolidated statement of operations for the years ended December 31, 2008, 2009 and 2010. Capital lease obligations of approximately $65,000 and $51,000 as of December 31, 2009 and 2010, respectively, are included in "Accrued expenses" and "Other long-term liabilities" in the accompanying consolidated balance sheets.

Operating leases

The Company leases many of its operating and office facilities for various terms under non-cancelable operating lease agreements. The leases expire in various years and 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.

The 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 difference between rent expense recorded and the amount paid as of December 31, 2009 and 2010 was approximately $334,000 and $521,000, respectively, and was included in "Accrued expenses" in the accompanying consolidated balance sheets. Also, the lease agreements generally require the Company to pay executory costs such as real estate taxes, insurance, and repairs.

Future minimum payments under capital leases and non-cancelable operating leases with initial terms of one year or more consisted of the following at December 31, 2010:

	Capital Leases	Operating Leases
2011	$ 22,789	$ 14,058,806
2012	20,481	9,685,721
2013	15,376	7,207,838
2014	7,068	4,630,257
2015	—	2,854,570
Thereafter	—	4,299,454
Total future minimum lease payments	65,714	$ 42,736,646
Less: amount representing interest	14,343	
Present value of net minimum lease payments (including current portion of $15,476)	$ 51,371	

Rent expense related to operating leases was approximately $15.1 million, $16.8 million and $18.7 million, for the years ended December 31, 2008, 2009 and 2010, respectively.

20. Retirement Plan

Social Services

The Company maintains qualified defined contribution plans under Section 401(k) of the Internal Revenue Code of 1986, as amended ("IRC"), for all employees of its Social Services operating segment as well as corporate personnel. The Company, at its discretion, may make a matching contribution to the plans. The Company's contributions to the plans were approximately $375,000, $399,000 and $391,000, for the years ended December 31, 2008, 2009 and 2010, respectively.

On August 31, 2007, the Board adopted The Providence Service Corporation Deferred Compensation Plan (the "Deferred Compensation Plan") for the Company's eligible employees and independent contractors or a participating employer (as defined in the Deferred Compensation Plan). Under the Deferred Compensation Plan participants may defer all or a portion of their base salary, service bonus, performance-based compensation earned in a period of 12 months or more, commissions and, in the case of independent contractors, compensation reportable on Form 1099. As of December 31, 2010, there were seven participants in the Deferred Compensation Plan.

NET Services

The Company maintains a qualified defined contribution plan under Section 401(k) of the IRC for all employees of its NET Services operating segment. Under this plan, the Company contributes an amount equal to 25% of the first 5% of participant elective contributions. At the end of each plan year, the Company may also make a contribution on a discretionary basis on behalf of participants who have made elective contributions for the plan year. In no event will participant shares of the Company's matching contribution exceed 1.25% of participants' compensation for the plan year. For the years ended December 31, 2008, 2009 and 2010, the Company made contributions to this plan totaling approximately $107,000, $213,000 and $124,000, respectively.

The Company also maintains a 409 (A) Deferred Compensation Rabbi Trust Plan for highly compensated employees of its NET Services operating segment. 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. As of December 31, 2010, there were 15 highly compensated employees who participated in this plan.

21. Income Taxes

The federal and state income tax provision (benefit) is summarized as follows:

	Year ended December 31,		
	2008	2009	2010
Federal:			
Current	$ 287,101	$ 8,325,467	$ 13,487,468
Deferred	(10,274,362)	2,320,618	1,201,825
	(9,987,261)	10,646,085	14,689,293
State			
Current	$ 2,199,934	$ 1,913,762	$ 2,569,947
Deferred	(4,092,234)	(274,230)	277,554
	(1,892,300)	1,639,532	2,847,501
Foreign			
Current	$ (245,018)	$ (371,785)	$ 238,129
Deferred	(186,963)	253,226	(110,063)
	(431,981)	(118,559)	128,066
Total provision (benefit) for income taxes	$ (12,311,542)	$ 12,167,058	$ 17,664,860

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

	Year Ended December 31,		
	2008	2009	2010
Federal statutory rates	35%	35%	35%
Federal income tax at statutory rates	$ (58,790,996)	$ 11,652,434	$ 14,452,026
Goodwill impairment	46,634,045	—	—
Change in valuation allowance	54,165	95,501	347,775
State income taxes, net of federal benefit	(1,229,995)	635,692	1,850,876
Difference between federal statutory and foreign tax rate	29,340	(33,533)	(35,607)
Stock option expense	837,047	96,380	394,606
Meals and entertainment	95,619	92,587	76,413
Other	59,233	(372,003)	578,771
Provision (benefit) for income taxes	$ (12,311,542)	$ 12,167,058	$ 17,664,860
Effective income tax rate	7%	37%	43%

The Company's effective income tax rate for 2008 was significantly lower than 2009 and 2010. For 2008, approximately $133.2 million of the total goodwill impairment charge of approximately $156.7 million was not deductible for income tax purposes as the goodwill was related to the Company's acquisition of the equity interest in several businesses. As a result, the Company's effective income tax rate for 2008 decreased.

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, 2009	December 31, 2010
Deferred tax assets:		
Net operating loss carryforwards	$ 1,579,000	$ 1,337,000
Accounts receivable allowance	1,520,000	387,000
Property and equipment depreciation	292,000	418,000
Accrued items and prepaids	2,537,000	2,216,000
Nonqualified stock options	993,000	882,000
Interest rate swap	145,000	—
Deferred Rent	132,000	549,000
Deferred Financing Costs	—	469,000
Other	94,000	287,000
	7,292,000	6,545,000
Deferred tax liabilities:		
Prepaids	876,000	1,386,000
Property and equipment depreciation	1,602,000	2,910,000
Goodwill and intangibles amortization	12,138,000	11,021,000
Other	340,000	308,000
	14,956,000	15,625,000
Net deferred tax liabilities	(7,664,000)	(9,080,000)
Less valuation allowance	(518,000)	(866,000)
Net deferred tax liabilities	$ (8,182,000)	$ (9,946,000)
Current deferred tax assets, net of $340,000 and $463,000 valuation allowance for 2009 and 2010, respectively	$ 3,558,000	$ 1,634,000
Noncurrent deferred tax liabilities, net of $178,000 and $403,000 valuation allowance for 2009 and 2010, respectively	(11,740,000)	(11,580,000)
	$ (8,182,000)	$ (9,946,000)

At December 31, 2010, the Company had approximately $192,000 of federal net operating loss carryforwards which expire in years 2017 through 2025 and $28.7 million of state net operating loss carryforwards which expire as follows:

2012	$	1,055,266
2013		501,952
2014		239,141
2015		272,449
Thereafter		26,650,707
	$	28,719,515

As a result of statutory "ownership changes" (as defined for purposes of Section 382 of the IRC), the Company's ability to utilize its federal net operating losses is restricted. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. 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, 2010 was $348,000. The valuation allowance includes $17.4 million of state net operating loss carryforwards for which the Company has concluded that it is more likely than not that these net operating loss 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 adjusted an appropriate adjustment will be recorded.

The Company recognized certain excess tax benefits related to stock option plans for the years ended December 31, 2008, 2009 and 2010 in the amount of $185,000, $140,000 and $66,000, respectively. Such benefits were recorded as a reduction of income taxes payable and an increase in additional paid-in-capital and are included in "Exercise of employee stock options" in the accompanying statements of stockholders' equity and comprehensive income (loss).

The Company recognized a tax shortfall related to stock option plans for the years ended December 31, 2008, 2009 and 2010 in the amount of $1.5 million, $45,000 and $242,000, respectively. This was recorded as a reduction of deferred tax assets and a decrease to additional paid-in-capital and is included in "Exercise of employee stock options" in the accompanying statements of stockholders' equity and comprehensive income (loss).

The Company expects approximately $153,000 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, 2008, 2009 and 2010, the Company recognized approximately $0, $7,000 and ($2,000), respectively, in interest and penalties. The Company had approximately $7,000 and $5,000 for the payment of penalties and interest accrued as of December 31, 2009 and 2010. A reconciliation of the liability for unrecognized income tax benefit is as follows:

	December 31,		
	2008	2009	2010
Unrecognized tax benefits, beginning of year	$ —	$ 169,000	$ 119,000
Increase (decrease) related to prior year positions	169,000	(44,000)	54,000
Increase related to current year tax positions	—	—	—
Settlements	—	(6,000)	—
Unrecognized tax benefits, end of year	$ 169,000	$ 119,000	$ 173,000

The total amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods was approximately $11,000 as of December 31, 2010.

The Company is subject to taxation in the United States, Canada and various state jurisdictions. The statute of limitations is generally three years for the United States, four years for Canada, and between eighteen months and four years for states. The Company is subject to the following material taxing jurisdictions: United States, Canada, California, Philadelphia and Virginia. The tax years that remain open for examination by the United States, Philadelphia and Virginia jurisdictions are years ended December 31, 2007, 2008, 2009 and 2010; the California filings that remain open to examination are years ended December 31, 2006, 2007, 2008, 2009 and 2010.

Residual United States income taxes have not been provided on undistributed earnings of the Company's foreign subsidiary. These earnings are considered to be indefinitely reinvested and, accordingly, no provision for United States federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both United States income taxes and withholding taxes payable to Canada less an adjustment for foreign tax credits. As of December 31, 2010 there were no undistributed earnings in the foreign subsidiary as it had cumulative losses.

22. Commitments and Contingencies

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

The Company has two deferred compensation plans for management and highly compensated employees. These deferred compensation plans are unfunded; therefore, benefits are paid from the general assets of the Company. The total of participant deferrals, which is reflected in "Other long-term liabilities" in the accompanying consolidated balance sheets, was approximately $457,000 and $655,000 at December 31, 2009 and 2010, respectively.

The Company may be obligated to pay an amount up to $650,000 to the sellers under an earn out provision pursuant to a formula specified in an asset purchase agreement dated July 1, 2009 by which the Company acquired certain assets of an entity located in California. The earn out payment as such term is defined in the asset purchase agreement, if earned, will be paid in cash. The earn out period ends on December 31, 2013. If the contingency is resolved in accordance with the related provisions of the asset purchase agreement and the additional consideration becomes distributable, the Company will record the fair value of the consideration issued as an additional cost to acquire the associated assets, which will be charged to earnings.

23. Transactions with Related Parties

Mr. Geringer, one of the Company's directors, resigned from his position as a member of the Board on April 10, 2008. Prior to his resignation the following transaction was deemed to be a related party transaction. Mr. Geringer is a holder of capital stock and the non-executive chairman of the board of Qualifacts Systems, Inc. ("Qualifacts"). Qualifacts is a specialized healthcare information technology provider that entered into a software license, maintenance and servicing agreement with the Company. This agreement became effective on March 1, 2002 and was to continue for five years. Effective January 10, 2006, a new software license, maintenance and servicing agreement between the Company and Qualifacts was signed and continues for five years. This agreement replaces the agreement which began on March 1, 2002 and may be terminated by either party without cause upon 90 days written notice and for cause immediately upon written notice. The new agreement grants the Company access to additional software functionality and licenses for additional sites. Qualifacts provided the Company services and the Company incurred expenses in the amount of approximately $245,000 for the year ended December 31, 2008 under the agreement.

Upon the Company's acquisition of Maple Services, LLC in August 2005, Mr. McCusker, the Company's chief executive officer, Mr. Deitch, the Company's chief financial officer, and Mr. Norris, the Company's chief operating officer, became members of the board of directors of the not-for-profit organization (Maple Star Colorado, Inc.) formerly managed by Maple Services, LLC. Maple Star Colorado, Inc. is a non-profit member organization governed by its board of directors and the state laws of Colorado in which it is incorporated. Maple Star Colorado, Inc. is not a federally tax exempt organization and neither the Internal Revenue Service rules governing IRC Section 501(c)(3) exempt organizations, nor any other IRC sections applicable to tax exempt organizations, apply to this organization. The Company provided management services to Maple Star Colorado, Inc. under a management agreement for consideration in the amount of approximately $509,000, $292,000 and $270,000 for the years ended December 31, 2008, 2009 and 2010, respectively. Amounts due to the Company from Maple Star Colorado, Inc. for management services provided to it by the Company at December 31, 2009 and 2010 were approximately $281,000 and $237,000, respectively.

The Company is using a twin propeller KingAir airplane operated by Las Montanas Aviation, LLC for approved business travel purposes on an as needed basis subject to a joint operating agreement and regulated by Federal Aviation Administration Code of Federal Regulations 91:501. Las Montanas Aviation, LLC is owned by Mr. McCusker. The Company currently pays a flat fee of $9,000 per month plus incidental costs such as fuel and landing fees. For the years ended December 31, 2008, 2009 and 2010, the Company expensed amounts related to Las Montanas Aviation, LLC of approximately $76,000, $119,000 and $109,000, respectively, for use of the airplane for business travel purposes. The plane is available for use related to the Company's business only when commercial flights are not practical.

The Company operates a call center in Phoenix, Arizona. The building in which the call center is located is currently leased by the Company from VWP McDowell, LLC ("McDowell") under a five year lease that expires in 2014. Under the lease agreement, as amended, the Company may terminate the lease after the first 36 months of the lease term with a six month prior written notice. Certain members of Mr. Schwarz's (the chief executive officer of LogistiCare) immediate family have partial ownership interest in McDowell. In the aggregate these family members own approximately 13% interest in McDowell directly and indirectly through a trust. For 2009 and 2010, the Company expensed approximately $269,000 and $411,000, respectively, in lease payments to McDowell. Effective November 2009, the lease agreement was amended to provide additional office space resulting in increased rent expense for 2010 as compared to 2009. Future minimum lease payments due under the amended lease total approximately $1.6 million at December 31, 2010.

24. Subsequent Events

On March 11, 2011, the Company completed the refinancing of its Credit Facility. December 31, 2010 pro forma borrowings consist of the following:

	Actual December 31, 2010	Pro forma December 31, 2010 (Unaudited)
6.5% convertible senior subordinated notes, interest payable semi-annually beginning May 2008 with principal due May 2014	$ 70,000,000	$ 70,000,000
$30,000,000 revolving loan, LIBOR plus 6.5% through December 2012	—	—
$173,000,000 term loan, LIBOR plus 6.5% with principal and interest payable quarterly through December 2013	112,303,772	—
$40,000,000 revolving loan, LIBOR plus 2.25% to 3.00% or Base Rate plus 1.25% to 2.00% through March 2016	—	—
$100,000,000 term loan, LIBOR plus 2.25% to 3.00% or Base Rate plus 1.25% to 2.00% with principal and interest payable quarterly through March 2016	—	100,000,000
	182,303,772	170,000,000
Less current portion	18,113,512	7,500,000
	$ 164,190,260	$ 162,500,000

Actual and pro forma annual maturities of long-term obligations as of December 31, 2010 are as follows:

Year	Actual Amount	Pro forma Amount (Unaudited)
2011	$ 18,113,512	$ 7,500,000
2012	21,736,214	10,000,000
2013	72,454,046	13,750,000
2014	70,000,000	85,000,000
2015	—	18,750,000
Thereafter	—	35,000,000
Total	$ 182,303,772	$ 170,000,000

The new credit agreement provides certain covenants including financial covenants. Additionally, the Company expects to incur fees of approximately $2.9 million to refinance its long-term debt. The Company is accounting for fees related to the refinancing of its Credit Facility, as well as unamortized deferred financing fees related to the Credit Facility, under ASC 470-50 – *Debt Modifications and Extinguishments*. As both credit facilities were loan syndications, and a number of lenders participated in both credit facilities, the Company is evaluating the accounting for financing fees on a lender by lender basis. Of the total amount of deferred financing fees related to the Credit Facility as of March 11, 2011, the Company expects approximately $1.2 million will continue to be deferred and amortized and approximately $2.4 million is anticipated to be expensed in the quarter ending March 31, 2011. Of the $2.9 million of fees expected to be incurred to refinance the long-term debt, approximately $2.5 million will be deferred and amortized and approximately $400,000 is anticipated to be expensed in the quarter ending March 31, 2011.

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

None.

Item 9A. *Controls and Procedures.*

(a) Evaluation of disclosure controls and procedures

The Company, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report (December 31, 2010) ("Disclosure Controls"). Based upon the Disclosure Controls evaluation, the principal executive officer and principal financial officer have concluded that the Disclosure Controls are effective in reaching a reasonable level of assurance that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls

The principal executive officer and principal financial officer also conducted an evaluation of the Company's internal control over financial reporting ("Internal Control") to determine whether any changes in Internal Control occurred during the quarter ended December 31, 2010 that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter ended December 31, 2010.

(c) Limitations on the Effectiveness of Controls

Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

Attachment B.11-E:

LogistiCare-B.7-Providence Form 10Q

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from ______ to ______

Commission File Number 001-34221

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

Delaware (State or other jurisdiction of incorporation or organization)	86-0845127 (I.R.S. Employer Identification No.)
64 East Broadway Blvd., Tucson, Arizona (Address of principal executive offices)	85701 (Zip Code)

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

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

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

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

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

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

As of May 3, 2011, there were outstanding 12,962,044 shares (excluding treasury shares of 619,768) of the registrant's Common Stock, $0.001 par value per share.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

The Providence Service Corporation
Condensed Consolidated Balance Sheets

	December 31, 2010	March 31, 2011
		(Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 61,260,661	$ 57,617,091
Accounts receivable, net of allowance of $5.3 million in 2010 and 2011	76,111,608	82,549,485
Management fee receivable	5,839,735	5,957,587
Other receivables	3,929,866	3,487,769
Restricted cash	7,314,535	7,354,147
Prepaid expenses and other	15,478,221	13,949,597
Deferred tax assets	1,633,644	2,144,319
Total current assets	171,568,270	173,059,995
Property and equipment, net	16,401,107	16,906,504
Goodwill	113,783,389	113,849,797
Intangible assets, net	66,441,817	64,615,233
Restricted cash, less current portion	9,079,563	9,080,174
Other assets	9,659,349	9,382,241
Total assets	$386,933,495	$386,893,944
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term obligations	$ 18,113,512	$ 16,626,000
Accounts payable	2,887,837	3,164,512
Accrued expenses	33,551,129	35,468,263
Accrued transportation costs	41,868,694	48,222,447
Deferred revenue	5,373,742	4,752,975
Reinsurance liability reserve	11,898,200	9,745,438
Total current liabilities	113,693,114	117,979,635
Long-term obligations, less current portion	164,190,260	153,374,000
Other long-term liabilities	8,721,610	10,046,763
Deferred tax liabilities	11,579,849	11,295,543
Total liabilities	298,184,833	292,695,941
Commitments and contingencies (Note 15)		
Stockholders' equity		
Common stock: Authorized 40,000,000 shares; $0.001 par value; 13,580,385 and 13,580,813 issued and outstanding (including treasury shares)	13,580	13,581
Additional paid-in capital	172,540,912	173,160,160
Retained deficit	(78,501,586)	(74,032,325)
Accumulated other comprehensive loss, net of tax	(880,814)	(519,983)
Treasury shares, at cost, 619,768 shares	(11,383,967)	(11,383,967)
Total Providence stockholders' equity	81,788,125	87,237,466
Non-controlling interest	6,960,537	6,960,537
Total stockholders' equity	88,748,662	94,198,003
Total liabilities and stockholders' equity	$386,933,495	$386,893,944

See accompanying notes to unaudited condensed consolidated financial statements

The Providence Service Corporation
Unaudited Condensed Consolidated Statements of Income

	Three months ended March 31, 2010	Three months ended March 31, 2011
Revenues:		
Home and community based services	$ 76,465,480	$ 77,244,287
Foster care services	8,735,268	8,251,253
Management fees	3,294,945	3,344,940
Non-emergency transportation services	132,463,701	138,965,856
	220,959,394	227,806,336
Operating expenses:		
Client service expense	73,644,411	72,813,914
Cost of non-emergency transportation services	113,487,655	126,108,419
General and administrative expense	10,787,851	11,923,781
Depreciation and amortization	3,126,698	3,249,078
Total operating expenses	201,046,615	214,095,192
Operating income	19,912,779	13,711,144
Other (income) expense:		
Interest expense	4,374,393	3,731,831
Loss on extinguishment of debt	—	2,463,482
Interest income	(71,351)	(59,363)
Income before income taxes	15,609,737	7,575,194
Provision for income taxes	6,502,641	3,105,933
Net income	$ 9,107,096	$ 4,469,261
Earnings per common share:		
Basic	$ 0.69	$ 0.34
Diluted	$ 0.66	$ 0.34
Weighted-average number of common shares outstanding:		
Basic	13,166,784	13,222,566
Diluted	14,936,288	13,320,443

See accompanying notes to unaudited condensed consolidated financial statements

The Providence Service Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Three months ended March 31, 2010	Three months ended March 31, 2011
Operating activities		
Net income	$ 9,107,096	$ 4,469,261
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,202,280	1,321,219
Amortization	1,924,418	1,927,859
Amortization of deferred financing costs	628,787	479,363
Loss on extinguishment of debt	—	2,463,482
Provision for doubtful accounts	1,929,599	835,797
Deferred income taxes	(502,709)	(1,019,333)
Stock based compensation	118,853	690,231
Excess tax benefit upon exercise of stock options	(18,382)	(1,959)
Other	(145,937)	380,194
Changes in operating assets and liabilities:		
Accounts receivable	(9,753,990)	(7,108,867)
Management fee receivable	29,691	(117,851)
Other receivables	388,388	442,119
Restricted cash	(305,008)	(401,901)
Prepaid expenses and other	385,397	1,214,910
Reinsurance liability reserve	(892,119)	(782,901)
Accounts payable and accrued expenses	5,470,317	2,130,673
Accrued transportation costs	6,253,853	6,353,753
Deferred revenue	(394,387)	(623,142)
Other long-term liabilities	(28,099)	9,170
Net cash provided by operating activities	15,398,048	12,662,077
Investing activities		
Purchase of property and equipment, net	(2,523,555)	(1,818,405)
Restricted cash for contract performance	(47,362)	361,680
Purchase of short-term investments, net	(30,906)	(28,755)
Net cash used in investing activities	(2,601,823)	(1,485,480)
Financing activities		
Proceeds from common stock issued pursuant to stock option exercise	69,409	2,004
Excess tax benefit upon exercise of stock options	18,382	1,959
Proceeds from long-term debt	—	100,000,000
Repayment of long-term debt	(8,622,702)	(112,303,771)
Debt financing costs	—	(2,606,371)
Capital lease payments	(3,124)	(3,668)
Net cash used in financing activities	(8,538,035)	(14,909,847)
Effect of exchange rate changes on cash	95,152	89,680
Net change in cash	4,353,342	(3,643,570)
Cash at beginning of period	51,157,429	61,260,661
Cash at end of period	$ 55,510,771	$ 57,617,091
Supplemental cash flow information:		
Cash paid for interest	$ 2,900,451	$ 1,822,892
Cash paid for income taxes	$ 4,469,748	$ 4,158,817

See accompanying notes to unaudited condensed consolidated financial statements

The Providence Service Corporation
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2011

1. Basis of Presentation

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

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

The Company's consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011. Management has evaluated events and transactions that occurred after the balance sheet date and through the date these consolidated financial statements were issued and considered the effect of such events in the preparation of these consolidated financial statements.

The consolidated balance sheet at December 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. The consolidated financial statements contained herein should be read in conjunction with the audited financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Certain amounts have been reclassified in prior periods in order to conform with the current period presentation with no affect on net income or stockholders' equity.

2. Description of Business

The Company is a government outsourcing privatization company. The Company operates in the following two segments: Social Services and Non-Emergency Transportation Services ("NET Services"). As of March 31, 2011, the Company operated in 42 states, and the District of Columbia, United States, and British Columbia, Canada.

The Social Services operating segment responds to governmental privatization initiatives in adult and juvenile justice, corrections, social services, welfare systems, education and workforce development by providing home-based and community-based counseling services and foster care services to at-risk families and children. These services are purchased primarily by state, county and city levels of government, and are delivered under block purchase, cost based and fee-for-service arrangements. The Company also contracts with not-for-profit organizations to provide management services for a fee.

The NET Services operating segment provides non-emergency transportation management services to Medicaid and MediCare beneficiaries. The entities that pay for non-emergency medical transportation services primarily include state Medicaid programs, health maintenance organizations and commercial insurers. Most of the Company's non-emergency transportation services are delivered under capitated contracts where the Company assumes the responsibility of meeting the transportation needs of a specific geographic population.

3. Concentration of Credit Risk

Contracts with governmental agencies and other entities that contract with governmental agencies accounted for approximately 81% of the Company's revenue for the three months ended March 31, 2010 and 2011. The related contracts are subject to possible statutory and regulatory changes, rate adjustments, administrative rulings, rate freezes and funding reductions. Reductions in amounts paid under these contracts for the Company's services or changes in methods or regulations governing payments for the Company's services could materially adversely affect its revenue and profitability.

For the three months ended March 31, 2010 and 2011, the Company conducted a portion of its operations in Canada through WCG. At December 31, 2010 and March 31, 2011, approximately $13.8 million, or 15.6%, and $14.1 million, or 15.0%, of the Company's net assets, respectively, were located in Canada. In addition, approximately $5.5 million, or 2.5%, and $5.5 million, or 2.4%, of the Company's consolidated revenue for the three months ended March 31, 2010 and 2011, respectively, was generated from the Company's Canadian operations. The Company is subject to the risks inherent in conducting business across national boundaries, any one of which could adversely impact its business. In addition to currency fluctuations, these risks include, among other things: (i) economic downturns; (ii) changes in or interpretations of local law, governmental policy or regulation; (iii) restrictions on the transfer of funds into or out of the country; (iv) varying tax systems; (v) delays from doing business with governmental agencies; (vi) nationalization of foreign assets; and (vii) government protectionism. The Company intends to continue to evaluate opportunities to establish additional operations in Canada. One or more of the foregoing factors could impair the Company's current or future Canadian operations and, as a result, harm its overall business.

4. Significant Accounting Policies

Foreign Currency Translation

The financial position and results of operations of WCG are measured using WCG's local currency (Canadian Dollar) as the functional currency. Revenues and expenses of WCG have been translated into U.S. dollars at average exchange rates prevailing during the period. Assets and liabilities have been translated at the rates of exchange on the balance sheet date. The resulting translation gain and loss adjustments are recorded directly as a separate component of stockholders' equity. At present and for the foreseeable future, the Company intends to reinvest any undistributed earnings of its foreign subsidiary in foreign operations. As a result, the Company is not providing for U.S. or additional foreign withholding taxes on its foreign subsidiary's undistributed earnings. Generally, such earnings become subject to U.S. tax upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of unrecognized deferred tax liability for temporary differences that are essentially permanent in duration on such undistributed earnings.

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 Federal Deposit Insurance Corporation (FDIC) and the Canada Deposit Insurance Corporation (CDIC) insurance limits.

At December 31, 2010 and March 31, 2011, approximately $3.8 million and $3.4 million, respectively, of cash was held by WCG and is not freely transferable without unfavorable tax consequences between the Company and WCG.

Restricted Cash

The Company had approximately $16.4 million of restricted cash at December 31, 2010 and March 31, 2011, as follows:

	December 31, 2010	March 31, 2011
Collateral for letters of credit - Contractual obligations	$ 243,000	$ 243,000
Contractual obligations	781,468	1,183,370
Subtotal restricted cash for contractual obligations	1,024,468	1,426,370
Collateral for letters of credit - Reinsured claims losses	4,808,921	4,808,921
Escrow - Reinsured claims losses	10,560,709	10,199,030
Subtotal restricted cash for reinsured claims losses	15,369,630	15,007,951
Total restricted cash	16,394,098	16,434,321
Less current portion	7,314,535	7,354,147
	$ 9,079,563	$ 9,080,174

Of the restricted cash amount at December 31, 2010 and March 31, 2011:

- $243,000 served as collateral for irrevocable standby letters of credit that provide financial assurance that the Company will fulfill certain contractual obligations at December 31, 2010 and March 31, 2011;
- approximately $781,000 and $1.2 million was held to fund the Company's obligations under arrangements with various governmental agencies through the correctional services business ("Correctional Services") at December 31, 2010 and March 31, 2011, respectively;
- approximately $4.8 million served as collateral for irrevocable standby letters of credit to secure any reinsured claims losses under the Company's general and professional liability and workers' compensation reinsurance programs and was classified as noncurrent assets in the accompanying balance sheets at December 31, 2010 and March 31, 2011;
- approximately $4.0 million was restricted and held in trust for reinsurance claims losses under the Company's general and professional liability reinsurance program at December 31, 2010 and March 31, 2011; and
- approximately $6.5 million and $6.2 million was restricted in relation to our auto liability program at December 31, 2010 and March 31, 2011, respectively.

At March 31, 2011, approximately $5.1 million, $4.0 million, $5.9 million and $250,000 of the restricted cash was held in custody by the Bank of Tucson, Wells Fargo, Fifth Third Bank and Bank of America, respectively. The cash is restricted as to withdrawal or use and is currently invested in certificates of deposit or short-term marketable securities. The remaining balance of approximately $1.2 million is also restricted as to withdrawal or use, and is currently held in various non-interest bearing bank accounts related to Correctional Services.

Deferred Financing Costs

The Company capitalizes direct expenses incurred in connection with its borrowings or establishment of credit facilities and amortizes such expenses over the life of the respective borrowing or credit facility. The Company incurred approximately $2.2 million in deferred financing costs in connection with the credit facility it entered into in March 2011 ("Senior Credit Facility"). The Company also retains certain deferred financing costs of approximately $1.1 million related to its prior amended credit facility ("Old Credit Facility"), as certain lenders who participated in the Old Credit Facility also participate in the Company's Senior Credit Facility. In addition, the Company incurred approximately $2.3 million in deferred financing costs in connection with its senior subordinated notes issued in November 2007. Deferred financing costs are amortized to interest expense on a straight-line basis or based upon the effective interest method over the life of the credit facilities. Deferred financing costs, net of amortization, totaling approximately $5.1 million and $4.4 million at December 31, 2010 and March 31, 2011, respectively, are included in "Other assets" in the accompanying consolidated balance sheets.

Non-Controlling Interest

In connection with the Company's acquisition of WCG in August 2007, PSC of Canada Exchange Corp. ("PSC"), a subsidiary established by the Company to facilitate the purchase of all of the equity interest in WCG, issued 287,576 exchangeable shares as part of the purchase price consideration. The exchangeable shares were valued at approximately $7.8 million in accordance with the provisions of the purchase agreement ($7.6 million for accounting purposes). The shares are exchangeable at each shareholder's option, for no additional consideration, into shares of the Company's common stock on a one-for-one basis ("Exchangeable Shares"). Of the 287,576 Exchangeable Shares, 25,882 were exchanged as of December 31, 2010 and March 31, 2011.

The Exchangeable Shares are non-participating such that they are not entitled to any allocation of income or loss of PSC. The Exchangeable Shares represent ownership in PSC and are accounted for as "Non-controlling interest" included in stockholders' equity in the accompanying condensed consolidated balance sheets in the amount of approximately $7.0 million at December 31, 2010 and March 31, 2011.

The Exchangeable Shares and the 25,882 shares of the Company's common stock issued upon the exchange of the same number of Exchangeable Shares noted above are subject to a Settlement and Indemnification Agreement dated November 17, 2009 ("Indemnification Agreement") by and between the Company and the sellers of WCG. The Indemnification Agreement secures the Company's claims for indemnification and associated rights and remedies provided by the Share Purchase Agreement (under which the Company acquired all of the equity interest in WCG on August 1, 2007) arising from actions taken by British Columbia to strictly enforce a contractually imposed revenue cap on a per client basis and contractually mandated pass-throughs subsequent to August 1, 2007. The actions taken by British Columbia resulted in an approximate CAD $3.0 million dispute and termination of one of its six provincial contracts with WCG, which the Company is disputing. Under the Indemnification Agreement, the sellers have agreed to transfer their rights to the Exchangeable Shares and 25,882 shares of the Company's common stock issued upon the exchange of the same number of Exchangeable Shares to the Company to indemnify the Company against any losses suffered by the Company as the result of an unfavorable ruling upon the conclusion of arbitration.

Effective April 14, 2010, an arbitrator issued an award with respect to the dispute between WCG and British Columbia regarding British Columbia's actions to strictly enforce a contractually imposed revenue cap on a per client basis and contractually mandated pass-throughs subsequent to August 1, 2007. Under the arbitration award, essentially all amounts disputed shall be paid to WCG (except for approximately $13,000 CAD which will be subject to the terms of the Indemnification Agreement) plus interest. The award affirmed the termination of one of the six provincial contracts that had been terminated effective October 31, 2008. During the second quarter of 2010, British Columbia filed a petition for leave to appeal the arbitration award. There is no financial statement impact related to these events included in our financial results for the three months ended March 31, 2011. The petition for leave to appeal was still pending at March 31, 2011.

Stock-Based Compensation Arrangements

Stock-based compensation expense charged against income for stock options and stock grants for the three months ended March 31, 2010 and 2011 was based on the grant-date fair value adjusted for estimated forfeitures based on awards expected to vest in accordance with the provisions of ASC Topic 718-*Compensation-Stock Compensation* and totaled approximately $115,000 (net of tax of $4,000) and $619,000 (net of tax of $71,000), respectively.

For the three months ended March 31, 2010 and 2011, the amount of excess tax benefits resulting from the exercise of stock options was approximately $18,000 and $2,000. These amounts are reflected as cash flows from financing activities for the three months ended March 31, 2010 and 2011 in the accompanying condensed consolidated statements of cash flows.

As of March 31, 2011, there was approximately $7.1 million of unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Company's 2006 Long-Term Incentive Plan ("2006 Plan"). The cost is expected to be recognized over a weighted-average period of 2.3 years.

5. Summary of Critical Accounting Estimates

The Company has made a number of estimates relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with GAAP. The Company based its estimates on historical experience and on various other assumptions the Company believes to be reasonable under the circumstances. However, actual results may differ from these estimates under different assumptions or conditions. Some of the more significant estimates impact revenue recognition, accounts receivable and allowance for doubtful accounts, accounting for business combinations, goodwill and other intangible assets, accrued transportation costs, accounting for management agreement relationships, loss reserves for reinsurance and self-funded insurance programs, stock-based compensation, foreign currency translation and income taxes.

6. New and Pending Accounting Pronouncements

New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06-*Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"). ASU 2010-06 amends certain disclosure requirements of Subtopic 820-10 and provides additional disclosures for transfers in and out of Levels I and II and for activity in Level III. This ASU also clarifies certain other existing disclosure requirements including level of desegregation and disclosures around inputs and valuation techniques. The final amendments to the ASC will be effective for annual or interim reporting periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activity for purchases, sales, issuances, and settlements on a gross basis. That requirement will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. ASU 2010-06 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. The Company adopted ASU 2010-06 as of January 1, 2010 with respect to the provisions required to be adopted as of January 1, 2010, and adopted the remaining provisions as of January 1, 2011. The adoption of ASU 2010-06 did not have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28-*Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* ("ASU 2010-28"). The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company adopted ASU 2010-28 as of January 1, 2011. The adoption of ASU 2010-28 did not have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29-*Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations* ("ASU 2010-29"). The amendments in this ASU affect any public entity as defined by Topic 805, *Business Combinations*, that enters into business combinations that are material on an individual or aggregate basis. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company adopted ASU 2010-29 as of January 1, 2011. The adoption of ASU 2010-29 will only impact disclosures in the Company's consolidated financial statements, and did not have an impact on the financial statements in the current period.

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

7. Other Receivables

At December 31, 2010 and March 31, 2011, insurance premiums of approximately $3.1 million and $2.4 million, respectively, were receivable from third parties related to the reinsurance activities of the Company's two captive subsidiaries. The insurance premiums receivable is classified as "Other receivables" in the accompanying condensed consolidated balance sheets. In addition, the Company's expected losses related to workers' compensation and general and professional liability in excess of the Company's liability under its associated reinsurance programs at December 31, 2010 were approximately $2.9 million, of which approximately $698,000 was classified as "Other receivables" and approximately $2.2 million was classified as "Other assets" in the accompanying condensed consolidated balance sheet. The Company's expected losses related to workers' compensation and general and professional liability in excess of the Company's liability under its associated reinsurance programs at March 31, 2011 were approximately $3.1 million, of which approximately $495,000 was classified as "Other receivables" and approximately $2.6 million was classified as "Other assets" in the accompanying condensed consolidated balance sheet. The Company recorded a corresponding liability, which offset these expected losses. This liability was classified as "Reinsurance liability reserve" in current liabilities and "Other long-term liabilities" in the accompanying condensed consolidated balance sheets.

8. Prepaid Expenses and Other

Prepaid expenses and other were comprised of the following:

	December 31, 2010	March 31, 2011
Prepaid payroll	$ 2,411,556	$ 2,717,543
Prepaid insurance	3,365,500	1,360,379
Prepaid taxes	2,889,515	2,813,742
Prepaid rent	828,807	729,554
Provider advances	279,068	201,793
Prepaid maintenance agreements and copier leases	707,672	726,652
Prepaid bus tokens and passes	992,432	1,017,017
Prepaid commissions and brokerage fees	523,680	354,212
Interest receivable - certificates of deposit	1,009,888	1,038,644
Other	2,470,103	2,990,061
Total prepaid expenses and other	$ 15,478,221	$ 13,949,597

9. Long-Term Obligations

	December 31, 2010	March 31, 2011
6.5% convertible senior subordinated notes, interest payable semi-annually beginning May 2008 with principal due May 2014	70,000,000	70,000,000
$30,000,000 revolving loan, LIBOR plus 6.5% (effective rate of 6.77% at December 31, 2010) that was terminated in March 2011	—	—
$173,000,000 term loan, LIBOR plus 6.5% with principal and interest payable quarterly that was terminated in March 2011	112,303,772	—
$40,000,000 revolving loan, LIBOR plus 2.75% (effective rate of 3.00% at March 31, 2011) through March 2016	—	—
$100,000,000 term loan, LIBOR plus 2.75% with principal and interest payable at least once every three months through March 2016	—	100,000,000
	182,303,772	170,000,000
Less current portion	18,113,512	16,626,000
	$164,190,260	$153,374,000

On March 11, 2011, the Company replaced the Old Credit Facility with the Senior Credit Facility and paid all amounts due under the Old Credit Facility with cash in the amount of $12.3 million and proceeds from the Senior Credit Facility as discussed in further detail below.

On March 11, 2011, the Company entered into a Credit Agreement, representing the Senior Credit Facility, with Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, SunTrust Bank, as syndication agent, Bank of Arizona, Alliance Bank of Arizona and Royal Bank of Canada, as co-documentation agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated and SunTrust Robinson Humphrey, Inc., as joint lead arrangers and joint book managers and other lenders party thereto ("New Credit Agreement").

The New Credit Agreement provides the Company with the Senior Credit Facility in aggregate principal amount of $140.0 million, comprised of a $100.0 million term loan facility and a $40.0 million revolving credit facility. There is an option to increase the amount of the term loan facility and/or the revolving credit facility by an aggregate amount of up to $85.0 million as described below. The Senior

Credit Facility includes sublimits for swingline loans and letters of credit in amounts of up to $10.0 million and $25.0 million, respectively. On March 11, 2011, the Company borrowed the entire amount available under the term loan facility and used the proceeds thereof to repay amounts outstanding under the Old Credit Facility. Prospectively, the proceeds of the Senior Credit Facility may be used to (i) fund ongoing working capital requirements; (ii) make capital expenditures; (iii) repay the 6.5% convertible senior subordinate notes ("Notes"); and (iv) other general corporate purposes.

Under the Senior Credit Facility the Company has 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) by an aggregate amount of up to $85.0 million with either additional commitments from lenders under the New 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 Senior Credit Facility.

The Senior Credit Facility matures on March 11, 2016; provided, however that, if there are more than $25.0 million of the Company's Notes outstanding on September 30, 2013, the Senior Credit Facility will terminate and all amounts outstanding thereunder will be due and payable in full on November 15, 2013, unless the Company has provided the administrative agent with cash collateral on or before September 30, 2013 in an amount sufficient to repay the aggregate outstanding principal amount of the Notes. In the event that there are more than $25.0 million of the Company's Notes outstanding on September 30, 2013, the maturity date will be automatically reinstated to March 11, 2016 if: (i) we reduce the principal amount of the Notes to an aggregate amount of no more than $25.0 million on a date prior to November 15, 2013, (ii) we have availability under the revolving credit facility plus unrestricted cash in an amount at least equal to the aggregate outstanding principal amount of the Notes on such date and (iii) there is no default or event of default under the Senior Credit Facility on such date. The Company may prepay the Senior 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 LIBOR loans. The unutilized portion of the commitments under the Senior Credit Facility may be irrevocably reduced or terminated by the Company at any time without penalty.

Interest on the outstanding principal amount of the loans accrues, at the Company's election, at a per annum rate equal to the London Interbank Offering Rate, or LIBOR, plus an applicable margin or the base rate plus an applicable margin. The applicable margin ranges from 2.25% to 3.00% in the case of LIBOR loans and 1.25% to 2.00% in the case of the base rate loans, in each case, based on the Company's consolidated leverage ratio as defined in the New 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 revolving credit facility and quarterly letter of credit fees based on a percentage of the maximum amount available to be drawn under each outstanding letter of credit. The commitment fee and letter of credit fee ranges from 0.35% to 0.50% and 2.25% to 3.00%, respectively, in each case, based on the Company's consolidated leverage ratio.

The term loan facility is subject to quarterly amortization payments, commencing on June 30, 2011, so that the following percentages of the term loan outstanding on the closing date plus the principal amount of any term loans funded pursuant to the increase option are repaid as follows: 10% in each of the first two years, 15% in each of the third and fourth years and the remaining balance in the fifth year. The Senior Credit Facility also requires the Company (subject to certain exceptions as set forth in the New Credit Agreement) to prepay the outstanding loans in an aggregate amount equal to 100% of the net cash proceeds received from certain asset dispositions, debt issuances, insurance and casualty awards and other extraordinary receipts.

The New Credit Agreement contains customary representations and warranties, 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 net senior leverage covenants as well as a consolidated fixed charge covenant.

The Company's obligations under the Senior Credit Facility are guaranteed by all of its present and future domestic subsidiaries, excluding certain domestic subsidiaries, which include its insurance captives and not-for-profit subsidiaries. The Company's obligations under, and each guarantor's obligations under its guaranty of the Senior Credit Facility are secured by a first priority lien on substantially all of its respective assets, including a pledge of 100% of the issued and outstanding stock of its domestic subsidiaries and 65% of the issued and outstanding stock of its first tier foreign subsidiaries. If an event of default occurs, the required lenders may cause the administrative agent to declare all unpaid principal and any accrued and unpaid interest and all fees and expenses under the Senior Credit Facility to be immediately due and payable. All amounts outstanding under the Senior Credit Facility will automatically become due and payable upon the commencement of any bankruptcy, insolvency or similar proceedings. The New Credit Agreement also contains a cross default to any of the Company's indebtedness having a principal amount in excess of $7.5 million.

Additionally, the Company incurred financing fees of approximately $2.6 million to refinance the Old Credit Facility and is accounting for such fees, as well as unamortized deferred financing fees related to the Old Credit Facility, under ASC 470-50 – *Debt Modifications and Extinguishments*. As both credit facilities were loan syndications, and a number of lenders participated in both credit facilities, the Company evaluated the accounting for financing fees on a lender by lender basis. Of the total amount of unamortized deferred financing fees related to the Old Credit Facility as of March 11, 2011, approximately $1.1 million will continue to be deferred and amortized to interest expense and approximately $2.5 million was expensed in the quarter ended March 31, 2011 and is included in "Loss on extinguishment of debt" in the accompanying condensed consolidated statement of income. Of the $2.6 million of fees incurred related to the Senior Credit Facility, approximately $2.2 million will be deferred and amortized to interest expense and approximately $389,000 was expensed as interest expense in the quarter ended March 31, 2011.

In April 2011, the Company repurchased approximately $6.6 million of the Notes which is included in "Current portion of long-term obligations" in the accompanying condensed consolidated balance sheet at March 31, 2011.

The carrying amount of the long-term obligations approximated its fair value at December 31, 2010 and March 31, 2011. The fair value of the Company's long-term obligations was estimated based on interest rates for the same or similar debt offered to the Company having same or similar remaining maturities and collateral requirements.

10. Business Segments

The Company's operations are organized and reviewed by management along its services lines. The Company operates in two reportable segments as separate divisions and differentiates the segments based on the nature of the services they offer. The following describes each of the Company's segments and its corporate services area.

Social Services. Social Services includes government sponsored social services consisting of home and community based services, foster care and not-for-profit management services. Through Social Services the Company provides services to a common customer group, principally individuals and families. All of the operating entities within Social Services follow similar operating procedures and methods in managing their operations and each operating entity works within a similar regulatory environment, primarily under Medicaid regulations. The Company manages the activities of Social Services by actual to budget comparisons within each operating entity rather than by comparison between entities. The Company's budget related to Social Services is prepared on an entity-by-entity basis which represents the aggregation of individual location operating budgets within each Social Services entity and is comprised of:

- Payer specific revenue streams based upon contracted amounts;
- Payroll and related employee expenses by position corresponding to the contracted revenue streams; and

- Other operating expenses such as facilities costs, employee training, mileage and communications in support of operations.

The actual operating contribution margins of the operating entities that comprise Social Services ranged from approximately 1.3% to 12.3% for the year ended December 31, 2010. The Company believes that the long term operating contribution margins of the operating entities that comprise Social Services will approximate between 8% and 12% as the respective entities' markets mature, the Company cross sells its services within markets, and standardizes its operating model among entities including acquisitions.

In evaluating the financial performance and economic characteristics of Social Services, the Company's chief operating decision maker regularly reviews the following types of financial and non-financial information for each operating entity within Social Services:

- Consolidated financial statements;
- Separate condensed financial statements for each individual operating entity versus their budget;
- Monthly non-financial statistical information;
- Productivity reports; and
- Payroll reports.

While the Company's chief operating decision maker evaluates performance in comparison to budget based on the operating results of the individual operating entities within Social Services, the operating entities are aggregated into one reporting segment for financial reporting purposes because the Company believes that the operating entities exhibit similar long term financial performance. In conjunction with the financial performance trends, the Company believes the similar qualitative characteristics of the operating entities it aggregates within Social Services and budgetary constraints of the Company's payers in each market provide a foundation to conclude that the entities that the Company aggregates within Social Services have similar economic characteristics. Thus, the Company believes the economic characteristics of its operating entities within Social Services meet the criteria for aggregation into a single reporting segment under ASC Topic 280, "*Segment Reporting*".

NET Services. NET Services is comprised primarily of managing the delivery of non-emergency transportation services. The Company operates NET Services as a separate division of the Company with operational management and service offerings distinct from the Company's Social Services operating segment. Financial and operating performance reporting is conducted at a contract level and reviewed weekly at both the operating entity level as well as the corporate level by the Company's chief operating decision maker. Gross margin performance of individual contracts is consolidated under the associated operating entity and direct general and administrative expenses are allocated to the operating entity.

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

Segment asset disclosures include property and equipment and other intangible assets. The accounting policies of the Company's segments are the same as those of the consolidated Company. The Company evaluates performance based on operating income. Operating income is revenue less operating expenses (including client service expense, cost of non-emergency transportation services, general and administrative expense and depreciation and amortization) but is not affected by other income/expense or by income taxes. Other income/expense consists principally of interest expense, loss on extinguishment of debt and interest income. In calculating operating income for each segment, general and administrative expenses incurred at the corporate level are allocated to each segment based upon their relative direct expense levels excluding costs for purchased services. All intercompany transactions have been eliminated.

The following table sets forth certain financial information attributable to the Company's business segments for the three months ended March 31, 2010 and 2011. In addition, none of the segments have significant non-cash items other than depreciation, amortization and loss on extinguishment of debt in reported income.

	For the three months ended March 31, 2010			
	Social Services	NET Services	Corporate (a)(b)	Consolidated Total
Revenues	$ 88,495,693	$ 132,463,701	$ —	$ 220,959,394
Depreciation and amortization	$ 1,516,520	$ 1,610,178	$ —	$ 3,126,698
Operating income	$ 4,591,335	$ 15,321,444	$ —	$ 19,912,779
Net interest expense (income)	$ (52,726)	$ 4,355,768	$ —	$ 4,303,042
Total assets	$ 150,197,184	$ 213,705,746	$ 29,739,530	$ 393,642,460
Capital expenditures	$ 679,577	$ 937,230	$ 906,748	$ 2,523,555
	For the three months ended March 31, 2011			
	Social Services	NET Services	Corporate (a)(b)	Consolidated Total
Revenues	$ 88,840,480	$ 138,965,856	$ —	$ 227,806,336
Depreciation and amortization	$ 1,641,277	$ 1,607,801	$ —	$ 3,249,078
Operating income	$ 4,928,345	$ 8,782,799	$ —	$ 13,711,144
Net interest expense (income)	$ 198,044	$ 3,474,424	$ —	$ 3,672,468
Loss on extinguishment of debt	$ 1,857,029	$ 606,453	$ —	$ 2,463,482
Total assets	$ 148,151,871	$ 204,775,097	$ 33,966,976	$ 386,893,944
Capital expenditures	$ 389,995	$ 401,970	$ 1,026,440	$ 1,818,405

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

(b) Corporate assets as of March 31, 2010 and 2011 include cash totaling approximately $25.9 million and $25.3 million, prepaid expenses totaling approximately $956,000 and $847,000, property and equipment totaling approximately $2.1 million and $7.0 million, and other assets of approximately $760,000 and $835,000, respectively.

11. Stockholders' Equity and Other Comprehensive Income

The Company's second amended and restated certificate of incorporation provides that the Company's authorized capital stock consists of 40,000,000 shares of common stock, $0.001 par value per share, and 10,000,000 shares of preferred stock, $0.001 par value per share.

During the three months ended March 31, 2011, the Company granted options to purchase an aggregate of 100,500 shares of the Company's common stock under its 2006 Plan at exercise prices equal to the market value of the Company's common stock on the date of grant. The options were granted to executive officers and certain key employees. The options vest in equal installments at various times over the next three years and have a term of ten years. The weighted-average fair value of the options granted during the three months ended March 31, 2011 totaled $10.75 per share.

The Company granted a total of 73,500 shares of restricted stock to its executive officers on March 14, 2011. These awards vest in three equal annual installments on the first, second and third anniversaries of the date of grant. The weighted-average fair value of the restricted stock awards granted on March 14, 2011 totaled $14.72 per share.

At December 31, 2010 and March 31, 2011, there were 13,580,385 and 13,580,813 shares of the Company's common stock outstanding, respectively, (including 619,768 treasury shares at December 31, 2010 and March 31, 2011) and no shares of preferred stock outstanding.

Other comprehensive income included foreign currency translation adjustments which amounted to a gain of approximately $361,000 for the three months ended March 31, 2011.

The components of comprehensive income, net of taxes, for the three months ended March 31, 2010 and 2011 were as follows:

	Three months ended March 31, 2010	Three months ended March 31, 2011
Net income	$ 9,107,096	$ 4,469,261
Other comprehensive income:		
Change related to derivative, net of income tax (A)	128,881	—
Foreign currency translation adjustments	387,754	360,831
Total other comprehensive income	516,635	360,831
Total comprehensive income	$ 9,623,731	$ 4,830,092

(A) For the three months ended March 31, 2010, the change in fair value of the interest rate swap was net of tax of approximately $58,000.

The following table reflects changes in common stock, additional paid-in capital and accumulated other comprehensive loss for the three months ended March 31, 2011:

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss
Balance at December 31, 2010	13,580,385	$ 13,580	$ 172,540,912	$ (880,814)
Stock-based compensation	—	—	690,231	—
Exercise of employee stock options, including net tax shortfall of $72,988	428	1	(70,983)	—
Foreign currency translation adjustments	—	—	—	360,831
Balance at March 31, 2011	13,580,813	$ 13,581	$ 173,160,160	$ (519,983)

12. Performance Restricted Stock Units

On March 14, 2011, the Company granted 122,144 performance restricted stock units ("PRSUs") to its executive officers that may be settled in cash. The number of PRSUs eligible to be settled in cash will be based on the achievement of return on equity (determined by the quotient resulting from dividing the Company's consolidated net income by its stockholders' equity) ("ROE"), and will not be determinable until March 1, 2012 or soon thereafter, but in no event later than March 15, 2012 ("Settlement Date") when the Compensation Committee of the Company's Board of Directors will certify the ROE level achieved for 2011. The payout percentages for the ROE target levels are as follows:

- 50% of the PRSUs will be awarded if the Company achieves an ROE equal to or greater than 14%; and,

- 100% of the PRSUs will be awarded if the Company achieves an ROE equal to or greater than 18%.

If the Company's actual ROE falls between the 14% and 18% levels, the payout amount will be determined by linear interpolation on the Settlement Date.

If the payout level is achieved, then the amount of the award will be determined by multiplying the number of PRSUs corresponding to the ROE level achieved by the fair market value (at closing market price) of the Company's common stock on the Settlement Date. Payment of the award will be equally divided into three tranches corresponding to the required vesting period where the first tranche will be paid on the Settlement Date and the remaining tranches will be paid to vested participants on or between March 1 and March 15, 2013 and 2014, respectively. Vesting criteria for PRSU awards require employment with our company throughout 2011 as well as achievement of the performance goal, and employment up through each applicable service vesting date which will be December 31, 2011, 2012 and 2013 for each of the three respective tranches.

The Company applies a graded vesting expense methodology when accounting for the PRSUs and the fair value of the liability is remeasured at the end of each reporting period through the expected cash settlement. Compensation expense associated with the PRSUs is based upon the closing market price of the Company's common stock on the measurement date and the number of units expected to be earned after assessing the probability that certain performance criteria will be met and the associated targeted payout level that is forecasted will be achieved, net of estimated forfeitures. Cumulative adjustments are recorded each quarter to reflect changes in the stock price and estimated outcome of the performance-related conditions until the date results are determined and settled. Compensation expense of approximately $280,000 was recorded by the Company for the three months ended March 31, 2011 related to the PRSUs.

13. Earnings Per Share

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

	Three months ended March 31, 2010	Three months ended March 31, 2011
Numerator:		
Net income, basic	$ 9,107,096	$ 4,469,261
Effect of interest related to the convertible debt	735,501	—
Net income available to common stockholders, diluted	$ 9,842,597	$ 4,469,261
Denominator:		
Denominator for basic earnings per share — weighted-average shares	13,166,784	13,222,566
Effect of dilutive securities:		
Common stock options and restricted stock awards	90,764	97,877
Notes	1,678,740	—
Denominator for diluted earnings per share — adjusted weighted-average shares assumed conversion	14,936,288	13,320,443
Basic earnings per share	$ 0.69	$ 0.34
Diluted earnings per share	$ 0.66	$ 0.34

The effect of issuing 1,678,740 shares of common stock on an assumed conversion basis related to the Notes was included in the computation of diluted earnings per share for the three months ended March 31, 2010 as they have a dilutive effect. In addition, the effect of issuing 1,678,740 shares of common stock on an assumed conversion basis related to the Notes was not included in the computation of diluted earnings per share for the three months ended March 31, 2011 as it would have been antidilutive. For the three months ended March 31, 2010 and 2011, employee stock options to purchase 830 and 1,133 shares of common stock, respectively, were not included in the computation of diluted earnings per shares as the exercise price of these options was greater than the average fair value of the common stock for the period and, therefore, the effect of these options would have been antidilutive.

14. Income Taxes

The Company's effective tax rate from continuing operations for the three months ended March 31, 2010 and 2011 was 41.7% and 41.0%, respectively. For the three months ended March 31, 2010 and 2011, the Company's effective tax rate was higher than the United States federal statutory rate of 35.0% due primarily to state income taxes.

15. Commitments and Contingencies

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

The Company has two deferred compensation plans for management and highly compensated employees. These deferred compensation plans are unfunded; therefore, benefits are paid from the general assets of the Company. The total of participant deferrals, which is reflected in "Other long-term liabilities" in the accompanying condensed consolidated balance sheets, was approximately $655,000 and $723,000 at December 31, 2010 and March 31, 2011, respectively.

The Company may be obligated to pay an amount up to $650,000 to the sellers under an earn out provision pursuant to a formula specified in an asset purchase agreement dated July 1, 2009 by which the Company acquired certain assets of an entity located in California. The earn out payment as such term is defined in the asset purchase agreement, if earned, will be paid in cash. The earn out period ends on December 31, 2013. If the contingency is resolved in accordance with the related provisions of the asset purchase agreement and the additional consideration becomes distributable, the Company will record the fair value of the consideration issued as an additional cost to acquire the associated assets, which will be charged to earnings.

16. Transactions with Related Parties

Upon the Company's acquisition of Maple Services, LLC in August 2005, Mr. McCusker, the Company's chief executive officer, Mr. Deitch, the Company's chief financial officer, and Mr. Norris, the Company's chief operating officer, became members of the board of directors of the not-for-profit organization (Maple Star Colorado, Inc.) formerly managed by Maple Services, LLC. Maple Star Colorado, Inc. is a non-profit member organization governed by its board of directors and the state laws of Colorado in which it is incorporated. Maple Star Colorado, Inc. is not a federally tax exempt organization and neither the Internal Revenue Service rules governing IRC Section 501(c)(3) exempt organizations, nor any other IRC sections applicable to tax exempt organizations, apply to this organization. The Company provided management services to Maple Star Colorado, Inc. under a management agreement for consideration in the amount of approximately $71,000 and $61,000 for the three months ended March 31, 2010 and 2011, respectively. Amounts due to the Company from Maple Star Colorado, Inc. for management services provided to it by the Company at December 31, 2010 and March 31, 2011 were approximately $237,000 and $253,000, respectively.

The Company operates a call center in Phoenix, Arizona. The building in which the call center is located is currently leased by the Company from VWP McDowell, LLC ("McDowell") under a five year lease that expires in 2014. Under the lease agreement, as amended, the Company may terminate the lease after the first 36 months of the lease term with a six month prior written notice. Certain members of Mr. Schwarz's (the chief executive officer of a wholly-owned subsidiary) immediate family have partial ownership interest in McDowell. In the aggregate these family members own approximately 13% interest in McDowell directly and indirectly through a trust. For the three months ended March 31, 2010 and 2011, the Company expensed approximately $106,000 and $99,000, respectively, in lease payments to McDowell. Future minimum lease payments due under the amended lease total approximately $1.5 million at March 31, 2011.

Attachment B.11-F:

LogistiCare-B.7-Statement of Unconditional Guarantee

Providence Service
Corporation

May 24, 2011

To whom it may concern,

The Providence Service Corporation, as the sole parent organization of Logisticare Solutions, LLC, confirms that it will unconditionally guarantee performance by Logisticare Solutions, LLC of each and every obligation, warranty, covenant, term and condition of the Louisiana Medicaid Coordinated Care Program RFP #305PUR-DHHRFP-CCN-P-MVA.

THE PROVIDENCE SERVICE CORPORATION,

By: ______________________
Name: Michael N. Deitch
Title: Chief Financial Officer

64 East Broadway Boulevard • Tucson, Arizona 85701 • 520/747-6600 • Fax 520/747-6605 • www.provcorp.com

Attachment B.11-G: LogistiCare-B.10-Key Personnel Resumes

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Attachment B.11-H:

LogistiCare-B.10-Key Personnel Lines of Authority

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Attachment B.11-I:

LogistiCare-B.17-Contract Terminations

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Attachment B.11-J:

LogistiCare-B.27-References

Attachment B.12-K:

NIA-B.4-Litigation

REDACTED

Attachment B.11-L:

NIA-B.7-Magellan 2010 Form 10K

Attachment B.11-M:
NIA-B.7-Magellan Form 10Q

Attachment B.11-N: NIA-B.7-Statement of Unconditional Guarantee

MAGELLAN
HEALTH SERVICES®
Getting Better All the Time™

June 20, 2011

I hereby confirm that I am an authorized representative of Magellan Health Services, Inc., parent organization of National Imaging Associates, Inc. I further confirm that Magellan Health Services, Inc. will unconditionally guarantee performance by National Imaging Associates, Inc. of each and every obligation, warranty, covenant, term, and condition of the Contract.

Tina M Blasi

Tina M. Blasi
Chief Executive Officer
National Imaging Associates, Inc.

Attachment B.11-O:

NIA-B.10-Resumes

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Attachment B.11-P:

NIA-B.10-Key Personnel Lines of Authority

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Attachment B.11-Q:
NIA-B.23-NCQA Report Card

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Attachment B.11-R:
NIA-B.25-Regulatory Action or Sanction

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Attachment B.11-S:
NIA-B.27-References

Attachment B.11-T:

Chart A-Bankers-B.8-Organizational Chart

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Attachment B.11-U:

Chart A-Cenpatico-B.8-Organizational Chart

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Attachment B.11-V:

Cenpatico-B.9-Project Team Organizational Chart

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Attachment B.11-W:

Chart A-Centene Management Company-B.8-Organizational Chart

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Indicates Departments Providing Direct Support Services to Louisiana Healthcare Connections

Attachment B.11-X:

Centene Management Company-B.9-Project Team Organizational Charts

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Attachment B.11-Y:

Chart A-NurseWise-B.8-Organizational Chart

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Attachment B.11-Z:

NurseWise-B.9-Project Team JOC Organizational Chart

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Attachment B.11-AA:

Chart A-Nurtur-B.8-Organizational Chart

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Attachment B.11-BB:

Nurtur-B.9-Project Team Organizational Chart

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Attachment B.11-CC:
Chart A-OptiCare-B.8-
Organizational Chart

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Attachment B.11-DD:

OptiCare-B.9-Project Team Organizational Chart

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